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**€250,000,000**

# Sanitec

## Senior Secured Floating Rate Notes due 2018

### NOTES AND GUARANTEES

- Sanitec Oyj, a public limited liability company incorporated under the laws of Finland (the "**Issuer**"), is offering (the "**Offering**") €250,000,000 aggregate principal amount of its Senior Secured Floating Rate Notes due 2018 (the "**Notes**").
- The Notes will bear interest at a per annum rate equal to three-month EURIBOR plus 475 basis points per year, reset quarterly. Interest on the Notes will be payable quarterly on each February 15, May 15, August 15 and November 15, beginning on August 15, 2013.
- The Notes will mature on May 15, 2018.

### REDEMPTION AND REPURCHASE

- Prior to May 15, 2014, the Issuer may, at its option, redeem all or a portion of the Notes at a price equal to 100% of the principal amount plus a "make-whole" premium, as described in this offering memorandum (the "**Offering Memorandum**").
- The Issuer may, at its option, redeem some or all of the Notes at any time on or after May 15, 2014 by paying the redemption price as set forth in this Offering Memorandum.
- The Issuer may redeem all, but not part, of the Notes at a price equal to par plus accrued and unpaid interest upon the occurrence of certain changes in applicable tax law.
- If the Issuer or certain of its subsidiaries sell certain of their assets or experience specific kinds of changes in control, the Issuer may be required to make an offer to repurchase the Notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest.

### RANKING AND SECURITY

- The Notes will be the senior secured obligations of the Issuer and will rank equally in right of payment with all existing and future senior indebtedness of the Issuer that is not subordinated in right of payment to the Notes, will be senior in right of payment to all existing and future indebtedness of the Issuer that is subordinated in right of payment to the Notes and will be effectively senior to all of the Issuer's issued existing and future unsecured indebtedness to the extent of the assets securing the Notes.
- The Notes will be guaranteed on a senior secured basis by certain of the Issuer's subsidiaries (the "**Guarantors**"). The guarantee of the Notes by each Guarantor (each a "**Guarantee**" and, collectively, the "**Guarantees**") will rank equally in right of payment with all existing and future indebtedness of such Guarantor that is not subordinated in right of payment to such Guarantee and will be senior in right of payment to any and all of the existing and future indebtedness of such Guarantor that is subordinated in right of payment to such Guarantee.
- The Notes and the Guarantees will be secured by first priority liens granted over all of the capital stock of the Issuer and certain of the Issuer's subsidiaries and certain other assets of the Issuer and the Guarantors. However, under the terms of the Intercreditor Agreement (as defined herein) to be entered into in connection with the issuance of the Notes, in the event of enforcement of the security, the holders of the Notes will receive proceeds from the security only after the lenders under the Revolving Credit Facility (as defined herein) and counterparties to certain priority hedging obligations have been repaid in full.

### OFFERING

- The Notes and the Guarantees have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**"). The Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A under the U.S. Securities Act ("**Rule 144A**") and to non-U.S. persons in offshore transactions in reliance on Regulation S under the U.S. Securities Act ("**Regulation S**"). You are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A. See "Plan of distribution" and "Notice to investors" for additional information about eligible offerees and transfer restrictions.
- There is currently no public market for the Notes. Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and for admission to trading on the Euro MTF Market. There is no assurance that the Notes will be listed and admitted to trading on the Euro MTF Market.

**Investment in the Notes involves risks. See "Risk factors" beginning on page 16.**

ISSUE PRICE: 100.0% PLUS ACCRUED INTEREST, IF ANY, FROM THE ISSUE DATE

This Offering Memorandum includes additional information on the terms of the Notes including redemption and repurchase prices, covenants and transfer restrictions.

Delivery of the Notes in book-entry through Euroclear Bank SA/NV, as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream**") on May 10, 2013.

*Joint Bookrunners and Global Coordinators*

**UBS Investment Bank** **Deutsche Bank**

*Joint Bookrunners*

**Danske Bank** **DNB Markets**

The date of these Luxembourg Listing Particulars is June 24, 2013.

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# Important information

The Issuer is offering the Notes in reliance on exemptions from the registration requirements of the U.S. Securities Act. These exemptions apply to offers and sales of securities that do not involve a public offering. The Notes have not been registered with, recommended by or approved by the U.S. Securities and Exchange Commission (the "**SEC**") or any other securities commission or regulatory authority, nor has the SEC or any such securities commission or authority passed upon the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense in the United States.

The Issuer and the Guarantors have prepared this Offering Memorandum solely for use in connection with this Offering and for application of the Notes for listing on the Official List of the Luxembourg Stock Exchange and for trading on the Euro MTF Market. You may not distribute this Offering Memorandum or make photocopies of it without the Issuer's prior written consent other than to people you have retained to advise you in connection with this Offering. You agree that you will hold the information contained in this Offering Memorandum and the transactions contemplated hereby in confidence.

You are not to construe the contents of this Offering Memorandum as investment, legal or tax advice. You should consult your own counsel, accountants and other advisors as to legal, tax, business, financial and related aspects of a purchase of the Notes. You are responsible for making your own examination of the Issuer, the Guarantors, and your own assessment of the merits and risks of investing in the Notes. None of UBS Limited, Deutsche Bank AG, London Branch, Danske Bank A/S and DNB Bank ASA (the "**Initial Purchasers**"), the Issuer, the Guarantors, the Trustee nor any agent named herein is making any representation to you regarding the legality of an investment in the Notes by you under appropriate legal investment or similar laws.

The information contained in this Offering Memorandum has been furnished by the Issuer, the Guarantors, and other sources the Issuer and the Guarantors believe to be reliable. None of the Issuer, the Guarantors, the Trustee, the Agents nor the Initial Purchasers represent that the information in this Offering Memorandum is complete. This Offering Memorandum contains summaries, believed to be accurate, of some of the terms of specific documents, but reference is made to the actual documents for the complete information contained in those documents. All summaries contained herein are qualified in their entirety by this reference. Copies of certain documents and other information relating to the issuance of the Notes will be available at the specified offices of the listing agent in Luxembourg. See "*Listing and general information*."

The Initial Purchasers will provide prospective investors with a copy of this Offering Memorandum and any related amendments or supplements. By receiving this Offering Memorandum, you acknowledge that you have not relied on the Initial Purchasers in connection with your investigation of the accuracy of this information or your decision whether or not to invest in the Notes.

The information contained under "*Currency presentation and exchange rate information*" includes extracts from information and data publicly released by official sources. While the Issuer accepts responsibility for accurately summarizing the information concerning exchange rate information, the Issuer accepts no further responsibility in respect of such information. The information set out in those sections of this Offering Memorandum describing clearing and settlement is subject to any change or reinterpretation of the rules, regulations and procedures of Euroclear and Clearstream currently in effect. Investors wishing to use these clearing systems are advised to confirm the continued applicability of their rules, regulations and procedures. Neither the Issuer nor the Guarantors will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, book-entry interests held through the facilities of any clearing system or for maintaining, supervising or reviewing any records relating to such book-entry interests.

No person is authorized in connection with this Offering to give any information or to make any representation not contained in this Offering Memorandum and, if given or made, any other information or representation must not be relied upon as having been authorized by the Issuer or the Guarantors or the Initial Purchasers. The information contained in this Offering Memorandum is accurate as of the date hereof and may change after that date. Neither the delivery of this Offering Memorandum at any time nor any subsequent commitment to purchase the Notes shall, under any circumstances, create any implication that there has been no change in the information set forth in this Offering Memorandum or in the business of the Issuer or the Guarantors since the date of this Offering Memorandum.

The Issuer and the Guarantors accept responsibility for the information contained in this Offering Memorandum. This Offering Memorandum supersedes any information in respect of the Issuer that was previously provided to prospective investors in the Notes. The Issuer and the Guarantors have made all reasonable inquiries and confirmed to the best of their knowledge, information and belief that the information contained in this Offering Memorandum with regard to us and our affiliates and the Notes is true and accurate in all material respects, that the opinions and intentions expressed in this Offering Memorandum are honestly held, and that the Issuer and the Guarantors are not aware of any facts the omission of which would make this Offering Memorandum or any statement contained herein misleading in any material respect.

The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the U.S. Securities Act and applicable securities laws of any other jurisdiction. You should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. See "*Plan of distribution*" and "*Notice to investors*."

The Euro MTF market is not a regulated market within the meaning of Directive 2004/39/EC on markets in financial instruments. This Offering Memorandum constitutes a prospectus for the purpose of Part IV of the Luxembourg law dated July 10, 2005 on Prospectuses for Securities, as amended.

The Issuer reserves the right to withdraw this Offering at any time. The Issuer is making this Offering subject to the terms described in this Offering Memorandum and the purchase agreement among the Issuer, the Guarantors and the Initial Purchasers relating to the purchase and sale of the Notes. The Issuer and the Initial Purchasers each reserves the right to reject any commitment to subscribe for the Notes in whole or in part and to allot to any prospective investor less than the full amount of the Notes sought by such investor. The Initial Purchasers and certain of their related entities may acquire, for their own accounts, a portion of the Notes.

The distribution of this Offering Memorandum and the offer and sale of the Notes are restricted by law in some jurisdictions. This Offering Memorandum does not constitute an offer to sell or an invitation to subscribe for or purchase any of the Notes in any jurisdiction in which such offer or invitation is not authorized, where the person making the offer is not qualified to do so, or to any person to whom it is unlawful to make such an offer or invitation. Each prospective offeree or purchaser of the Notes must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the Notes or possesses or distributes this Offering Memorandum, and must obtain any consent, approval or permission required under any regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and neither the Issuer, the Guarantors, nor the Initial Purchasers shall have any responsibility therefor. See "*Notice to prospective investors*," "*Notice to certain European investors*," "*Plan of distribution*" and "*Notice to investors*."

# Notice to prospective investors

This Offering is being made in the United States in reliance upon an exemption from registration under the U.S. Securities Act for an offer and sale of the Notes which does not involve a public offering. In making your purchase, you will be deemed to have made certain acknowledgements, representations and agreements. See "*Notice to investors*."

This Offering Memorandum is being provided (1) to a limited number of United States investors that the Issuer reasonably believes to be "qualified institutional buyers" under Rule 144A under the U.S. Securities Act for informational use solely in connection with their consideration of the purchase of the Notes and (2) to investors outside the United States who are not U.S. persons in connection with offshore transactions complying with Rule 903 or Rule 904 of Regulation S under the U.S. Securities Act. The Notes described in this Offering Memorandum have not been registered with, recommended by or approved by the U.S. Securities and Exchange Commission (the "**SEC**"), any state securities commission in the United States or any other securities commission or regulatory authority, nor has the SEC, any state securities commission in the United States or any such securities commission or authority passed upon the accuracy or adequacy of this Offering Memorandum. Any representation to the contrary is a criminal offense.

# Stabilization

IN CONNECTION WITH THE ISSUANCE OF THE NOTES, UBS LIMITED AND DEUTSCHE BANK AG, LONDON BRANCH (THE "**STABILIZING MANAGERS**") (OR ANY PERSON ACTING ON BEHALF OF THE STABILIZING MANAGERS) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGERS (OR ANY PERSON ACTING ON BEHALF OF THE STABILIZING MANAGERS) WILL UNDERTAKE STABILIZATION ACTION. ANY STABILIZATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILIZATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILIZING MANAGERS (OR ANY PERSON ACTING ON BEHALF OF THE STABILIZING MANAGERS) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

# Notice to New Hampshire residents

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED, 1955, AS AMENDED ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

# Notice to certain European investors

## EUROPEAN ECONOMIC AREA

This Offering Memorandum has been prepared on the basis that all offers of the Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive from the requirement to produce a prospectus for offers of the Notes. The expression

"**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

## UNITED KINGDOM

This Offering Memorandum is for distribution only to persons who (i) are outside the U.K., (ii) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Financial Promotion Order**"), (iii) are persons falling within Article 49(2)(a) to (d) of the Financial Promotion Order, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) in connection with the issue or sale of any Notes may otherwise be lawfully communicated or caused to be communicated (all such persons together being referred to as "**relevant persons**"). This Offering Memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Offering Memorandum relates is available only to relevant persons and will be engaged in only with relevant persons.

## SWEDEN

This Offering Memorandum is not a prospectus and has not been prepared in accordance with the prospectus requirements provided for in the Swedish Financial Instruments Trading Act (*Sw. lagen (1991:980) om handel med finansiella instrument*) nor any other Swedish enactment. Neither the Swedish Financial Supervisory Authority (*Sw. Finansinspektionen*) nor any other Swedish public body has examined, approved or registered this Offering Memorandum or will examine, approve or register this Offering Memorandum. Accordingly, this Offering Memorandum may not be made available, nor may the Notes otherwise be marketed or offered for sale, in Sweden other than in circumstances that will not require the preparation and publication of a prospectus pursuant to the provisions of the Swedish Financial Instruments Trading Act.

## NORWAY

This offering document has not been approved or disapproved by, or registered with, the Norwegian Financial Supervisory Authority (*Finanstilsynet*) nor the Norwegian Registry of Business Enterprises, and the shares are marketed and sold in Norway on a private placement basis and under other applicable exceptions from the offering prospectus requirements as provided for pursuant to the Norwegian Securities Trading Act and the Norwegian Securities Trading Regulation.

## FINLAND

This Offering Memorandum does not constitute a public offer or an advertisement of securities to the public in the Republic of Finland. The Notes will not and may not be offered, sold, advertised or otherwise marketed in Finland under circumstances that would constitute a public offering of securities under Finnish law. Any offer or sale of the Securities in Finland will be made pursuant to a private placement exemption as defined under Article 3(2) of the Prospectus Directive and the Finnish Securities Markets Act (2012/746, as amended) and any regulation made thereunder, as supplemented and amended from time to time. This Offering Memorandum has not been approved by or dispatched to the Finnish Financial Supervision Authority.

## DENMARK

This Offering Memorandum has not been and will not be filed with or approved by the Danish Financial Supervisory Authority or any other regulatory Authority in Denmark. The Notes have not been offered or sold and may not be offered, sold or delivered directly or indirectly in Denmark, except to qualified investors within the meaning of, or otherwise in compliance with, Executive Order No. 306 of April 28, 2005. Accordingly, this offering memorandum may not be made available nor may notes otherwise be marketed and offered for sale in Denmark other than in circumstances which are deemed not to be an offer to the public in Denmark. The notes have not been and are not intended to be registered with a Danish stock exchange or a Danish authorized market place.

## AUSTRIA

This Offering Memorandum has not been or will not be approved and/or published pursuant to the Austrian Capital Markets Act (*Kapitalmarktgesetz*) as amended. Neither this Offering Memorandum nor any other document connected therewith constitutes a prospectus according to the Austrian Capital Markets Act and neither this Offering Memorandum nor any other document connected therewith may be distributed, passed on or disclosed to any other person in Austria. No steps may be taken that would constitute a public offering of the Notes in Austria and the offering of the Notes may not be advertised in Austria. Any offer of the Notes in Austria will only be made in compliance with the provisions of the Austrian Capital Markets Act (*Kapitalmarktgesetz*) and all other laws and regulations in Austria applicable to the offer and sale of the Notes in Austria.

## FRANCE

This Offering Memorandum has not been prepared in the context of a public offering in France within the meaning of Article L. 411-1 of the French *Code Monétaire et Financier* and Title I of Book II of the *Règlement Général* of the *Autorité des Marchés Financiers* (the "**AMF**") and therefore has not been submitted for clearance to the AMF. Consequently, the Notes may not be, directly or indirectly, offered or sold to the public in France, and offers and sales of the Notes will only be made in France to providers of investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d'investissement de gestion de portefeuille pour le compte de tiers*) and/or to qualified investors (*investisseurs qualifiés*) and/or to a closed circle of investors (*cercle restreint d'investisseurs*) acting for their own accounts, as defined in and in accordance with Articles L. 411-2 and D. 411-1 of the French *Code Monétaire et Financier*. Neither this Offering Memorandum nor any other offering material may be distributed to the public in France.

## GERMANY

In Germany, the Notes will only be available to, and this Offering Memorandum and any other offering material in relation to the Notes is directed only at, persons who are qualified investors (*qualifizierte Anleger*) within the meaning of Section 2 No. 6 of the Securities Prospectus Act (*Wertpapierprospektgesetz—WpPG*). Any offer, sale, or resale of the Notes in Germany may only be made in accordance with the Securities Prospectus Act and other applicable laws. The Issuer has not, and does not intend to, file a securities prospectus with the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht—BaFin*) or obtain a notification to BaFin from another competent authority of a Member State of the European Economic Area, with which a securities prospectus may have been filed, pursuant to Section 17 Para. 3 of the German Securities Prospectus Act (*Wertpapierprospektgesetz—WpPG*).

## LUXEMBOURG

The terms and conditions relating to this Offering Memorandum have not been approved by and will not be submitted for approval to the Luxembourg Financial Services Authority (*Commission de Surveillance du Secteur Financier*) for purposes of public offering or sale in Luxembourg. Accordingly, the Notes may not be offered or sold to the public in Luxembourg, directly or indirectly, and neither this Offering Memorandum nor any other circular, prospectus, form of application, advertisement or other material may be distributed, or otherwise made available in or from, or published in, Luxembourg except for the sole purpose of the listing of the Notes on the Official List of the Luxembourg Stock Exchange and their admission to trading on the Euro MTF, and except in circumstances which do not constitute a public offer of securities to the public, subject to prospectus requirements, in accordance with the Luxembourg Act of July 10, 2005 on prospectuses for securities.

## ITALY

The offering of the Notes has not been cleared by the *Commissione Nazionale per le Società la Borsa* ("**CONSOB**") (the Italian Securities Exchange Commission), pursuant to Italian securities legislation and, accordingly, in the Republic of Italy, the Notes may not be offered, sold or delivered, nor may copies of this Offering Memorandum or of any other document relating to the Notes be distributed in the republic of Italy, except: (i) to qualified investors (*investitori qualificati*), as defined under Article 100 of the Legislative Decree No. 58 of 24 February 1998, as amended (the ''**Italian Financial Act**''), as implemented by Article 26, paragraph 1(d) of Consob Regulation No. 16190 of 29 October 2007, as amended (''**CONSOB Regulation No. 16190**''), pursuant to Article 34-ter, first paragraph, letter b), of CONSOB Regulation No. 11971 of 14 May 1999, as amended (''**CONSOB Regulation No. 11971**''); or (ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Italian Financial Act and and its implementing CONSOB Regulations including Regulation no. 11971.

In any event, any such offer, sale or delivery of the Notes or distribution of copies of this Offering Memorandum or any other document relating to the Notes in the Republic of Italy must be in compliance with the selling restriction under (i) or (ii) above and: (a) made by investment firms, banks or financial intermediaries permitted to conduct such activities in Italy in accordance with the relevant provisions of the Italian Financial Act, Regulation No. 16190, Legislative Decree No. 385 of 1 September 1993 as amended (the "**Banking Act**"), and any other applicable laws and regulations; (b) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended, pursuant to which the Bank of Italy may request information on the offering or issue of securities in Italy or by Italian persons outside of Italy; and (c) in compliance with any and all other applicable laws and regulations and regulations or requirement imposed by CONSOB or the Bank of Italy or any other Italian authority.

## SPAIN

The offering of the Notes has not been and will not be verified or registered with the *Comisión Nacional del Mercado de Valores* (the "**CNMV**") and therefore the Notes may not be offered in Spain by any means, except in circumstances which do not qualify as a public offer of securities in Spain in accordance with article 30 bis of the Securities Market Act ("*Ley 24/1988, de 28 de julio del Mercado de Valores*") as amended and restated, or pursuant to an exemption from registration in accordance with article 41 of the Royal Decree 1310/2005 ("*Real Decreto 1310/2005, de 4 de noviembre por el que se desarrolla parcialmente la Ley 24/1988, de 28 de julio, del Mercado de Valores, en materia de admisión a negociación de valores en mercados secundarios oficiales, de ofertas públicas de venta o suscripción y del folleto exigible a tales efectos*").

## SWITZERLAND

This Offering Memorandum, as well as any other material relating to the Notes which are the subject of the Offering contemplated by this Offering Memorandum, does not constitute an issue prospectus pursuant to article 652a and/or article 1156 of the Swiss Code of Obligations and may not comply with the Directive for Notes of Foreign Borrowers of the Swiss Bankers Association. The Notes will not be listed on the SIX Swiss Exchange Ltd., and, therefore, the documents relating to the Notes, including, but not limited to, this Offering Memorandum, do not claim to comply with the disclosure standards of the Swiss Code of Obligations and the listing rules of SIX Swiss Exchange Ltd and corresponding prospectus schemes annexed to the listing rules of the SIX Swiss Exchange Ltd. The Notes are being offered in Switzerland by way of a private placement (*i.e.,* to a limited number of selected investors only), without any public advertisement and only to investors who do not purchase the Notes with the intention to distribute them to the public. The investors will be individually approached directly from time to time. This Offering Memorandum, as well as any other material relating to the Notes, is personal and confidential and does not constitute an offer to any other person. This Offering Memorandum, as well as any other material relating to the Notes, may only be used by those investors to whom it has been handed out in connection with the Offering described herein and may neither directly nor indirectly be distributed or made available to other persons without the Issuer's express consent. This Offering Memorandum, as well as any other material relating to the Notes, may not be used in connection with any other offer and shall in particular not be copied and/or distributed to the public in (or from) Switzerland.

## THE NETHERLANDS

The Notes may not be offered or sold in the Netherlands other than to persons or entities which are qualified investors (*gekwalificeerde beleggers*) within the meaning of article 1:1 of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*).

**THIS OFFERING MEMORANDUM CONTAINS IMPORTANT INFORMATION WHICH YOU SHOULD READ BEFORE YOU MAKE ANY DECISION WITH RESPECT TO AN INVESTMENT IN THE NOTES.**

# Forward-looking statements

This Offering Memorandum includes forward-looking statements within the meaning of the securities laws of certain applicable jurisdictions. These forward-looking statements include, but are not limited to, the discussion of the changing dynamics of the marketplace. These forward-looking statements can be identified by the use of forward-looking terminology, including terms such as “aim,” “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “forecast,” “guidance,” “intend,” “may,” “plan,” “potential,” “predict,” “projected,” “should” or “will” or, in each case, their negative, or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Offering Memorandum and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition and performance, liquidity, prospects, growth, strategies and the industry in which we operate.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. The Issuer and the Guarantors caution you that forward-looking statements are not guarantees of future performance and are based on numerous assumptions and that our actual financial condition, results of operations and cash flows, and the development of the industry in which we operate, may differ materially from (and be more negative than) those made in or suggested by the forward-looking statements contained in this Offering Memorandum. In addition, even if our financial condition, results of operations and cash flows, and the development of the industry in which we operate, are consistent with the forward-looking statements contained in this Offering Memorandum, those results or developments may not be indicative of results or developments in subsequent periods. Important risks, uncertainties and other factors that could cause these differences include, but are not limited to:

- adverse changes in general economic conditions and/or tightening of credit markets;
- our ability to improve our operational efficiency;
- impact of any decline in net sales or profitability;
- our ability to effectively compete in our highly competitive industry;
- our ability to effectively identify and address consumer preferences;
- increased price, or decreased availability, of raw materials and commodities we use to produce our products;
- loss of one or more of our key customers;
- disruption in our supply chain;
- fluctuations in currency exchange rates;
- our ability to adapt to changes in our distribution channels;
- exposure to local business risk in many different countries;
- reputation of, and value associated with, our brand names;
- disruption caused by labor disputes;
- business risk with pursuing further acquisitions;
- distribution arrangements with unaffiliated third parties;
- our ability to retain or attract key personnel and other highly skilled employees;
- disruptions in our information technology systems;
- our ability to successfully manage future growth efforts;
- our ability to comply with current or existing environmental laws, health and safety regulations and antitrust laws;
- our exposure to risk from legal proceedings;
- infringement or misappropriation of our intellectual property;
- costs arising from warranty and product liability claims;
- our ability to service our existing and any future indebtedness;
- risks relating to our capital structure, the Notes, the Guarantees and the security and the enforceability thereof or judgments in respect thereof; and
- other factors discussed in this Offering Memorandum.

The foregoing factors should not be construed as exhaustive. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof. The Issuer and the Guarantors urge you to read this Offering Memorandum, including the sections entitled "*Risk factors*," "*Management's discussion and analysis of financial condition and results of operations*," "*Business*" and "*Industry*" for a more complete discussion of the factors that could affect our future performance and the industry in which we operate.

In light of these risks, uncertainties and assumptions, the forward-looking events described in this Offering Memorandum may not occur. Except as required by law or the rules and regulations of any stock exchange on which the Notes are listed, the Issuer and the Guarantors undertake no obligation to publicly update or publicly revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to the Issuer, the Guarantors, or to persons acting on their behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Offering Memorandum, including those set forth under "*Risk factors*."

# Presentation of financial information

Unless otherwise indicated, the financial information presented in this Offering Memorandum is the historical consolidated financial information of the Issuer and its consolidated subsidiaries. The Issuer's audited consolidated financial statements as of and for the years ended December 31, 2011 and 2012 included in this Offering Memorandum have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("**IFRS**"). Financial information included herein for the year ended December 31, 2010 is derived from information in the audited consolidated financial statements for the year ended December 31, 2011 and has not been separately audited. The corporate status of the Issuer was changed from a private limited liability company to a public limited liability company on April 25, 2013. In connection with the change, the name of the Issuer was changed from Sanitec Oy to Sanitec Oyj. The financial statements of the Issuer included elsewhere in this Offering Memorandum have been prepared prior to this change and, accordingly, reflect the previous name of the Issuer.

We present in this Offering Memorandum certain financial information on an as adjusted basis to give *pro forma* effect to the Offering and the use of proceeds therefrom. See "*Summary—Summary financial and other information*," "*Capitalization*," "*Management's discussion and analysis of financial condition and results of operations*" and "*Use of proceeds.*" The Issuer's unaudited *pro forma* condensed combined balance sheet as of December 31, 2012 and other *pro forma* balance sheet financial data have been prepared as though the Offering had occurred as of December 31, 2012. The Issuer's unaudited *pro forma* condensed combined statements of income for the year ended December 31, 2012 has been prepared as though the Offering had occurred as of January 1, 2012. The historical results of the Issuer and its subsidiaries may not be indicative of our future results. The unaudited *pro forma* financial data has not been prepared in accordance with the requirements of Regulation S-X of the U.S. Securities Act, the Prospectus Directive or any generally accepted accounting standards. Neither the assumptions underlying the *pro forma* adjustments nor the resulting *pro forma* financial information have been audited or reviewed in accordance with any generally accepted auditing standards.

# Use of non-IFRS financial measures

This Offering Memorandum contains unaudited non-IFRS measures and ratios, including EBITDA and Adjusted EBITDA, that are not required by, or presented in accordance with, IFRS. Non-IFRS measures are presented because it is believed that they and similar measures are widely used by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity. The non-IFRS measures may not be comparable to other similarly titled measures of other companies and have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our operating results as reported under IFRS. Non-IFRS measures and ratios are not measurements of performance or liquidity under IFRS and should not be considered as alternatives to operating income or net profit or any other performance measures derived in accordance with IFRS or any other generally accepted accounting principles or as alternatives to cash flow from operating, investing or financing activities.

The Adjusted EBITDA for the year ended December 31, 2009 presented in this Offering Memorandum is based on the unaudited aggregated consolidated financial information of Sanitec Holdings Oy for the period prior to our restructuring in 2009 and at the level of Sofia III S.à r.l. for the period from and subsequent to our restructuring in 2009, and is based on financial information derived from our internal management accounting systems for the period. This 2009 Financial Information was prepared in accordance with Finnish GAAP, not IFRS, and is therefore not comparable with our financial statements for 2010, 2011 and 2012.

For comparability purposes, computations of consolidated EBITDA and consolidated total assets for the purposes of determining Guarantor coverage in this Offering Memorandum have been made using Finnish Accounting Standards.

Certain numerical figures set out in this Offering Memorandum, including financial and operating data presented in millions or thousands and percentages describing market shares, have been subject to rounding adjustments and, as a result, the totals of the data in this Offering Memorandum may vary slightly from the actual arithmetic totals of such information. Percentages and amounts reflecting changes over time periods relating to financial and other data set forth in "*Management's discussion and analysis of financial condition and results of operations*" are calculated using the numerical data in the Financial Statements included in this Offering Memorandum or the tabular presentation of other data (subject to rounding) contained in this Offering Memorandum, as applicable, and not using the numerical data in the narrative description thereof.

# No incorporation of website information

The contents of our websites do not form part of this Offering Memorandum.

# Market and industry data and forecasts

This Offering Memorandum includes market share and industry data, which was obtained by us from industry publications and surveys, industry reports prepared by consultants, internal surveys and customer feedback. These include information published by BRG Consult Limited ("**BRG Consult**") in their annual reports on European bathroom products market (2012), Euroconstruct, from the Euroconstruct Conference Munich, December 2012, and publicly available information concerning our competitors. We have also used data derived and extrapolated from national statistical resources in various countries. The aforementioned third party sources generally state that the information they contain has been obtained from sources believed to be reliable. However, these third party sources also state that the accuracy and completeness of such information is not guaranteed and that the projections they contain are based on significant assumptions. As we do not have access to the facts and assumptions underlying such market data, statistical information and economic indicators contained in these third party sources, we are unable to verify such information and cannot guarantee its accuracy or completeness. We also do not have access to the facts and assumptions underlying the projections made in these reports and various economic and other factors may cause actual results to differ from these projections. However, we do take responsibility for the correct reproduction of the data as reported.

Unless otherwise noted, the European market size and composition data referenced in "Industry" is based on information from BRG Consult, which is the only comprehensive source of information on the bathroom products market in Europe, as augmented by management estimates derived from local market data and analysis. BRG Consult publishes annual reports on bathroom products by category and country by value based on data collected from manufacturers and verified by wholesalers and other customers. BRG Consult publishes two types of reports: "Core" reports and "Supplementary Bathroom Product" reports. The Core reports focus on the ceramics, fittings and bathing & wellness categories and cover 30 European countries, including Germany, France, Italy, the United Kingdom and Russia. These reports have provided volume data since 1991 and indicative value data since 2001. The "Supplementary Bathroom Product" reports provide volume data for furniture and accessories, and shower accessories, and have only been published since 2009. Because of their recent launch, these Supplementary Bathroom Product reports only cover 14 to 17 countries depending on the category and are not yet as robust as the Core reports. Preliminary BRG Consult reports for each calendar year are released in April of the following year, with final reports published in September.

In addition, certain information in this Offering Memorandum is not based on published data obtained from independent third parties, or extrapolations thereof, but are information and statements reflecting our best estimates based upon data obtained from trade and business organizations and associations, consultants and other contacts within the industries in which we compete, as well as information published by our competitors. Such information is based on the following: (i) in respect of our market position, information obtained from trade and business organizations and associations and other contacts within the industries in which we compete; (ii) in respect of industry trends, our senior management team's business experience and experience in the industry and the local markets in which we operate; and (iii) in respect of the performance of our operations, our internal analysis of our own audited and unaudited information. We cannot assure you that the assumptions that we have made in compiling this data are accurate or correctly reflect our position in our markets.

# Certain definitions

In this Offering Memorandum, except as otherwise indicated or where the context requires otherwise:

"**2009 Restructuring**" refers to our financial restructuring that was completed in 2009, which is more fully described in "*Summary—The 2009 Restructuring*;"

"**Benelux**" refers to Belgium, the Netherlands and Luxembourg;

"**CAGR**" refers to compound annual growth rate;

"**Calculation Agent**" refers to Deutsche Bank AG, London Branch;

"**Collateral**" means the security interests securing the obligations of the Issuer and the Guarantors under the Notes, the Guarantees, and the Revolving Facility Agreement. See "*Description of the Notes—Security*;"

"**Commonwealth**" refers to the Commonwealth of Nations, comprised of 54 independent member states, primarily formerly part of the British Empire;

"**Deed of Surety**" refers to the joint and several senior deed of surety to be provided by the Ukrainian Sureties in favor of the Notes;

"**DIY**" refers to Do-It-Yourself hardware stores;

"**EQT**" refers to EQT IV Fund;

"**Existing Senior Credit Facilities**" means the senior facilities agreement in an original nominal amount of €300.0 million (with a revolving credit facility thereunder of €50.0 million) dated June 25, 2009 as amended on October 13, 2009 and June 21, 2011, for Sofia III S.à r.l. and others, with The Royal Bank of Scotland plc, London Branch, acting as Agent, Original Revolving Issuing Bank, Existing Security Trustee and Security Trustee;

"**Facility Agent**" refers to Danske Bank A/S;

"**Guarantee**" refers to the joint and several senior secured guarantee of the Guarantors in favor of the Notes (and, unless the context requires otherwise, includes, subsequent to the Issue Date, the Deeds of Surety);

"**Guarantors**" refers to Sanitec UK Limited, Twyford Holdings Limited, Twyford Bathrooms, Sanitec Europe Oy, IDO Kylpyhuone Oy, Allia Holding GmbH, KERAMAG Keramische Werke Aktiengesellschaft, Sanitec Holding Italy S.p.A., Pozzi-Ginori S.p.A., Lincoln Land Fünfte B.V., B.V. DE SPHINX MAASTRICHT, Sanitec Kolo Sp. z o.o., Sanitec Holdings Sweden AB, Ifö Sanitär Aktiebolag and, subsequent to the Issue Date, the Ukrainian Sureties;

"**IM**" refers to the information management (information technology or IT) department;

"**Initial Purchasers**" refers to UBS Limited, Deutsche Bank AG, London Branch, Danske Bank A/S and DNB Bank ASA;

"**Intercreditor Agreement**" refers to the intercreditor agreement to be dated the Issue Date among the Issuer, the Guarantors, the Senior Lenders, the Facility Agent, the Security Agent, the Trustee, and other parties named therein, which is more fully described in "*Description of other indebtedness—Intercreditor Agreement*;"

"**Issue Date**" refers to the date on which the Notes are issued, namely May 10, 2013;

"**Issuer**" refers to Sanitec Oyj;

"**Nordic countries**" or "**Nordics**" refers to Denmark, Finland, Norway and Sweden;

"**Notes** " refers to the €250,000,000 aggregate principal amount of Senior Secured Floating Rate Notes due 2018 offered hereby;

"**Offering**" refers to the offering of the Notes;

"**Offering Memorandum**" refers to this offering memorandum;

"**RCF Lenders**" refers to the lenders under the Revolving Credit Facility;

"**Revolving Facility Agreement**" and "**Revolving Credit Facility**," respectively, refer to the revolving facility agreement to be dated the Issue Date among, *inter alios*, the Senior Lenders party thereto, the Security Agent and the Facility Agent and the revolving credit facility made available thereunder, as described under "*Description of other indebtedness—Revolving Credit Facility*;"

"**RMI**" refers to renovation, maintenance and improvement activity;

"**Sanitec Group**," "**Group**," "**we**," "**us**" or "**our**" refers to Sanitec Oyj and its consolidated subsidiaries unless the context requires otherwise;

"**Sanitec Oyj,**" "**Sanitec**" or "**Company**" refers to Sanitec Oyj, a public limited liability company incorporated under the laws of Finland;

"**Security Agent**" refers to Wilmington Trust (London) Limited;

"**Security Documents**" refers to the agreements creating security interests over the Collateral as described under "*Description of the Notes—Security*;"

"**Senior Lenders**" the lenders under the Revolving Credit Facility;

"**Trustee**" refers to Deutsche Trustee Company Limited; and

"**Ukrainian Sureties**" or "**Ukrainian Guarantors**" refers to Slavuta Holdings LLC and Slavuta Plant Budfarfor, PJSC.

# Currency presentation and exchange rate information

In this Offering Memorandum, all references to "euro," "EUR" or "€" are to the single currency of the participating Member States of the European and Monetary Union of the Treaty Establishing the European Community, as amended from time to time, references to "Pound sterling", "£" are to the lawful currency of the United Kingdom and references to "U.S. dollars," "USD" and "$" are to the lawful currency of the United States of America.

The following table sets forth, for the periods indicated, the period end, period average, high and low Bloomberg Composite Rates expressed in U.S. dollars per €1.00. The Bloomberg Composite Rate is a "best market" calculation, in which, at any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications and the ask rate is set to the lowest rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate. The Bloomberg Composite Rate of the euro on June 14, 2013 was $1.3320 per €1.00.

| | USD per €1.00 | | | |
|---|---|---|---|---|
| **Year** | **High** | **Low** | **Average(1)** | **Period End** |
| 2008 | 1.5990 | 1.2452 | 1.4709 | 1.3953 |
| 2009 | 1.5094 | 1.2543 | 1.3944 | 1.4331 |
| 2010 | 1.4510 | 1.1952 | 1.3266 | 1.3366 |
| 2011 | 1.4874 | 1.2925 | 1.3924 | 1.2960 |
| 2012 | 1.3458 | 1.2061 | 1.2909 | 1.3192 |
| 2013 (through June 14, 2013) | 1.3671 | 1.2772 | 1.3128 | 1.3320 |

| | USD per €1.00 | | | |
|---|---|---|---|---|
| **Month** | **High** | **Low** | **Average(2)** | **Period End** |
| October 2012 | 1.3119 | 1.2875 | 1.2974 | 1.2970 |
| November 2012 | 1.3002 | 1.2710 | 1.2833 | 1.3002 |
| December 2012 | 1.3244 | 1.2928 | 1.3127 | 1.3192 |
| January 2013 | 1.3577 | 1.3049 | 1.3302 | 1.3577 |
| February 2013 | 1.3641 | 1.3056 | 1.3339 | 1.3056 |
| March 2013 | 1.3107 | 1.2780 | 1.2957 | 1.2820 |
| April 2013 | 1.3174 | 1.2826 | 1.3024 | 1.3158 |
| May 2013 | 1.3190 | 1.2828 | 1.3981 | 1.2972 |
| June 2013 (through June 14, 2013) | 1.3340 | 1.3071 | 1.3222 | 1.3320 |

(1) The average rate for a year means the average of the Bloomberg Composite Rates on the last day of each month during a year.
(2) The average rate for a each month presented is based on the average of the Bloomberg Composite Rate for each business day of such month.

The above rates differ from the actual rates used in the preparation of the consolidated financial statements and other financial information appearing in this Offering Memorandum. Our inclusion of the exchange rates is not meant to suggest that the euro amounts actually represent U.S. dollar amounts or that these amounts could have been converted into U.S. dollars at any particular rate, if at all.

# Summary

*This summary highlights selected information about our business and the Offering contained in this Offering Memorandum. This summary does not contain all the information you should consider before making your decision to invest in the Notes. The following summary should be read in conjunction with, and is qualified in its entirety by, the more detailed information included elsewhere in this Offering Memorandum, including the Financial Statements and the related notes. You should read the entire Offering Memorandum carefully in order to understand our businesses, the nature and terms of the Offering and the tax and other considerations that are important to your decision to invest in the Notes, including the risks discussed under the caption "Risk factors."*

## OVERVIEW

We are the leading European producer of ceramics sanitaryware and bathroom fixtures. We have a number one or two position in ceramics sanitaryware in each of our core Western European markets, which comprise Germany, the Benelux countries, the Nordic countries, France, Italy, Poland and the United Kingdom, as well as strong positions in our growth markets, including Ukraine and Russia. Our brand portfolio includes many of the longest-established and most well-known European brands in the bathroom products industry, including KERAMAG (Germany), Sphinx (the Netherlands), IDO and Ifö (Nordics), Allia (France), Pozzi-Ginori (Italy), Kolo (Poland), Colombo (Ukraine and East Europe) and Twyford (United Kingdom).

We provide products in two primary categories:

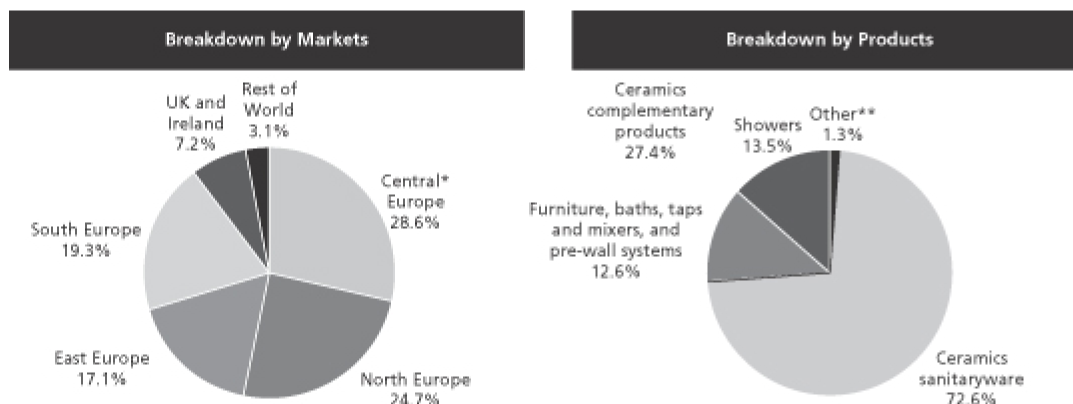
- ***Ceramics sanitaryware*** includes toilets, washbasins, sinks, shower trays, pedestals, tanks, bidets and urinals. In 2012, we generated €546.5 million of net sales from ceramics sanitaryware, which represented 72.6% of our net sales.
- ***Ceramics complementary products*** includes bathroom furniture, baths, taps and mixers, showers, pre-wall systems and products based on solid surface materials. In 2012, we generated €206.3 million of net sales from ceramics complementary products, which represented 27.4% of our net sales.

We sell our bathroom products primarily to wholesalers, as well as directly to retailers (including DIY outlets) and installers, and benefit from long-standing and stable customer relationships. As of December 31, 2012, we had operations in 19 countries with 11 ceramics production facilities and approximately 6,700 employees.

In 2009, a number of events, including the stress and disruptions experienced by global financial markets, the significant decline in construction in most of our core markets, and our substantial debt obligations led us to undergo a financial restructuring. We took the opportunity our financial restructuring afforded us to implement what we call the "One Sanitec" strategy. We accelerated the creation of an integrated group of companies from a disparate group of local business units by consolidating operations and support functions. The "One Sanitec" ethos has enabled economies of scale, increased operational efficiency, cut costs, and as a result enhanced profitability. We now have a stronger focus on our most profitable brands and business lines and a more competitive cost structure. As a result of our efforts, our Adjusted EBITDA grew from €58.4 million for the year ended December 31, 2009 to €107.6 million for the year ended December 31, 2012 making us one of the most profitable European bathroom ceramics companies. We continue to implement similar measures to improve our financial performance in the future.

In 2012, 28.6% of our net sales were generated in Central Europe (comprising Germany, the Netherlands, Belgium, Luxembourg, Austria and Switzerland), 24.7% in North Europe (comprising Sweden, Denmark, Norway, Finland, the Baltics and Iceland), 19.3% in South Europe (comprising France, Italy, Spain and Portugal), 17.1% in East Europe (primarily comprising Poland, the Czech Republic, Slovakia, Russia, Ukraine and Kazakhstan), 7.2% in the United Kingdom and Ireland, and 3.1% in the Rest of the World (countries outside Europe to which we export our products).

The charts below show our net sales by geographic market and product categories in 2012.




(*) Comprises Germany, the Netherlands, Belgium, Luxembourg, Austria and Switzerland.
(**) Constitutes solid surface materials marketed under the Varicor brand name.

## HISTORY

The majority of our strategic brands have over 100 years of history in their respective national markets. Our integrated group has its origins as a subsidiary of Wärtsilä Corporation, which grouped together its bathroom operations in 1990 to form Sanitec. Prior to 1991, we were mainly active in Finland, Sweden and Norway. Since that point, we have grown organically, including in Russia, and by strategically expanding our presence in ceramics sanitaryware and ceramics complementary products in Europe through the acquisitions of manufacturers with leading national brands in Germany, the Benelux countries, France, Italy, Poland, Ukraine and the United Kingdom.

In 2005, we were acquired by the EQT IV Fund ("**EQT**") via five acquisition vehicles. In 2009, in connection with our financial restructuring, we established our current corporate structure as shown under "*Summary corporate structure*." EQT is a leading manager of private equity funds with investments in Northern and Eastern Europe, Asia and the United States. EQT has raised 15 private equity funds with more than €20 billion of committed capital. Since its establishment, EQT has invested some €11 billion in more than 110 companies. For over 18 years and through varying economic cycles, EQT has adopted a business model driven by its industrial heritage and an operational approach focused on the long term development of portfolio companies and executing a strategy that generates returns through sales and earnings growth.

## INDUSTRY

The bathroom fixtures market in our core European countries is valued at circa €7.8 billion, consisting of ceramics sanitaryware (21%), taps and mixers (29%), bathroom furniture (19%), showers (17%), baths (8%) and pre-wall systems (6%). Demand for these products is primarily driven by the need for renovation, maintenance and improvement ("**RMI**") of bathrooms, as well as new construction activity, in both residential and non-residential segments. The RMI segment represents approximately 70% of the ceramics sanitaryware market. Historically, RMI and replacement of existing bathroom products have been more stable, since the replacement of aging products often cannot be postponed as easily as new construction, and is characterized by relatively stable growth over time (as well as more resilience during market downturns), whereas the new-build part of the market tends to be more cyclical.

Growth in the bathroom fixtures market is therefore related to the continued stabilization and further growth in the construction market. BRG Consult estimates that the European bathroom fixtures market will grow by an average of 1.5% per annum from 2012 to 2015, with some regions such as North and East Europe and the United Kingdom expected to experience higher growth. Bathroom fixtures are to a large extent distributed through a multi-step distribution process, in which products are sold via wholesalers, to retail (including DIY) chains and installers, who in turn sell to the end consumers. Successful manufacturers therefore need to provide value to both the direct customers as well as to the important decision-makers in the value chain such as installers, retailers and ultimately the end consumer.

The European ceramics sanitaryware industry is highly consolidated, with the top five companies having aggregated market shares ranging from circa 50% to up to circa 90% across the various regions. Competition in ceramics complementary products tends to be more fragmented, with a higher proportion of local or regional companies.

## COMPETITIVE STRENGTHS

We believe that the following strengths differentiate us from our competitors and provide us with a competitive advantage in the markets in which we operate:

***Leading market positions in the most resilient European markets***. We are the leading European producer of ceramics sanitaryware and bathroom fixtures. We have a number one or two position in ceramics sanitaryware in each of our core Western European markets which comprise Germany, the Benelux countries, the Nordic countries, France, Italy, Poland and the United Kingdom, as well as strong positions in our growth markets, including Ukraine and Russia. We have a geographic footprint that is weighted towards the economies in Europe that have proven the most resilient in the recent global financial crisis (for example, 53.3% of our net sales in 2012 came from regions that we refer to as North Europe (the Nordic countries) and Central Europe (Germany, Benelux, Austria and Switzerland). As a result our business is less weighted towards the economies that have struggled more to recover from the market downturn. Our strong position in the ceramics sanitaryware market in Ukraine (and growing market share in Russia) positions us well to continue to exploit high-growth markets in East Europe.

***Strong portfolio of well-recognized national brands***. We have a portfolio of some of the oldest and most well-known national brands in the bathroom products industry. The majority of our strategic brands (KERAMAG, Sphinx, IDO, Ifö, Allia, Pozzi-Ginori, Kolo, Colombo and Twyford) have over 100 years of history in their respective local markets. We also maintain tactical brands (such as Ceravid, Perline, Porsgrund and Selles) which complement, protect and support our strategic brands and address DIY demand in certain markets. We believe that our brands are perceived to represent product innovation and design leadership as well as high quality and ease of installation. We believe that this brand strength facilitates the introduction of new products and fosters loyalty and trust among our customers and installers, who seek to provide their customers with reliable products from well-known brands. Our brand strength has also facilitated our expansion into new strategic markets, such as the introduction of the Pozzi-Ginori (Italian) brand to the Chinese market and the Twyford (United Kingdom) brand to new customers in Commonwealth countries such as Hong Kong, Australia and certain sub-Saharan African countries, and supported our continued growth in the Middle East.

***Loyal customer base***. We have long-standing and stable relationships with our customers, who are primarily wholesalers, as well as retailers (including DIY outlets) and installers. We have maintained the loyalty of our installers (who have a high amount of influence on the ultimate purchasing decision) by, among other things, manufacturing high-quality and innovative products, simplifying installation through product design and easy availability of products and spare parts, and local service and product support.

***Sustainable profitability improvement driven by "One Sanitec" strategy and cost savings initiatives***. Since 2010, our new management team has successfully implemented our "One Sanitec" strategy, creating an integrated group of companies with:

- a transparent reporting process, which enables a commercial policy focused on delivering a high level of profitability and allows for detailed analysis of the true financial performance across the group, which in turn enables better business decision-making; and
- appropriately centralized operations (including warehouse and distribution centers) and support functions to capture economies of scale, reduce our cost base, increase operational efficiency and enhance profitability, while maintaining a strong local sales force to serve individual market needs.

We have also implemented numerous other initiatives (the full impact of which has not yet been realized), including increasing the share of production in low cost facilities and closing or divesting certain plants, reducing the number of our suppliers, increasing sourcing in low cost facilities and rationalizing our product ranges. As a result of these initiatives, along with other measures, we have increased Adjusted EBITDA from €58.4 million for the year ended December 31, 2009 to €107.6 million for the year ended December 31, 2012. With these and other measures, we believe that we have established a platform that allows us to grow and focus on new opportunities, but is also dynamic and flexible enough to allow us to adapt to market changes as they occur.

***Stable industry, well-positioned for recovering end markets***. Market shares in the industry in which we operate tend to be relatively stable over time, driven by (i) the specialist knowledge required for ceramics production, (ii) significant required investment in production facilities and (iii) the need for strong brand recognition and access to local distribution channels. Demand for our ceramics sanitaryware products is also largely driven by the less cyclical RMI sector of the market, with RMI accounting for circa 70% and new build accounting for circa 30% of our demand in 2012, resulting in relatively stable markets for our products. We believe we are well-positioned for a cyclical upturn in the new build sector, which will further drive volume growth.

***Highly experienced management.*** Our top management team consists of our CEO, CFO, COO, executives for Global Business Development and Change Management, Product Management and Design, and Human Resources. The majority of the current management team joined the business between 2008 and 2010 and led the restructuring and recovery of the business, growing Adjusted EBITDA from €58.4 million in 2009 to €107.6 million in 2012. Our CEO, Peter Nilsson, was appointed to this position in 2010, having acted as chairman of the Sanitec board since 2008. Our CFO, Gun Nilsson, joined the business in 2010 having previously acted as CFO of a publicly traded company on the NASDAQ OMX. Our Global Business Development and Change Management function is led by Magnus Terrvik, who joined the business in 2010, having previously spent 17 years with McKinsey and Company.

## BUSINESS STRATEGY

***Drive value through innovation and product leadership***. We operate in a mixture of mature and emerging markets. In the more mature, core Western European markets where we already have the number one or number two positions, we expect our market share to remain stable or increase slightly over the near term. Our markets (even those that were more resilient in response to the global economic crisis of 2009 onwards) have yet to regain their 2008 levels. While we expect our sales volumes to increase as our markets strengthen, in order to continue to develop our business, we are prioritizing profit over volume by continuing to invest in product innovation and product leadership and focusing on enhancing our product mix (for example, by launching KERAMAG Design as our pan-European premium brand).

***Capitalize on expected growth in ceramics complementary products.*** Customers increasingly look for bathroom suites with integrated furniture, bath, showers, taps and mixers, and ceramics products; there is also an increasing trend towards the use of wall-mounted toilets (which require the supply of a toilet along with a pre-wall element). We see a significant opportunity to grow sales in our group overall by increasing the amount of bundled products that we sell. By leveraging our local ceramics sanitaryware brands and our successes in individual markets, we intend to capitalize on this market opportunity through, among other things, the following steps:

- training and incentivizing our sales force, providing them with clear sales targets for bundled products;
- conducting installer training and educating them on specific product design characteristics;
- improving our showroom infrastructure to highlight bundled products; and
- coordinating product development between our ceramics sanitaryware and ceramics complementary products teams to ensure an integrated offering of innovative products.

***Increase sales by pursuing growth opportunities in East Europe***. We believe that significant growth opportunities exist in East Europe as we expect growth rates for bathroom products in this region will be higher than in more mature European markets. We are well positioned to benefit from this growth as East Europe (primarily comprising Poland, the Czech Republic, Slovakia, Russia, Ukraine and Kazakhstan) represented 17.1% of our net sales in 2012. We believe that we have the potential to significantly increase our market share in East European countries, leveraging our leading position in the Ukrainian ceramics sanitaryware market, our growing market share in Russia, our local and European brands and our East Europe asset base.

***Continue to capture benefits of scale, optimize operational efficiencies and reduce costs***. We are implementing measures in the following key areas:

- ***Optimizing plant network***. In the past years, we have significantly improved our production and supply footprint. For example, we have closed four ceramics plants (in Alsager (United Kingdom), Maastricht (the Netherlands), Bayonne and Selles-sur-Cher (France)) and divested five other plants (Leda (France), Domino (Italy), NSF (Russia), Minsk Mazowiecki (Poland) and Varde (Denmark)). We now have an integrated, flexible network that balances low cost facilities focusing on high volume products and other facilities focusing on high complexity products, enabling us to serve the varying demands of the different markets in which we compete. We will continue to improve the footprint, evaluating opportunities to better allocate production, increase flexibility and improve operational efficiency.
- ***Consolidating Group functions and activities***. Although we have made advances since 2009, we are continuing to consolidate Group functions and activities in order to continue to reap the benefits of scale and to reduce costs in line with our "One Sanitec" strategy. We have identified numerous purchasing savings in a variety of areas, including production input materials, as well as indirect costs such as in marketing, business services, office supply, insurance services, human resources and information technology.
- ***Optimizing product portfolio***. We continue to coordinate our product offering across the Group and work on simplifying our product portfolio by reducing the number of series, models and SKUs and thereby significantly reducing the complexity of our offerings while enhancing our ranges in each individual national market. We believe that these initiatives will support reduced production costs, lower inventory levels and enhance our supplier purchasing power.

## THE 2009 RESTRUCTURING

We were acquired by EQT in 2005. As part of this acquisition, the Group incurred significant additional debt financing. As a consequence of the overall macroeconomic downturn, our EBITDA declined significantly after the summer of 2008 and we failed to be in compliance with the financial covenants under certain of our debt facilities. Following discussions with our lenders in 2009, our group underwent a financial restructuring. As a result of the financial restructuring, approximately 22.5% of the equity interests in our parent holding company are now held by our existing or former lenders, 76.1% by EQT-related entities and 1.4% by management. See "*Principal shareholders*."

## CURRENT TRADING

Our first-quarter results will show declines in both net sales and Adjusted EBITDA as compared to the three months ended March 31, 2012. Net sales for the last twelve months ended March 31, 2013 were down circa 4% compared to the prior year, while net sales for the three months ended March 31, 2013 were circa 10% lower than the three months ended March 31, 2012.

Management believes that approximately half of these declines were due to three principal factors, in addition to the seasonal slowdown we typically see during the first quarter:

- flat or slightly decreasing economic conditions in our markets in East Europe and Central Europe (other than Germany), partly affected by harsh weather conditions delaying the start of planned projects;
- a change in the timing of promotions in the Nordic countries, which in 2012 occurred in the first quarter of the year, but will occur in the second quarter of this year, which has resulted in lower volumes in the first quarter of 2013; and
- the timing of the Easter period, which fell in March in 2013 as opposed to April in 2012.

The balance primarily related to weaker economic conditions across the rest of our markets, other than the Nordic countries and Germany, which remained resilient.

The reduction overall was also due to a strong comparative first quarter in 2012. Average sales prices have been stable.

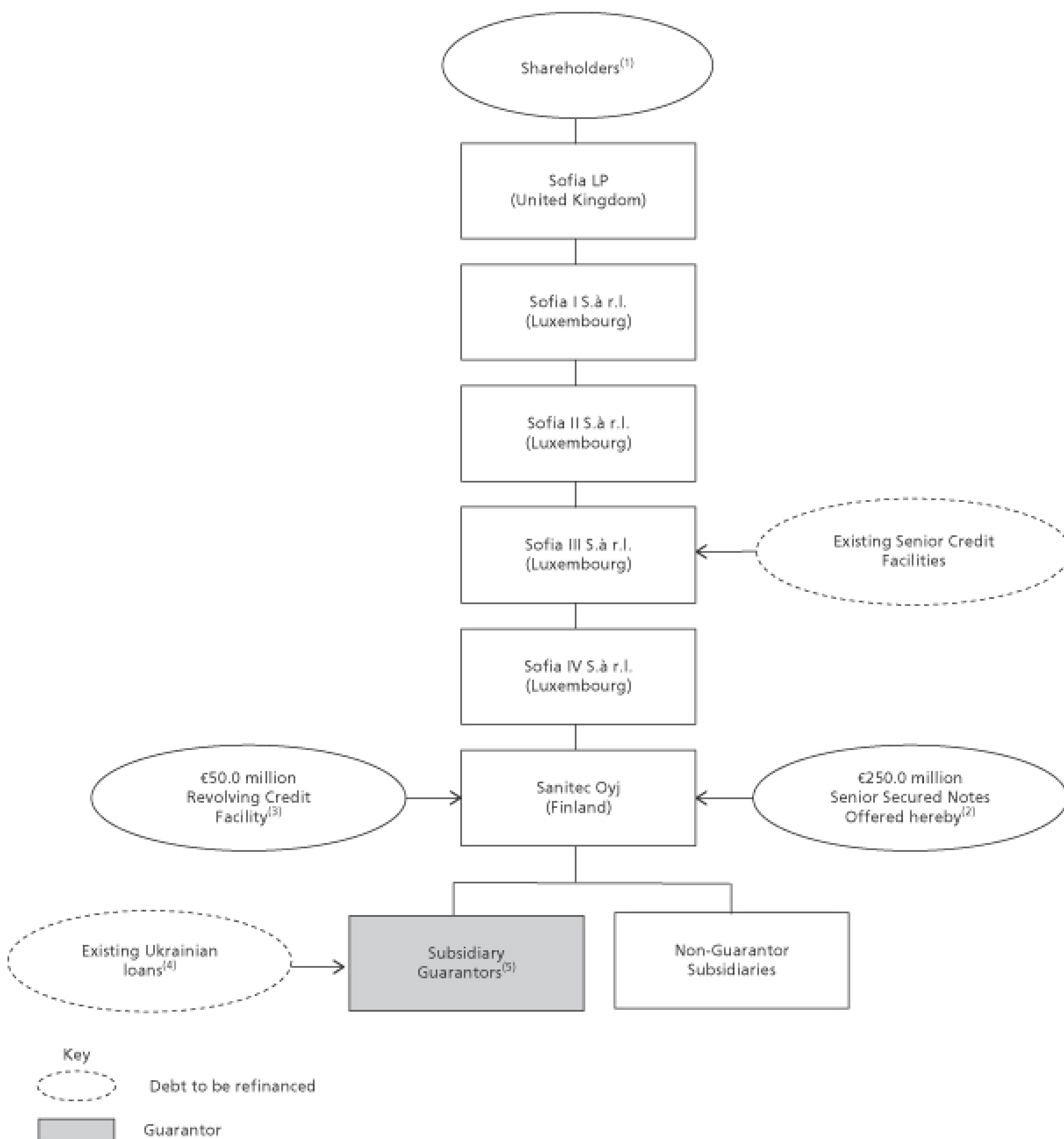
Adjusted EBITDA for the three months ended March 31, 2013 was impacted more adversely compared to net sales, primarily due to the inherent operating leverage in the business. Cash flow generation has continued to be resilient.

We have taken actions to address the declines, which are not fully reflected in our performance for the three months ended March 31, 2013, by, among other measures, managing excess production capacity through the use of targeted promotions in certain markets where we have seen opportunities to be price-sensitive in a market downturn, and continued investment in efficiency improvements in support functions.

*The foregoing information is based solely on preliminary information at and as of the end of March 2013 used by management and management estimates and remains subject to our normal end-of-quarter review process. As a result, this information may change.*

# Summary corporate structure

The following diagram summarizes in simplified form our corporate and principal financing structure after giving effect to the Offering and the use of proceeds therefrom and the transactions related thereto described in this Offering Memorandum. This chart does not include all entities in the Group, nor all of the debt obligations thereof. For a summary of our material debt obligations identified in this diagram, refer to the sections entitled "*Description of the Notes*," "*Description of other indebtedness*" and "*Capitalization*."




(1) For a description of our equity holders, see "*Principal shareholders*."

(2) The Notes will be the senior secured obligations of the Issuer. The Notes will be secured by first priority liens granted over the capital stock of the Issuer and certain of its subsidiaries and over certain other assets of the Issuer and its subsidiaries as described under *"Description of the Notes—Security."* Certain of the Finnish and Ukrainian security interests will not be in place on the Issue Date and will be implemented post-closing. The proceeds from this Offering, together with surplus cash distributed by the Issuer, will be used to repay the Existing Senior Credit Facilities, to prepay bilateral loans in Ukraine (see note (4) below) and to make a distribution to our equity holders. See "*Use of proceeds*."

(3) In connection with the Offering, the Issuer will also enter into a new Revolving Credit Facility in the amount of €50.0 million, which we currently expect will be undrawn as at the Issue Date. The same assets that secure the Revolving Credit Facility (other than the assets of our French subsidiary Allia International S.A.) will secure the Notes, as well as certain priority hedging obligations. Under the terms of the Intercreditor Agreement, however, in the event of enforcement of the security, the holders of the Notes will receive proceeds from the Collateral only after the lenders under the Revolving Credit Facility and counterparties to certain priority hedging obligations have been repaid in full. Issuer owns at least 95% of the share capital of each Guarantor.

(4) External loans granted to Slavuta Plant Budfarfor, PJSC (see "*Description of other indebtedness—Ukrainian loans*"). Due to waiver requirements, extended notice periods and other regulatory requirements, the Ukrainian loans will be prepaid post-closing, following which we plan to enter into the Ukrainian Deeds of Surety and the other Ukrainian security arrangements with respect to these companies.

(5) On the Issue Date, the Notes will be guaranteed on a senior secured basis by the Guarantors. The Guarantees will be secured by certain first priority liens granted over the capital stock of the Issuer and certain of its subsidiaries and over certain other assets of the Issuer and its subsidiaries as described under *"Description of the Notes—Security."* The Notes will be guaranteed by the same guarantors that secure the Revolving Credit Facility (other than our French subsidiary Allia International S.A.). The Ukrainian Deeds of Surety will not be in place on the Issue Date and will be implemented post-closing. For the year ended December 31, 2012, the Guarantors represented 84.2% of our consolidated EBITDA and 79.6% of our consolidated total assets. Subsequent to December 31, 2013, we will be required to maintain guarantor coverage of at least 80.0% of our consolidated Adjusted EBITDA and 80.0% of our consolidated total assets. For comparison purposes, computations of consolidated EBITDA and consolidated total assets for the purposes of determining Guarantor coverage have been made using Finnish Accounting Standards and not IFRS. See "*Use of non-IFRS financial measures*."

# The offering

*The summary below describes the principal terms of the indenture governing the Notes (the "**Indenture**"). Certain terms and conditions described below are subject to important limitations and exceptions. The "Description of the Notes" section of this Offering Memorandum contains a more detailed description of the terms and conditions of the Notes including the definitions of certain terms used in this summary.*

| | |
|---|---|
| **Issuer** | Sanitec Oyj, a public limited liability company organized under the laws of Finland. |
| **Issue date** | May 10, 2013. |
| **Issue price** | 100.0%. |
| **Notes offered** | €250,000,000 aggregate principal amount of Senior Secured Floating Rate Notes due 2018. |
| **Maturity date** | May 15, 2018. |
| **Interest rate** | Three-month EURIBOR plus 475 basis points per year, reset on the Determination Date (as defined under "*Description of the Notes*"). |
| **Interest payment dates** | Interest on the Notes will be payable quarterly in cash in arrears on each February 15, May 15, August 15 and November 15 of each year, beginning on August 15, 2013. |
| **Form and denomination** | The Issuer will issue the Notes on the Issue Date in global form in minimum denominations of €100,000 and integral multiples of €1,000 in excess thereof, maintained in book-entry form. Notes in denominations of less than €100,000 will not be available. |
| **Ranking of the Notes** | The Notes will:<br>➢ be general, senior obligations of the Issuer, secured by first-ranking security interests in the Collateral as set forth below under "*—Security*;"<br>➢ rank *pari passu* in right of payment with any existing and future indebtedness of the Issuer that is not subordinated to the Notes (including the Revolving Credit Facility);<br>➢ rank senior in right of payment to any existing and future obligations of the Issuer that is expressly subordinated to the Notes;<br>➢ be effectively senior to any existing and future unsecured indebtedness of the Issuer to the extent of the value of the Collateral securing the Notes;<br>➢ be effectively subordinated to any existing and future secured indebtedness of the Issuer and its subsidiaries that is secured by property or assets that do not secure the Notes, to the extent of the value of the property or assets securing such indebtedness; and<br>➢ be effectively subordinated to any existing and future indebtedness of the subsidiaries of the Issuer that do not guarantee the Notes. |
| **Guarantees** | As of the Issue Date, the Notes will be guaranteed on a senior secured basis by the following subsidiaries of the Issuer: Sanitec UK Limited, Twyford Holdings Limited, Twyford Bathrooms, Sanitec Europe Oy, IDO Kylpyhuone Oy, Allia Holding GmbH, KERAMAG Keramische Werke Aktiengesellschaft, Sanitec Holding Italy S.p.A., Pozzi-Ginori |

S.p.A., Lincoln Land Fünfte B.V., B.V. DE SPHINX MAASTRICHT, Sanitec Kolo Sp. z o.o., Sanitec Holdings Sweden Aktiebolag, and Ifö Sanitär AB. Subsequent to the Issue Date, Slavuta Holdings LLC and Slavuta Plant Budfarfor, PJSC will become Guarantors (together, the "**Ukrainian Guarantors**") by executing Deeds of Surety.

For the year ended December 31, 2012, the Issuer and the Guarantors on the Issue Date would have generated 84.2% of the Issuer's consolidated EBITDA and, as of December 31, 2012, would have held 79.6% of the Issuer's consolidated total assets.

The Revolving Credit Facility and the Indenture will require that, for each annual period beginning January 1, 2014 (determined upon the receipt of annual financial statements), the Issuer and the Guarantors will generate at least 80.0% of the Issuer's consolidated EBITDA and 80.0% of the Issuer's total assets (determined based on such annual financial statements). To the extent the Ukrainian Guarantors do not accede to the Revolving Credit Facility and the Indenture in connection with the satisfaction of these threshold requirements, the Issuer will cause other non-Guarantor Subsidiaries to become Guarantors to meet these levels. As of December 31, 2012, with the inclusion of the Ukrainian Guarantors, the Issuer and the Guarantors would have generated 87.7% of the Issuer's consolidated EBITDA and 85.7% of the Issuer's total assets.

As of December 31, 2012, on a consolidated basis, the Issuer's subsidiaries that will not guarantee the Notes would have had €0.1 million of indebtedness outstanding.

The Guarantees will be subject to contractual and legal limitations, and may be released under certain circumstances. See "*Risk factors—Under the Intercreditor Agreement, the holders of the Notes will be required to share recovery proceeds with other secured creditors and have certain limitations on their ability to enforce the security documents*."

**Ranking of Guarantees**

Each Guarantee will be a general senior obligation of the relevant Guarantor and will:

- rank *pari passu* in right of payment with any existing and future indebtedness of that Guarantor that is not subordinated to such Guarantor's Guarantee, including indebtedness under the Revolving Credit Facility;
- rank senior in right of payment to any existing and future obligations of that Guarantor that are expressly subordinated to such Guarantee;
- benefit from the security as set forth below under "—*Security*;" and
- be effectively subordinated to any existing and future indebtedness of that Guarantor that is secured by property or assets that do not secure that Guarantor's Guarantee, to the extent of the value of the property or assets securing such indebtedness.

The Guarantees will be subject to the terms of the Intercreditor Agreement. See "*Description of other indebtedness—Intercreditor Agreement*."

The Security will be subject to release under certain circumstances. See "*Description of the Notes—Security—Release*."

**Security**

The Notes and the Guarantees will be secured on the Issue Date, subject to the terms of the Security Documents and the Intercreditor Agreement, and the restrictions and limitations detailed herein, by first ranking security interests in (i) the share capital of the Issuer, certain of the Guarantors, Allia International S.A. and Slavuta Holdings LLC, (ii) a floating charge over certain assets of the Issuer and certain of the Guarantors, (iii) pledges over the bank accounts of the Issuer and certain of the Guarantors, (iv) pledges of certain trademark rights, (v) certain mortgages over the real property of certain Guarantors, and (vi) certain trade receivables of certain Guarantors as described under "*Description of the Notes—Security.*"

The lenders under the Revolving Credit Facility and counterparties under certain hedging obligations benefit from shared first ranking security over the same assets noted above.

The Security will be subject to the terms of the Intercreditor Agreement. See "*Description of other indebtedness—Intercreditor Agreement*."

**Intercreditor Agreement**

Pursuant to the Intercreditor Agreement, the liens securing the Notes will be first priority liens that rank equally with the liens that secure (i) obligations under the Revolving Credit Facility, (ii) certain other future indebtedness permitted to be incurred under the Indenture and (iii) certain priority hedging obligations. Such liens will be evidenced by security documents for the benefit of (whether directly or through a security trustee) the holders of the Notes, the lenders under the Revolving Credit Facility, the counterparties to certain priority hedging obligations and the holders of certain other future indebtedness and obligations.

Under the terms of the Intercreditor Agreement, however, in the event of enforcement of the security, holders of the Notes will receive proceeds from the security only after the lenders under the Revolving Credit Facility have been repaid and obligations owed to counterparties to certain priority hedging obligations have been discharged.

Please see "*Description of other indebtedness—Intercreditor Agreement*."

**Sharing of first priority liens**

In certain circumstances, we may secure specified indebtedness permitted to be incurred by the covenant described in "*Description of the Notes—Certain covenants—Limitation on Debt*" by granting liens upon any or all of the Collateral, on an equal basis with the liens securing the Notes and the Revolving Credit Facility and the obligations under certain priority hedging obligations.

**Use of proceeds**

The Issuer intends to use the proceeds from the Offering, together with available cash, to (i) repay our Existing Senior Credit Facilities, (ii) repay bilateral loans in Ukraine, (iii) make a distribution to our shareholders and (iv) pay the fees and expenses incurred in connection with the Offering, including underwriting fees and commissions. See "*Use of proceeds*."

**Optional redemption**

The Issuer may redeem the Notes:

- in whole or in part at any time prior to May 15, 2014, at a redemption price equal to 100% of the principal, plus the applicable "make-whole" premium and accrued and unpaid interest to the date of redemption;
- in whole or in part at any time on or after May 15, 2014, at a redemption price equal to 101% of the principal, plus accrued and unpaid interest to the date of redemption; and

- in whole or in part at any time on or after May 15, 2015, at a redemption price equal to 100% of the principal, plus accrued and unpaid interest, if any, to the date of redemption.

See "*Description of the Notes—Optional redemption*."

**Additional amounts; tax redemption**

All payments in respect of the Notes or the Guarantees will be made without withholding or deduction for any taxes or other governmental charges, except to the extent required by law. If withholding or deduction is required by law, subject to certain exceptions, the Issuer (or Guarantor as appropriate) will pay additional amounts so that the net amount each holder of the Notes receives is no less than the holder would have received in the absence of such withholding or deduction. See "*Description of the Notes—Additional amounts*."

If certain changes in the law of any relevant taxing jurisdiction become effective that would impose withholding taxes or other deductions on the payments on the Notes, the Issuer may redeem the Notes in whole, but not in part, at any time, at a redemption price of 100% of the principal amount, plus accrued and unpaid interest and additional amounts, if any, to the date of redemption. See "*Description of the Notes—Redemption upon changes in withholding taxes*."

**Change of control**

Upon the occurrence of certain change of control events, each holder of Notes will have the right to require the Issuer to repurchase all or part of its Notes at 101% of their principal amount, plus accrued and unpaid interest. See "*Description of the Notes—Repurchase of Notes upon a change of control*."

**Certain covenants**

The Indenture governing the Notes will, among other things, restrict our ability to:

- incur additional indebtedness and issue certain preferred shares;
- pay dividends on capital stock or repurchase shares or make certain investments;
- make certain other restricted payments;
- create certain liens;
- merge or consolidate with other entities;
- enter into certain sale leaseback transactions;
- sell, lease or transfer certain assets, including shares of any restricted subsidiary;
- enter into certain transactions with affiliates;
- create encumbrances or restrictions on the ability of our subsidiaries to pay dividends to us; and
- guarantee certain types of other indebtedness of our restricted subsidiaries without also guaranteeing the Notes.

Each of the covenants in the Indenture governing the Notes will be subject to significant exceptions and qualifications. See "*Description of the Notes—Certain covenants*."

**Transfer restrictions**

The Notes and the Guarantees have not been, and will not be, registered under U.S. federal or state or any foreign securities laws and are subject to restrictions on resale. See "*Notice to investors*." The Issuer and the Guarantors are under no obligation to, nor do they intend to, register the Notes or the Guarantees in the United States (including by way of an exchange offer) or file a shelf registration statement with respect to the Notes.

| | |
|---|---|
| **Absence of a public market for the Notes** | The Notes will be new securities for which there will be no established trading market. Accordingly, there can be no assurances as to the development or liquidity of any market for the Notes. Furthermore, the Notes and the Guarantees will not have the benefit of any exchange or registration rights under the U.S. Securities Act. |
| **Risk factors** | Investing in the Notes involves substantial risks. See the section of this Offering Memorandum captioned "*Risk factors*" for a discussion of certain risks you should carefully consider before investing in the Notes. |
| **Listing** | The Issuer will apply to list the Notes on the Official List of the Luxembourg Stock Exchange and for trading on the Euro MTF Market. There is no assurance that the Notes will be listed and admitted to trading on the Euro MTF Market. |
| **Governing law for the Notes, the Indenture and the Guarantees** | New York. |
| **Governing law for the Intercreditor Agreement** | England and Wales. |
| **Governing law for the Security Documents** | Dutch, English, French, Finnish, Italian, German, Polish, Swedish and Ukrainian law. |
| **Trustee** | Deutsche Trustee Company Limited. |
| **Calculation Agent** | Deutsche Bank AG, London Branch. |
| **Registrar, Luxembourg listing Agent and Transfer Agent** | Deutsche Bank Luxembourg S.A. |
| **Principal Paying Agent** | Deutsche Bank AG, London Branch. |
| **Security Agent** | Wilmington Trust (London) Limited. |

# Summary financial and other information

The tables below set forth the following summary consolidated income statement, balance sheet and cash flow information of the Issuer as of and for the years ended December 31, 2010, 2011 and 2012 (derived from the Issuer's audited consolidated financial statements).

The summary consolidated income statement, balance sheet and cash flow information for the Issuer set forth below as of and for the years ended December 31, 2010, 2011 and 2012 was derived from the audited consolidated financial statements of the Issuer, prepared in accordance with IFRS and included elsewhere in this Offering Memorandum. Financial information included herein for the year ended December 31, 2010 is derived from information in the audited consolidated financial statements for the year ended December 31, 2011 and has not been separately audited.

The historical results of the Issuer and its subsidiaries may not be indicative of our future results following consummation of the Offering.

The summary unaudited *pro forma* condensed financial information table below provides certain financial information on an as adjusted basis to give effect to the issuance of the Notes offered hereby and the application of the net proceeds thereof as described in "*Use of proceeds*." The Issuer's unaudited *pro forma* condensed balance sheet data as of December 31, 2012 has been prepared as though the Offering had occurred as of December 31, 2012. The Issuer's unaudited consolidated *pro forma* financial data for the year ended December 31, 2012 has been prepared as though the Offering had occurred as of January 1, 2012. The unaudited financial data has not been prepared in accordance with the requirements of Regulation S-X of the U.S. Securities Act, the Prospectus Directive or any generally accepted accounting standards. Neither the assumptions underlying the *pro forma* adjustments nor the resulting *pro forma* financial information have been audited or reviewed in accordance with any generally accepted auditing standards.

You should read the summary and *pro forma* financial information in conjunction with the information contained in "*Risk factors*," "*Capitalization*," "*Selected historical consolidated financial information*," and "*Management's discussion and analysis of financial condition and results of operations*," and the consolidated financial statements of the Issuer, including the related notes, appearing elsewhere in this Offering Memorandum. These results do not necessarily indicate results that may be expected for any future period.

### SUMMARY CONSOLIDATED STATEMENT OF INCOME INFORMATION

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | (€ in millions) | | |
| **Net sales** | **777.3** | **770.8** | **752.8** |
| Other operating income | 12.9 | 9.4 | 5.4 |
| Materials and services | (366.7) | (349.9) | (344.4) |
| Employee benefits | (255.3) | (222.3) | (209.3) |
| Production for own use | 1.7 | 1.0 | 1.3 |
| Other operating expenses | (184.8) | (112.3) | (103.1) |
| Depreciation, amortization and impairment losses | (33.9) | (29.7) | (29.7) |
| **Operating profit (loss)** | **(48.8)** | **67.1** | **73.0** |
| Financial income and expenses | (1.3) | (15.9) | (6.0) |
| **Profit (loss) before taxes** | **(50.1)** | **51.2** | **67.0** |
| Income taxes | (0.7) | (3.5) | 4.7 |
| **Profit (loss) for the period** | **(50.8)** | **47.7** | **71.7** |

## SUMMARY STATEMENT OF FINANCIAL POSITION INFORMATION

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | (€ in millions) | | |
| Cash | 138.5 | 161.3 | 215.7 |
| Net working capital | 47.5 | 41.7 | 29.9 |
| Total non-current assets | 238.8 | 223.3 | 219.3 |
| Total current assets | 408.1 | 406.5 | 438.3 |
| **Total assets** | **646.9** | **629.8** | **657.6** |
| Total non-current liabilities | 235.2 | 229.5 | 196.4 |
| Total current liabilities | 267.6 | 232.4 | 217.4 |
| **Total liabilities** | **502.8** | **461.9** | **413.8** |
| **Total equity** | **144.1** | **167.9** | **243.8** |
| **Total equity and liabilities** | **646.9** | **629.8** | **657.6** |

## SUMMARY CONSOLIDATED CASH FLOW INFORMATION

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | (€ in millions) | | |
| Cash flow from operating activities | (24.8) | 54.5 | 87.9 |
| Cash flow from investing activities | (28.6) | (25.3) | (11.4) |
| Cash flow from financing activities | 3.6 | (6.4) | (21.8) |
| **Change in cash and cash equivalents** | **(49.8)** | **22.8** | **54.7** |
| Cash and cash equivalents on January 1 | 188.2 | 138.5 | 161.3 |
| **Cash and cash equivalents on December 31** | **138.5** | **161.3** | **215.7** |

## OTHER FINANCIAL INFORMATION

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | (€ in millions) | | |
| Operating profit | (48.8) | 67.1 | 73.0 |
| EBITDA[1] | (14.9) | 96.8 | 102.7 |
| Adjusted EBITDA[1] | 77.1 | 105.7 | 107.6 |
| Investments of intangible and tangible assets | (36.4) | (23.3) | (13.0) |
| Investments of non-controlling interests | 0.0 | (13.1) | — |
| Total capital expenditures | (36.4) | (36.4) | (13.0) |
| **Pro Forma Financial Information**[2] | | | |
| *Pro forma* interest expense[3] | — | — | 12.4 |
| *Pro forma* total debt[4] | — | — | 250.3 |
| *Pro forma* cash and cash equivalents[5] | — | — | 43.7 |
| *Pro forma* net debt[6] | — | — | 206.6 |
| *Pro forma* net debt / Adjusted EBITDA | — | — | 1.9x |
| Adjusted EBITDA / *Pro forma* interest expense | — | — | 8.7x |

(1) EBITDA and Adjusted EBITDA are non-IFRS measures. We define EBITDA as earnings before financial income and expenses, income taxes, depreciation and amortization. As shown in the table below, we define Adjusted EBITDA as EBITDA adjusted for the following:

(i) divested businesses, which include (1) losses on our divestment of Leda in 2012, (2) losses from the sale of our Russian joint venture, NSF, in 2010, (3) the final results of our sale of EVAC and Minsk Mazowiecki before 2010, and (4) gains from our sale of Domino in 2010, and related costs and expenses;

(ii) restructuring costs, which include (1) costs relating to the closure of our plants in Selles-sur-Cher and Alsager, specifically (a) with respect to Selles-sur-Cher, redundancy payments to personnel, costs of shifting the plant's former capacity to other countries, write-downs of assets and inventories, legal and agency fees for the possible disposal of our Selles-sur-Cher property; and (b) with respect to Alsager, redundancy payments to personnel, site clean-up, and a rental agreement earn-out, (2) redundancy costs in relation to the restructuring of our sales and marketing and other central functions as part of our "One Sanitec" strategy, (3) other restructuring costs relating to the restructuring of the Mörrum and Gaeta production facilities, and (4) severance costs and similar costs paid to management in connection with such restructuring, and other related costs, net of releases of restructuring provisions; and

(iii) payment of European Commission fines assessed in 2010 against Sanitec in connection with its alleged participation in a price fixing cartel in the European bathroom fixtures market (see "*Business—Legal Proceedings*") and legal fees and ongoing consulting costs relating thereto.

This information is not and should not be viewed as a substitute for financial measures under IFRS. EBITDA and Adjusted EBITDA are not measures of performance or liquidity under IFRS and should not be considered by investors in isolation from, or as a substitute for, or a measure of, profit, or as an indicator of our operating performance or cash flows from operating activities as determined in accordance with IFRS. We have presented this supplemental non-IFRS information because we believe that it is a useful indicator of our ability to incur and service our indebtedness and can assist investors to evaluate our business. EBITDA, Adjusted EBITDA and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. You should exercise caution in comparing EBITDA and Adjusted EBITDA as reported by us to similar measures reported by other companies.

EBITDA and Adjusted EBITDA as presented here differ from the definition of "Consolidated EBITDA" contained herein under "*Description of the Notes*," in the Revolving Credit Facility and in the Indenture.

The following is a reconciliation of EBITDA and Adjusted EBITDA for each of the periods presented below:

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | (€ in millions) | | |
| **Profit (loss) for the period** | (50.8) | 47.7 | 71.7 |
| Income taxes | 0.7 | 3.5 | (4.7) |
| Financial income and expenses | 1.3 | 15.9 | 6.0 |
| Depreciation, amortization and impairment losses | 33.9 | 29.7 | 29.7 |
| **EBITDA** | (14.9) | 96.8 | 102.7 |
| Divested businesses | 0.6 | — | 1.1 |
| Restructuring costs | 33.4 | 8.2 | 3.1 |
| EC fines and related legal fees | 58.0 | 0.7 | 0.7 |
| **Adjusted EBITDA** | 77.1 | 105.7 | 107.6 |

(2) Gives effect to the issuance of the Notes offered hereby and the application of the net proceeds thereof as described in "*Use of proceeds*." The Issuer's unaudited *pro forma* condensed combined balance sheet data as of December 31, 2012 has been prepared as though the Offering had occurred as of December 31, 2012. The Issuer's unaudited consolidated *pro forma* income statement data for the year ended December 31, 2012 has been prepared as though the Offering had occurred as of January 1, 2012.

(3) *Pro forma* interest expense represents the annual interest expense in connection with the *pro forma* total debt as defined in footnote (4) below and assumes no borrowings under the Revolving Credit Facility.

(4) *Pro forma* total debt is defined as financial indebtedness, after giving *pro forma* effect to (i) the repayment of €53.7 million of intercompany loans in respect of borrowings under the Existing Credit Facilities and (ii) the Offering and the application of the net proceeds therefrom as described in "*Use of proceeds*."

(5) *Pro forma* cash and cash equivalents represents cash and cash equivalents after giving effect to the Offering and the application of the net proceeds therefrom as described in "*Use of proceeds*."

(6) *Pro forma* net debt is defined as *pro forma* total debt less *pro forma* cash and cash equivalents as described in "*Use of proceeds*."

# Risk factors

*An investment in the Notes involves a high degree of risk. You should carefully consider the following risks, together with other information provided to you in this Offering Memorandum, before deciding whether to invest in the Notes. If any of the following risks actually occurs, our business, financial condition, results of operation or prospects could be adversely affected. There may also be other risks of which we are currently unaware or that we do not currently believe are material that could harm our business, financial condition, results of operation or prospects. In any of such cases, the value of the Notes could decline, and we may not be able to pay all or part of the interest or principal on the Notes and you may lose all or part of your investment.*

*This Offering Memorandum contains "forward-looking" statements that involve risks and uncertainties. Our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences are discussed below and elsewhere in this Offering Memorandum. See "Forward-looking statements."*

## RISKS RELATED TO OUR BUSINESS AND INDUSTRY

### A large part of our financial performance is dependent upon a healthy economy and financial and monetary system. The current economic climate and tightening of credit markets has negatively impacted our results of operations, and any continuation of or further decline in economic conditions would adversely affect our business.

Our business is affected by fluctuations in the economic conditions of the market regions in which we sell our products, which, in turn, are materially affected by global financial conditions. Changes in our financial performance often result from factors beyond our control, such as fluctuations in gross domestic product, changes in consumer confidence, decreases in new construction, renovation or replacement activities, price developments in individual housing markets, lack of mortgage lending, fluctuations in currency exchange and interest rates, changes in market demand and increases in labor costs and taxes.

Since 2008, the stress and disruptions experienced by global financial markets have increasingly affected other sectors of the economy, in particular the construction industry, in many of the markets in which we sell our products. In particular, sales to the construction industry are driven by trends in commercial and residential construction, housing starts, trends in residential renovation and replacement activity. Consumer confidence, mortgage rates, credit standards and availability and income levels play a significant role in driving demand in the residential construction, renovation and replacement sector. Construction activity in many of our European markets continues to remain at levels lower than in 2008 and may decline further. Home equity values in many markets have decreased significantly, adversely affecting the willingness of homeowners to invest additional capital in their homes. In addition, consumer credit generally has been more difficult to obtain. We cannot predict how long these economic conditions will last and whether the downward trend in residential construction and renovation will continue or worsen. The economic downturn could continue to affect consumer confidence, income and equity capital available for spending on discretionary items such as those sold by us, which could adversely affect the demand for our products.

For example, 2009 was characterized by a significant decline in GDP in most of our core markets and significantly reduced growth rates in emerging markets, with the construction industry being disproportionately affected. In 2009, the sharp decrease in overall demand was exacerbated in several markets by reductions in distributors' stock levels so that as a result of destocking effects demand reflected in manufacturers' order books weakened significantly more than the overall global demand for sanitary products. Economic conditions in certain of our markets, such as South Europe, have still not recovered, which has had an effect on both sales volumes (as customers are buying fewer products) and the prices we can charge for our products (as customers are increasingly price sensitive in depressed markets). In addition, the discretionary nature of residential and non-residential renovation, and to a lesser degree, new construction activities, may result in end-consumers' decision to postpone any contemplated renovation activities until overall economic conditions and consumer confidence have improved. If there is no significant recovery of the economy and the financial system in certain of our core markets for an extended period of time, higher unemployment rates, lower family income, decreased consumer spending and lower levels of construction activity could result in a further decline of demand for our products and increased price competition, which could result in further pressure on our operating margins or require us to offer longer payment terms to our customers. We may also experience a higher incidence of default by our customers. Our cash flow may be negatively impacted by such events. In addition, we may be exposed to a default of our suppliers to meet their delivery obligations and may experience shortages in supply for our production or our suppliers may change the credit terms they extend to us, such as shortening the required payment period for outstanding accounts receivable or reducing or eliminating the amount of trade credit available to us, all of which would also have an adverse effect on our cash flow.

Particularly in certain mature markets, the economic turmoil has caused certain changes in consumer preferences and purchasing practices, which have resulted in changes in our customers' strategies when adapting to these changes in the overall structure of demand. If we do not timely and effectively respond to these changing consumer preferences, which may or may not be long-term, our relationships with our customers could be adversely affected, the demand for our products could be reduced and our market share could be negatively affected.

### Efforts to improve our operational efficiency may not be effective or may adversely impact our product development and production process.

In the past, we have implemented numerous projects to improve our operational efficiency, including enhancements to our production network and processes as well as procurement and product development. For the implementation of our cost saving initiatives and our financial restructuring, we incurred significant expenses. If our efforts to improve our operational efficiency and the ongoing implementation of cost improvement measures are not effective or sustainable, the quality and cost of our products and our competitive position in the industry may suffer.

### Because we have a large amount of fixed costs, our profitability may be significantly adversely impacted by any decline in net sales.

Fixed costs constitute a significant proportion of our total costs. Our fixed costs are principally comprised of raw materials, manufacturing labor, energy and other plant-related expenses, along with other employee and employee-related costs. In 2012, our fixed costs amounted to circa 40% of our total costs.

As many of the markets in which we operate entered a recession in 2008, our relatively fixed cost structure accentuated the impact of declining net sales. While we have responded to the economic downturn in our markets by taking significant steps to reduce fixed costs, a large proportion of our costs remains fixed, and in any future economic downturn we may not be able to reduce our fixed costs sufficiently to offset declining volumes.

### We operate in a highly competitive industry and our results may be adversely affected by competition.

The bathroom fixtures market is competitive. 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, distribution channels, scope and quality of services and price. We compete with both large-scale global manufacturers and with numerous regional and specialized competitors. Some of our competitors are divisions or subsidiaries of larger companies that have greater financial and other resources than we do, which may enable them to adapt more quickly to new or emerging technologies and changes in customer requirements or preferences or devote greater resources to the promotion and sale of their products than we can. As a result, our competitors may be able to reduce prices on products similar to our products below prices that we cannot profitably offer. Many of our competitors also have long-standing relationships with key suppliers and customers and may offer other products which we do not provide. We believe that developing and maintaining a competitive advantage will require continued investment by us in product development, manufacturing capabilities, sales and marketing and customer relationships. We cannot assure you that we will have sufficient resources to make the necessary investments to do so and we cannot assure you that we will be able to compete successfully in our industry or against our existing or future competitors. In addition, the integration and harmonization of construction and bathroom products standards in the European Union and the rest of the world may expose us to greater competition from manufacturers in other markets. If we do not compete successfully, our business, financial condition and results of operations may be adversely affected.

### We depend on the development and market acceptance of new products and may not be able to effectively predict or react to consumer preferences that could render our products less desirable.

The markets in which we compete are increasingly characterized by frequent new product introductions and enhancements, changing consumer preferences and demands as well as changing industry standards. We believe that our future success will depend on our ability to constantly develop and bring to market new products with high quality standards and innovative designs in a timely manner. For example, growth in our ceramics complementary products category will depend in part on our ability to deliver our bundled ceramics complementary product and ceramics sanitaryware product offering.

As product cycles in our industry generally tend to be shorter than in the past, we may in the future be required to invest a higher portion of our sales on research, development and design in order to maintain our market share and reputation. We cannot assure you that we will have sufficient resources to continue to make adequate investments in our products or that our investments will result in the successful development of new products and features and will allow us to obtain a sufficient price for our products. We cannot predict which of the many possible future products will meet evolving consumer preferences and demands and industry standards. We cannot assure you that we will be able to adapt to technological changes or offer new products on a timely basis, which could lead to reduced desirability of our products and harm our competitive position in the markets. If we do not anticipate or adequately respond to evolving market demands, we may not be able to sell our products or maintain the appeal of our brands successfully, which may adversely affect our business, financial condition and results of operations.

### If the costs of our raw materials increase or their supply decreases, we may experience increases in costs or have difficulty purchasing sufficient raw materials or components to meet our production requirements, increases in energy prices may also materially increase our costs.

We are exposed to fluctuations in the prices of raw materials that we use in our manufacturing operations and in the prices of raw materials used in the products that we source from third party suppliers, as the prices of raw materials affect the prices of these products. Our raw material purchases for the production of ceramics include ball clay, kaolin, feldspar, chamotte (clay) and zirconium (coating) and for the production of ceramics complementary products include aluminum, stainless steel, glass, acrylic and packaging. Between 2009 and 2012, prices for key raw materials used in ceramics sanitaryware increased moderately, with the exception of prices for zirconium and zincoxyde, which increased significantly between 2009 and 2011 but have stabilized

through 2012. During this same period, prices for key raw materials used in ceramics complementary products (including showers) also increased, due to the increased cost of stainless steel and packaging, and also to the increased cost of aluminum and glass resulting from a change in product specification to improve the overall quality of our products. Although prices for the majority of our key raw materials have remained relatively stable in recent years, fluctuations in the price and availability of our raw materials, particularly metals, can be caused by changes in levels of global supply and demand, the operations of our suppliers, governmental policies, political and economic conditions in certain countries where these materials are produced and acts of God such as severe weather conditions and natural disasters, which may be further exacerbated if raw materials are traded in foreign currencies. In addition, the prices of fuels used in the manufacture and distribution of our products as well as the other materials used by us to produce our products are subject to fluctuation.

We generally buy raw materials on a purchase order basis, with no written agreement in place. Our inability to fully protect against fluctuations in the prices of raw materials renders us vulnerable to commodity price increases. Any hedges we may enter into may be ineffective in protecting us against fluctuations in prices. Our inability to purchase materials at commercially reasonable prices may cause our profit margins to decline and could adversely affect our business, financial condition and results of operations. In the event we have entered into long-term forward purchase agreements with suppliers of raw materials and certain parts and components, if our material prices subsequently decline, we may be at a competitive disadvantage.

Our manufacturing plants rely upon and consume significant amounts of energy, primarily gas and electricity, in order to operate. Despite rising energy prices, our energy costs remained relatively stable between 2009 and 2011, due to the restructuring of our plant network, which reduced the number of kilns in operation. In 2012 energy costs increased due to increased consumption across the market during the cold European winter. We remain exposed to fluctuations in energy prices and any increase in energy prices could have a material effect on our profitability.

While we carefully monitor the costs of our raw materials, we may not always be able to find suitable substitutes in order to mitigate cost volatility or to increase our product prices in response to increased commodities prices. If the prices of the commodities or of energy we use to produce our products increase, we may not be able to increase our product prices in time to offset our costs to produce those products, or at all, as our ability to implement price increases is affected by the actions of our competitors. Even if we are able to pass on increases in raw material prices to our customers, there may be a delay before price increases for our products can be implemented. Price increases may also make our products less competitive and adversely affect our market shares, sales volumes and customer relationships.

### We rely on a relatively concentrated number of key customers and the loss of one or more of these customers could have a material adverse effect on our business, financial condition, results of operations or prospects.

In 2012, our net sales amounted to €752.8 million, of which the top ten and twenty customer groups accounted for approximately 47.6% and 59.4%, respectively; the majority of these customers were wholesalers. While we believe we have established long-standing and stable relationships with our customers (and commercial and business relationships are managed on an individual market and business-unit level), the loss of any one of these customers could have a disproportionately large effect on our business compared with other businesses whose customer bases are less concentrated. Disagreements or deterioration of our relationship with any of our major customers could lead to delays in net sales, increased costs or loss of current or future business with our major customers, which could have a material adverse effect on our business, financial condition, results of operations or prospects.

### Our business could be adversely affected by disruptions in our supply chain.

We purchase our raw materials and components from a number of national and international suppliers. While our supplier base is broad with approximately 13,100 active suppliers, our ten largest suppliers account for approximately 12% of all external purchases. In one instance, we purchase components from a single-source supplier and although we maintain extra insurance, we remain susceptible to quality problems, supply shortages, disputes with such supplier or price increases, and there is no assurance that we could find a suitable alternative product or supplier on commercially reasonable terms, or at all. As a result, supply shortages or price increases could adversely affect our business, financial condition and results of operations.

Any significant disruption, quality problems or other adverse event affecting our relationship with any of our major suppliers could result in additional costs and adversely affect the results of our financial condition and our operations. If we need to replace any of our major suppliers, we may face risks and costs associated with a transfer of operations. In addition, a failure to replace any of our major suppliers on commercially reasonable terms, or at all, could have a material adverse effect on our results of operations and financial condition.

We typically deal with our suppliers on a "purchase order" basis, often without a written long-term contract. We cannot be certain that our suppliers will continue to deal with us on the terms they currently do, that prices for raw materials and components will not increase, or that we will be able to purchase such supplies at prices which allow our products to be competitive, if at all. Our inability to obtain sufficient quantities of these raw materials and components, or to develop alternative sources if required, could result in delays and increased costs in our operations or our inability to properly maintain our existing level of operations. Any of these occurrences could adversely affect our business, financial condition and results of operations.

### Our results of operations are subject to currency fluctuations.

Because we conduct our operations in various countries, we generate a portion of our sales and incur a portion of our expenses in currencies other than the euro, principally the Swedish krona, Norwegian krone, Danish krone, Pound sterling, Russian ruble, Polish złoty, Swiss franc, Czech krona and Ukrainian hryvnia. During 2012, approximately 80% of our net currency flows at the EBITDA level were generated in currencies other than the euro (including currencies pegged to the euro, such as the Danish krone). In some jurisdictions, our costs and the corresponding sales are denominated in the same currency. Sometimes, however, we are unable to match revenues received in foreign currencies with costs paid in the same currency, and our results of operations are consequently impacted by currency exchange rate fluctuations.

We present our financial statements in euro. As a result we must translate the assets, liabilities, revenue and expenses of all of our operations with functional currencies other than 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 or result in significant changes to the carrying value of our assets, liabilities and stockholders' equity. In the past, we have put in place hedges to mitigate foreign currency exposure, and we regularly monitor our exposure to foreign currency to determine if it is appropriate to put hedges in place. If we do hedge our currency exposure, we may not hedge all of our foreign currency risk and may not be able to hedge at favorable rates, or at all, and currency fluctuations may move in such a manner that causes us to incur losses on our hedging arrangements.

Changes in foreign currency exchange rates can also affect our ability to produce or sell our products at competitive prices and we may be at a competitive disadvantage with respect to local producers in certain markets if currency rates change in an unfavorable manner. We cannot assure you that we will be able to effectively manage our currency transaction and translation risks. See "*Management's discussion and analysis of financial condition and results of operations—Quantitative and qualitative disclosures of market risks—Exchange rate exposure and currency risk hedging.*"

### If we do not adapt to changes in distribution channels in some of our markets, our sales volume and profitability may be adversely affected.

In some of our markets (for example, the United Kingdom, Poland and France), DIY and other retail distribution channels have grown their share of the market. In 2012, we distributed most of our products directly via wholesalers. In the United Kingdom and France, the DIY channel has historically been more focused on the lower-cost segment of the European bathroom products market. If DIY and other retail distribution channels grow to constitute a greater portion of our markets, and we are unable to respond or sell our products through them or other channels, we may lose market share, and our business, financial condition and results of operations may be adversely affected.

The wholesale channel in many of the markets in which we operate is also currently undergoing consolidation which may lead to a concentration of our customer base. In addition, there has been a trend towards increasing wholesale purchasing power through the formation of buying groups. Many of our customers have also demonstrated an increased focus on working capital management and inventory reduction which has, and may continue to, impact our sales. Finally, we have also seen some growth in internet-only sales channels in certain markets. As a result of all of these factors, we may face decreased sales volumes and increased price pressure, which could adversely affect our business, financial condition and results of operations.

### We are exposed to local business risks in many different countries.

We operate in several countries outside of our core Western European markets, in particular in East Europe. A portion of our sales and manufacturing operations are conducted in these countries. Further, our main suppliers of ready-made ceramics sanitaryware products are located in Egypt, Turkey and China.

Our business is subject to risks resulting from differing legal, political, social and regulatory requirements, economic conditions and unforeseeable developments in a variety of jurisdictions, including in emerging markets. These risks include, among other things:

- political instability;
- differing economic cycles and adverse economic conditions;
- disruption of our operations;
- unexpected changes in regulatory environments;
- varying tax regimes, including with respect to the imposition of withholding taxes on remittances and other payments by our partnerships;
- expropriation or naturalization;
- fluctuations in currency exchange rates;
- inability to collect payments or seek recourse under or comply with ambiguous or vague commercial or other laws;

- changes in distribution and supply channels;
- insufficient protection against product piracy and other violations of our intellectual property rights;
- foreign exchange controls and restrictions on repatriation of funds; and
- difficulties in attracting and retaining qualified management and employees, or further streamlining our work force.

Our overall success depends, to a considerable extent, on our ability to anticipate and effectively manage differing legal, political, social and regulatory requirements, economic conditions and unforeseeable developments. We cannot assure you that we will continue to succeed in developing and implementing policies and strategies which will be effective in each location where we do business.

### Any negative impact on the reputation of, and value associated with, our brand names could adversely affect our business.

Our brand names represent an important asset of our business. Maintaining the reputation of and the value associated with our brand names is central to the success of our business and there can be no assurance that we will be able to accomplish this objective. We rely on marketing to strengthen our brand names, and our marketing initiatives may prove to be ineffective. Significant negative publicity or widespread product recalls or other events could cause damage to our brand names. Substantial erosion in the reputation of or value associated with our brand names could have a material adverse effect on our business, financial condition and results of operations.

### We could experience labor disputes that could disrupt our business.

Our financial performance is affected by the availability of qualified personnel and the cost of labor. Most of our workforce at production sites is unionized. We are subject to the risk that strikes or other types of conflicts with personnel may arise; for example, prior to the closing of our manufacturing facility in Selles-sur-Cher, France, in 2010, employees went on strike to protest their severance pay and the terms and conditions of the facility's closure. See "*Business—Employees.*" Furthermore, some of our direct and indirect suppliers have unionized work forces. Strikes, work stoppages or slowdowns experienced by these suppliers could result in slowdowns or closures of facilities where components of our products are manufactured. Any interruption in the production or delivery of our products could reduce sales of our products and increase our costs, giving rise to a material adverse effect on our business, financial condition and results of operations. These risks may be increased by initiatives we are undertaking to streamline to our manufacturing operations.

### We may pursue further acquisitions which, if consummated, could increase the level of our indebtedness and may adversely affect our business if we cannot effectively integrate these new operations.

In the past, we have grown in part through acquisitions. Although we currently have no other binding agreements with respect to any possible acquisitions, we may engage in discussions regarding potential acquisitions of businesses that we believe will present opportunities to realize synergies and strengthen our market position. If we consummate any such transaction, our capitalization and results of operations could change significantly. In addition, any acquisition we may undertake in the future could result in the incurrence of debt and contingent liabilities and an increase in interest expenses and amortization expenses related to goodwill and other intangible assets.

### We participate in distribution arrangements with unaffiliated third parties, specifically in Italy, Denmark, and the Baltic countries which subjects us to a variety of business risks.

We conduct certain of our operations, specifically in Italy, the Baltic countries and Denmark, through agency and/or distribution arrangements with third parties. Our Italian operations function as an agent structure with a commission-based compensation model, while our Danish operations are conducted through a dedicated long-term partnership with a third party affiliate. We also operate through a third party partnership model in the Baltic countries. Our plans with respect to our agency and distribution arrangements assume that our partners will observe their obligations with respect to the agency and distribution arrangements. In the event that any of our partners do not observe their commitments, it is possible that the affected agency or distribution arrangement would not be able to operate in accordance with its business plans or that we would be required to increase our level of commitment in order to give effect to such plans.

### If we do not retain our key personnel or attract and retain other highly skilled employees our business may suffer.

The success of our business is dependent on the leadership of our key management personnel. We believe that our future success will depend on the continued service of our key personnel and on our ability to continue to attract, motivate and retain highly skilled and qualified personnel. In particular, attracting and retaining key technical and engineering personnel is important due to the sophisticated technical and engineering aspects of our business. If we lose key personnel, it could be difficult to replace them, and our business, financial condition and results of operations could be adversely affected. We do not maintain key-man life insurance. We cannot assure you that we will continue to be successful in attracting, retaining and motivating key personnel. See "*Management.*"

### We depend to a certain extent on our information technology systems to operate our business.

We rely to a certain degree on the efficient and uninterrupted operation of our various computer and communications systems to operate and monitor aspects of our business, including production systems, assembly lines, sales, warehousing, distribution, purchasing and inventory control. A significant breakdown or other disruption to our computer and communications systems could affect our ability to manage our information technology systems and conduct our operations at factories, which in turn could have a material adverse effect on our sales, financial condition and results of operations.

### We may not be able to successfully manage any future growth efforts.

Over the past decade, we have expanded our business through both organic growth and the selected acquisitions of related businesses. This growth and other changes have placed and will continue to place a strain on our management systems, infrastructure and resources. Our ability to manage this growth and integrate operations, technologies, products and personnel as well as implement our "One Sanitec" strategy depends on our administrative, financial and operational controls, our ability to create the infrastructure necessary to fulfill our expected improvements and our financial capabilities. In order to compete effectively and to grow and manage our business profitably, we will need, on a timely basis, to maintain and improve our financial and management controls, reporting systems and procedures, implement new systems as necessary, attract and retain adequate management personnel, and hire a qualified workforce that we can train and manage. The failure or delay of our management in responding to these challenges could have a material adverse effect on our business, financial condition and result of operations.

### We are subject to numerous governmental regulations, including environmental laws, health and safety regulations and antitrust laws.

We are subject to a number of European Union, national, regional and local environmental and occupational health and safety laws, rules and regulations relating to the protection of the environment and natural resources including the management of hazardous substances and wastes, air emissions including regulation of greenhouse gas emissions, water discharges, transportation, remediation of contamination and workplace health and safety. Compliance with these laws and regulations entails considerable costs and violation of these laws could result in substantial penalties, temporary or permanent production facility closures, criminal convictions and civil liability.

In addition, changes in existing environmental requirements or the discovery of as yet unidentified environmental liabilities associated with our historical operations or the historical operations of any of our predecessors could require us to incur material costs or suspend or scale back operations temporarily or permanently.

Some of our production facilities have asbestos-containing materials on-site, and a few of our facilities, due to their long industrial history, have the potential for soil and groundwater contamination. We are also currently addressing certain permit issues at a number of our facilities. See "*Business—Regulation and environmental matters.*"

Some environmental laws and regulations impose liability and responsibility on present and former owners, operators or users of facilities and sites for contamination at such facilities or sites without regard to causation or knowledge of contamination. Our liability for currently unknown clean-up costs could have a material adverse effect on our business, financial condition or results of operation. Moreover, regulatory authorities could suspend our operations or refuse to renew the permits and authorizations we require to operate. They could also mandate upgrades or changes to our processes that could result in significant costs to us. We anticipate that the countries where we do business will continue to develop increasingly strict environmental laws and regulations and to interpret and enforce existing laws and regulations more aggressively. This trend could have a material adverse effect on our business, financial condition or results of operations.

In addition to laws and regulations impacting our production sites and manufacturing processes, environmental legislation is increasingly affecting our product portfolio by prohibiting or reducing the critical substances we can utilize requiring such substances to be registered and analyzed for safety (such as the European Union "REACH" regulation), implementing recovery obligations for used packaging and products and requiring the improvement of the energy efficiency of products. Compliance with such laws and regulations entails considerable costs and violation of these laws and regulations could result in substantial penalties and temporary or permanent prohibitions on the marketing and sale of certain products.

Antitrust regulations can also have a marked impact on our business. We cannot assure you that, due to the existing competitive situation in many of the markets in which we are active, we or certain of our subsidiaries or affiliates will not become subject to future antitrust investigations by the relevant authorities and will not be required to pay fines or be subject to claims for damages from third parties for violations of applicable antitrust laws. An unfavorable result in any potential future investigations and proceedings in connection with antitrust laws would have a material adverse effect on our business, financial condition, results of operations and liquidity. In addition, our involvement in such investigations and proceedings may adversely affect our reputation and customer relationships.

On June 23, 2010, the European Commission fined 17 bathroom fittings and fixtures manufacturers, including Sanitec, a total of €622.3 million for alleged participation in a price fixing cartel covering six EU countries (Austria, Belgium, France, Germany, Italy and the Netherlands) over 12 years (1992-2004). According to the decision of the European Commission, the companies had engaged in illegal cartel conduct during meetings of 13 national trade associations and by way of other bilateral and multilateral contacts, through which they had fixed price increases, minimum prices and rebates, and exchanged sensitive business

information, in contravention of EU antitrust regulations. In total, we were fined €57.7 million in connection with the matter. We paid the fines in full on September 30, 2010, although we are appealing such judgment. For further information, see "*Business—Legal proceedings.*" We cannot assure you that we will not be subject to third party claims in respect of these matters or that we will not be required to make payments in settlement of such claims.

### We are subject to risks from legal proceedings.

We are involved in a number of legal disputes, and could become involved in additional legal and arbitration disputes in the future which may involve substantial claims for damages or other payments, including damage claims by customers in connection with past or future violations of antitrust laws. The investigation, defense and resolution of these matters can be prolonged and costly. The outcome of the currently pending or potential future proceedings is difficult to predict with any certainty. In the event of a negative outcome of any material legal or arbitration proceeding, whether based on a judgment or a settlement agreement, we could be obligated to make substantial payments. In addition, the costs related to litigation and arbitration proceedings may be significant. The realization of any of these risks could have a material adverse effect on our business, financial condition and results of operations.

### If our intellectual property is misappropriated or subject to claims of infringement, our operations may be significantly and adversely affected.

The maintenance and protection of our brands is critical for our future success. In the past we have encountered product piracy, particularly in Eastern Europe, Asia and Africa, where our patent, trademark and design protection is less effective than in other markets. In these cases, other manufacturers have imitated our products and sell their imitated products under a design or logo that could be mistaken for ours. In some cases, third parties in countries such as China have even locally registered our registered trademarks as their own. See "*Business—Intellectual property rights.*" If we are not able to protect our products and brands effectively, our brands might not continue to be recognized by retailers, plumbers, installers, and residential and non-residential end-users for its high quality. This could have a material adverse effect on our business, financial condition and results of operations.

Protection of our processes and other technology is also important to our business. We rely upon unpatented proprietary expertise, continuing technological innovation and other trade secrets to develop and maintain our competitive position. In addition to protecting our intellectual property through patents, trademarks and registered designs, we also enter into confidentiality agreements with third-party developers. We cannot assure you that our patents, trademarks and registered designs will provide meaningful protection for our processes and technology, that confidentiality agreements will not be breached, or that adequate remedies will be available in the event of an unauthorized use or disclosure of these trade secrets or proprietary know-how. In addition, the laws of many foreign countries in which we sell our products do not protect intellectual property rights to the same extent as the laws of Western European countries or the United States. Furthermore, the maintenance of the full range of patent, trademark, utility model and registered design protection available in all relevant jurisdictions is cost prohibitive. As a result, we may not be able to prevent others from copying our products or from using our trademarks. The failure of our intellectual property rights or confidentiality agreements to protect our processes, technology, designs, trade secrets or proprietary know-how could have a material adverse effect on our business, financial condition and results of operations.

### We may incur material costs as a result of warranty and product liability claims which could adversely affect our profitability.

Our products are subject to express and implied warranty claims. We may in the future incur significant losses if we are subject to substantial warranty claims. Additionally, defects in our products may result in product liability claims, product recalls, adverse customer reaction and negative publicity about us or our products. In addition, we source some of the components of our products (for example, flushing devices and cisterns) from third-party suppliers. If any of these components are defective, and we consequently become subject to warranty or other claims as a result, we may be unable to recover any claims or losses from such third-party suppliers, or they may not be adequately covered by insurance. Certain of our products also operate at high water temperatures and use significant water pressure, and accordingly, product failures could result in substantial harm to people or property. While we hold insurance for product liability matters we cannot assure you that such insurance will cover any such matter, or that such insurance will continue to be available on economically reasonable terms, if at all. Defects may also require expensive modifications to our products and may adversely affect our reputation. The occurrence of any of these events could have a material adverse effect on our business, financial condition and results of operations.

## RISKS RELATING TO THE NOTES AND OUR CAPITAL STRUCTURE

### The Issuer will depend on cash from its operating companies to be able to make payments on the Notes and the Guarantees.

The Issuer will be dependent upon the cash flow from its operating subsidiaries in the form of distributions or payments to meet its obligations, including its obligations under the Notes. We intend to provide funds to the Issuer in order for the Issuer to meet its obligations under the Notes through a combination of distributions and interest payments on intercompany loans. The obligations under the intercompany loans will be junior obligations and will be subordinated in right of payment to all existing future senior secured and senior subordinated indebtedness of the Issuer, including obligations under the Revolving Credit Facility and the Notes. If our subsidiaries do not fulfill their obligations under the intercompany loans and do not distribute cash to the Issuer to

make scheduled payments on the Notes, the Issuer will not have any other source of funds that would allow it to make payments to the holders of the Notes. The amounts of distributions available to the Issuer will depend on the profitability and cash flows of its subsidiaries and the ability of those subsidiaries to issue distributions under applicable law. However, the subsidiaries of the Issuer may not be able, or may not be permitted under applicable law, to make distributions or advance upstream loans to the Issuer to make payments in respect of its indebtedness, including the Notes and the Guarantees. Various agreements governing our debt may restrict, and in some cases, may actually prevent the ability of the subsidiaries to move cash within the restricted group. In addition, the subsidiaries of the Issuer that do not guarantee the Notes have no obligation to make payments with respect to the Notes.

### The Notes will bear interest at a floating rate that could rise significantly, increasing our interest cost and debt and reducing our cash flow.

The Notes will bear interest at floating rates equal to EURIBOR, adjusted quarterly, plus a spread. EURIBOR could rise significantly in the future. Although we may enter into and maintain certain hedging arrangements designed to fix a portion of these rates, there can be no assurances that hedging will continue to be available on commercially reasonable terms. Hedging itself carries certain risks, including that we may need to pay a significant amount (including costs) to terminate any hedging arrangements. To the extent interest rates were to rise significantly our interest expense associated with the Notes and the carrying cost of our debt would correspondingly increase, thus reducing free cash flow. The manner of calculating EURIBOR is under review by European regulators and others. There can be no assurance that EURIBOR will continue to be calculated as it has historically, if at all.

### Our significant leverage may make it difficult for us to service our debt, including the Notes, and operate our business.

Upon consummation of this Offering, we will have a substantial amount of outstanding indebtedness with significant debt service requirements. As of December 31, 2012, after giving effect to this Offering and the use of proceeds therefrom, our total borrowings would have been €250.3 million, including the Notes. We also would have had approximately €50.0 million available for borrowing under our Revolving Credit Facility. See "*Capitalization*" and "*Description of other indebtedness.*"

Our significant leverage could have important consequences for you as a holder of the Notes, including:

- making it more difficult for us to satisfy our obligations with respect to the Notes and our other debt and liabilities;
- requiring us to dedicate a substantial portion of our cash flow from operations to payments on our debt, thus reducing the availability of our cash flow to fund internal growth through capital expenditures and for other general corporate purposes;
- increasing our vulnerability to a downturn in our business, economic or industry conditions;
- placing us at a competitive disadvantage compared to our competitors that have less debt in relation to cash flow;
- limiting our flexibility in planning for or reacting to changes in our business and industry;
- restricting us from pursuing strategic acquisitions or exploiting certain business opportunities; and
- limiting, among other things, our and our subsidiaries' ability to borrow additional funds or raise equity capital in the future and increasing the costs of such additional financings.

Our ability to service our indebtedness will depend on our future performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors. Some of these factors are beyond our control. If we cannot service our indebtedness and meet our other obligations and commitments, we might be required to refinance our debt or to dispose of assets to obtain funds for such purpose. We cannot assure you that refinancings or asset dispositions could be effected on a timely basis or on satisfactory terms, if at all, or would be permitted by the terms of our debt instruments.

### We may incur substantially more debt in the future, which may make it difficult for us to service our debt, including the Notes, and impair our ability to operate our businesses.

We may incur substantial additional debt in the future. Although the Indenture and the Revolving Credit Facility contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions and, under certain circumstances, the amount of indebtedness that could be incurred in compliance with these restrictions could be substantial. Under the Indenture, in addition to specified permitted indebtedness, we will be able to incur additional indebtedness so long as on a *pro forma* basis our Consolidated Fixed Charge Coverage Ratio (as defined in "*Description of the Notes*") is at least 2.0 to 1.0, and we may incur additional indebtedness, including, to the extent our Consolidated Secured Leverage Ratio (as defined in the "*Description of the Notes*") would be less than 3.0 to 1.0, additional indebtedness which also benefits from the Collateral that secures the Notes and the Revolving Credit Facility. We will also be able to draw amounts under our Revolving Credit Facility and incur certain other indebtedness at a time when we do not meet these ratios (subject always to compliance with restrictions on the incurrence of additional indebtedness set out in "*Description of the Notes*"). The terms of the Indenture will permit us to incur future debt that may have substantially the same covenants as, or covenants that are more restrictive than, those of the Indenture. Moreover, some of the debt we may incur in the future could be structurally senior to the Notes (subject to compliance with the restrictions in the Intercreditor Agreement) and may be secured by Collateral that does not secure the Notes. In addition, the Indenture and the Revolving Credit Facility will not prevent us from incurring obligations that do not constitute indebtedness under those agreements. The incurrence of additional debt would increase the leverage-related risks described in this Offering Memorandum.

### We may not be able to generate sufficient cash to meet our debt service obligations.

Our ability to make interest payments on the Notes and to meet our other debt service obligations, including under the Revolving Credit Facility, or to refinance our debt, depends on our future operating and financial performance, which will be affected by our ability to successfully implement our business strategy as well as general economic, financial, competitive, regulatory and other factors beyond our control.

If our business does not generate sufficient cash flow from operations or if future borrowings are not available to us in an amount sufficient to enable us to pay our indebtedness, including the Notes, or to fund our other liquidity needs, we may need to refinance all or a portion of our indebtedness, including the Notes, on or before the maturity thereof, sell assets, reduce or delay capital investments or seek to raise additional capital, any of which could have a material adverse effect on our operations. In addition, we may not be able to effect any of these actions, if necessary, on commercially reasonable terms or at all. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. The terms of existing or future debt instruments, including the Indenture, may limit or prevent us from taking any of these actions. If we default on the payments required under the terms of certain of our indebtedness, that indebtedness, together with debt incurred pursuant to other debt agreements or instruments that contain cross-default or cross-acceleration provisions, may become payable on demand, and we may not have sufficient funds to repay all of our debts, including the Notes. See "*Description of other indebtedness*." As a result, our inability to generate sufficient cash flow to satisfy our debt service obligations, or to refinance or restructure our obligations on commercially reasonable terms or at all, would have an adverse effect, which could be material, on our business, financial condition and results of operations, as well as on our ability to satisfy our obligations in respect of the Notes.

### Restrictive covenants in the Revolving Credit Facility and the Indenture may restrict our ability to operate our business. Our failure to comply with these covenants, including as a result of events beyond our control, could result in an event of default that could materially and adversely affect our financial condition and results of operations.

The Indenture governing the Notes and the Revolving Credit Facility contain negative covenants restricting, among other things, our ability to:

- incur additional indebtedness and issue certain preferred shares;
- pay dividends on capital stock or repurchase shares or make certain investments;
- make certain other restricted payments;
- create certain liens;
- merge or consolidate with other entities;
- enter into certain sale leaseback transactions;
- sell, lease or transfer certain assets, including shares of any restricted subsidiary;
- enter into certain transactions with affiliates;
- create encumbrances or restrictions on the ability of our subsidiaries to pay dividends to us; and
- guarantee certain types of other indebtedness of our restricted subsidiaries without also guaranteeing the Notes.

The Revolving Credit Facility will require us to comply with certain affirmative covenants and will contain a financial covenant, which will require us to ensure that our Consolidated Net Leverage Ratio in respect of any Relevant Period (each as defined in the Revolving Facility Agreement) shall not exceed 5:1. Our ability to comply with these covenants depends on our future performance, which will be subject to many factors, some of which are beyond our control.

The restrictions contained in the Revolving Credit Facility and the Indenture could affect our ability to operate our business and may limit our ability to react to market conditions or take advantage of potential business opportunities as they arise. For example, such restrictions could adversely affect our ability to finance our operations, make strategic acquisitions, investments or alliances, restructure our organization or finance our capital needs. Additionally, our ability to comply with these covenants and restrictions may be affected by events beyond our control. These include prevailing economic, financial and industry conditions. If we breach any of these covenants or restrictions, we could be in default under the Revolving Credit Facility, the Indenture and our other indebtedness.

If there were an event of default under any of our debt instruments that was not cured or waived, the holders of the defaulted debt could terminate their commitments thereunder and cause all amounts outstanding with respect to such indebtedness to be due and payable immediately, which in turn could result in cross defaults under our other debt instruments, including the Notes. Any such actions could force us into bankruptcy or liquidation, and we may not be able to repay our obligations under the Notes in such an event.

### Under the Intercreditor Agreement, the holders of the Notes will be required to share recovery proceeds with other secured creditors and have certain limitations on their ability to enforce the security documents.

The Trustee under the Indenture governing the Notes will enter into the Intercreditor Agreement with, among others, the agent under the Revolving Credit Facility, counterparties to certain hedging obligations and the Security Agent. Other creditors may become parties to the Intercreditor Agreement or we may enter into additional Intercreditor Agreements in the future. Among other things, the Intercreditor Agreement governs the enforcement of the security documents, the sharing in any recoveries from such enforcement and the release of the Collateral by the Security Agent.

These arrangements could be disadvantageous to the holders of the Notes in a number of respects. For example, other creditors not party to the Intercreditor Agreement could commence enforcement action against the Issuer or its subsidiaries during the consultation period, the Issuer or one or more of its subsidiaries could seek protection under applicable bankruptcy laws, or the value of certain Collateral could otherwise be impaired or reduced in value. In addition, if we incur substantial additional indebtedness which may be secured on the Collateral, the holders of the Notes may not comprise the majority of the senior secured creditors for the purposes of instructing the Security Agent. The lenders under the Revolving Credit Facility, certain hedge counterparties and lenders or creditors of future classes of debt that are permitted to share the security granted in favor of the Notes may have interests that are different from the interest of the holders of the Notes and may, subject to the terms of the Intercreditor Agreement, elect to pursue remedies under the security documents at a time or in a manner that is not supported by the holders of the Notes. In connection with the enforcement of the Collateral, the Collateral and the guarantees of the Notes may be released in circumstances where the holders of the Notes do not recover any proceeds from the enforcement of the Collateral or recover only a limited amount of proceeds.

In addition, lenders under our Revolving Credit Facility, certain hedge counterparties and lenders or creditors under certain other Indebtedness that we may incur in the future will receive priority to the proceeds from the enforcement of shared security. The holders of the Notes will only benefit from the proceeds from the enforcement of Collateral after the obligations to the priority creditors have been satisfied in full. As such, in the event of a foreclosure on the Collateral, your recovery on the Collateral may be limited or may be zero, if the proceeds from an enforcement sale of the Collateral are only sufficient to satisfy the obligations to the priority creditors. In addition, the Intercreditor Agreement will provide that any proceeds from an enforcement of security which is available to satisfy the obligations under the Notes will be paid *pro rata* in repayment of the Notes and any other obligations secured by the Collateral on a *pari passu* basis. The Intercreditor Agreement will provide that the Security Agent may release certain Collateral in connection with sales of assets pursuant to a permitted disposal or enforcement sale and in other circumstances permitted by the Indenture governing the Notes and the Revolving Credit Facility. Therefore, such Collateral available to secure the Notes could be reduced in connection with the sales of assets or otherwise, subject to the requirements of the financing documents and the Indenture governing the Notes.

Up to €50.0 million will be available for additional borrowing under our Revolving Credit Facility after completion of the Offering. In addition, the Indenture governing the Notes and our Revolving Credit Facility will permit us, in compliance with the covenants in those agreements, to incur significant additional indebtedness secured by liens on the Collateral. Our ability to incur additional debt in the future secured on the Collateral may have the effect of diluting the ratio of the value of such Collateral to the aggregate amount of the obligations secured by the Collateral.

### Enforcing your rights as a noteholder or under the Guarantees or security across multiple jurisdictions may prove difficult.

The Notes will be issued by the Issuer, a company which is organized and established under the laws of Finland, and will be guaranteed by the Guarantors, which are incorporated under the laws of multiple jurisdictions. In the event of a bankruptcy, insolvency or similar event, proceedings could be initiated in any, all or any combination of the above jurisdictions. Such multi-jurisdictional proceedings are likely to be complex and costly for creditors and otherwise may result in greater uncertainty and delay regarding the enforcement of your rights. Your rights under the Notes, the Guarantees and the Collateral will be subject to the bankruptcy, insolvency and administrative laws of several jurisdictions and there can be no assurance that you will be able to effectively enforce your rights in such complex, multiple bankruptcy, insolvency or similar proceedings.

In addition, the bankruptcy, insolvency, administrative and other laws of the Guarantor jurisdictions of organization may be materially different from, or in conflict with, each other, including in the areas of rights of creditors, priority of governmental and other creditors, ability to obtain post-petition interest and duration of the proceeding. The application of these laws, or any conflict among them, could call into question whether the law of any particular jurisdiction should apply, and may adversely affect your ability to enforce your rights under the Notes, the Guarantees, and the Collateral in those jurisdictions or limit any amounts that you may receive.

Moreover, in certain jurisdictions, it is unclear whether all security interests in the Collateral give the Security Agent a right to prevent other creditors from foreclosing on and realizing the Collateral or whether certain security interests only give the Security Agent and the noteholders priority (according to their rank) in the distribution of any proceeds of such realization. Accordingly, the Security Agent and the noteholders may not be able to avoid foreclosure by other creditors (including unsecured creditors) on the Collateral.

The laws of certain of the jurisdictions in which the Guarantors are organized may limit the ability of these subsidiaries to guarantee debt of other companies. As a result, a court in those jurisdictions may deem the Guarantees to not be valid, which would reduce the amount of Collateral available to satisfy claims under the Notes. See "*Certain insolvency considerations and limitations on the validity and enforceability of the Guarantees and the Deeds of Surety.*"

### The security interests in the Collateral will be granted to the Security Agent rather than directly to the holders of the Notes. The ability of the Security Agent to enforce the Collateral may be restricted by local law.

The security interests in the Collateral that will secure the obligations of the Issuer under the Notes and the obligations of the Guarantors under the guarantees shall be granted only in favor of the Security Agent and not directly to the holders of the Notes. The Indenture and the Intercreditor Agreement will provide that only the Security Agent has the right to enforce the Security Documents. As a consequence, holders of the Notes will not have direct security interests and will not be entitled to take enforcement action in respect of the Collateral securing the Notes, except through the Trustee under the Indenture, who will (subject to the provisions of the Indenture) provide instructions to the Security Agent in connection with the Collateral.

Further, in certain jurisdictions, the security interests in the Collateral will also not be granted directly to the holders of the Notes, but rather only in favor of the Security Agent, as beneficiary of parallel debt obligations (the "**Parallel Debt**"). The Parallel Debt is created to satisfy a requirement under the laws of such jurisdictions that the security agent, as grantee of certain types of Collateral, be a creditor of the relevant security provider. The Parallel Debt is in the same amount and payable at the same time as the obligations of the Issuer under the Indenture and the Notes (the "**Principal Obligations**"). Any payment in respect of the Principal Obligations shall discharge the corresponding Parallel Debt and any payment in respect of the Parallel Debt shall discharge the corresponding Principal Obligations. Although the Security Agent will have, pursuant to the Parallel Debt, a claim against the Issuer for the full principal amount of the Notes, holders of the Notes will not be entitled to enforce such security except through the Security Agent and will bear some risks associated with a possible insolvency or bankruptcy of the Security Agent. The Parallel Debt obligations referred to above are contained in the Intercreditor Agreement and will also be agreed and acknowledged under the Indenture, which are governed by the laws of England and Wales and New York law, respectively. There is no assurance that such a structure will be effective before other courts as there is no judicial or other guidance as to its efficacy, and therefore the ability of the Security Agent to enforce the Collateral may be restricted.

### Ukrainian currency control regulations may impact the Ukrainian Sureties' ability to make payments under the deeds of surety

The National Bank of Ukraine (the "**NBU**") is empowered to establish policies for and to regulate currency operations in Ukraine and has the power to establish restrictions on currency operations and repatriation of profits. Ukrainian currency controls and practice are subject to change, with the NBU exercising considerable autonomy in interpretation and application.

Each deed of surety given by a Ukrainian Guarantor will constitute a suretyship for the purposes of Ukrainian law. Applicable Ukrainian legislation may be interpreted to require a resident Ukrainian entity to obtain an individual license (a "**Foreign Payment License**") from the NBU in order to make cross-border payments pursuant to a suretyship (although no Foreign Payment License is required for a resident Ukrainian entity to issue the suretyship). However, the NBU does not issue Foreign Payment Licenses in advance or for contingent payments when the amount and date of a cross-border payment are not known. We are aware of situations where the NBU took a liberal approach to the relevant legislation and did not require a Foreign Payment License to be obtained in order to make a cross-border payment under a suretyship. However, there can be no assurance of NBU's actual position in a particular situation or in the future. At the same time, even if the NBU takes the approach that a Foreign Payment Licence is required for the sureties to make payment under the deeds of surety at the relevant time this should not affect the validity of the deeds of surety. In such circumstances, absent a Foreign Payment License, a Ukrainian surety may be permitted to make cross-border payments under suretyship if such payment is required pursuant to a valid and effective order of a Ukrainian court (including that enforcing a foreign arbitral award).

The ability of the Ukrainian Sureties to make cross-border payments under the Deed of Surety may be further impeded by Ukrainian currency control regulations restricting a resident Ukrainian entity's ability to purchase foreign currency in order to make payments under a suretyship issued with respect to obligations of a foreign debtor.

### Guarantees (Deeds of Surety) and security interests of our Ukrainian subsidiaries will not be available on the Issue Date.

A portion of the proceeds of this Offering will be used to prepay our existing Ukrainian loans as described under "*Use of proceeds*." Due to waiver requirements, extended notice periods and regulatory controls, we will not be able to complete the prepayment of the Ukrainian loans on the Issue Date and this prepayment, and the related release of sureties and security over the assets of Slavuta Holdings LLC and Slavuta Plant Budfarfor, PJSC, will occur subsequent to the Issue Date. Prior to the release of these sureties and the related security interests, the Notes will not benefit from the credit support from these entities. Although our Revolving Credit Facility and the Indenture will require us to maintain a guarantor coverage threshold based on EBITDA and asset coverage (tested annually), we cannot assure you that the Ukrainian assets will be available to be included in the credit support benefiting the Notes, or when this security may be available to support the Notes.

### The Issuer and the Guarantors will have control over the Collateral, and the operation of the business or the sale of particular assets could reduce the pool of assets securing the Notes.

The Security Documents allow the Issuer and the Guarantors to remain in possession of, retain exclusive control over, freely operate, and collect, invest and dispose of any income from, the Collateral. So long as no default or event of default under the Indenture would result therefrom, the Issuer and the Guarantors may, among other things, subject to the terms of the Security Documents, without any release or consent by the Trustee or the Security Agent, conduct ordinary course activities with respect to the Collateral such as selling, modifying, factoring, abandoning or otherwise disposing of the Collateral and making ordinary course cash payments, including repayments of indebtedness. Any of these activities could reduce the value of the Collateral, which could reduce the amounts payable to you from the proceeds of any sale of the Collateral in the case of an enforcement of the liens on the Notes. Further, this may prejudice the effectiveness of such Collateral until control is restricted in accordance with the terms and conditions of the relevant Security Document; and the Collateral may still be subject to recovery risk in any insolvency proceeding thereafter.

In addition, the operation of large scale manufacturing activities is subject to hazards such as fire, explosion, release of high temperature steam or water, structural collapse and machinery failure. These and other hazards can cause severe damage to and destruction of the property, plant and products that serves as Collateral. While we intend to continue to maintain insurance or otherwise insure against hazards in the manner described, there are certain losses that may be either uninsurable or not economically insurable, in whole or in part. Insurance proceeds may not compensate us fully for our losses, and as a result, if there is a loss of any of the Collateral, the insurance proceeds may not be sufficient to replace the Collateral. In addition, even if there is sufficient insurance coverage, there may be significant delays in obtaining the insurance proceeds or replacement Collateral. As a result, if we incur an event that damages or destroys Collateral, it could reduce the aggregate value of the Collateral, which could reduce the amounts payable to you from the proceeds of any sale of the Collateral in the case of an enforcement of the liens on the Notes.

### The value of the Collateral and the Guarantees may not be sufficient to satisfy our obligations under the Notes or the Guarantees.

The assets that constitute the Collateral hereunder are also pledged, on a priority basis, for the benefit of the lenders under the Revolving Credit Facility and counterparties under certain priority hedging obligations, as well as certain additional indebtedness which may be incurred in the future. In addition, the Indenture will allow us to incur certain additional permitted indebtedness in the future that is secured by the Collateral on a *pari passu* or junior basis. See "*Description of the Notes—Certain covenants*." The incurrence of any additional secured indebtedness or a reduction in the value of the Collateral would reduce amounts payable to you from the proceeds of any sale of the Collateral. The value of the Collateral and the amount to be received upon a sale of such Collateral will depend upon many factors, including, among others, the ability to sell the Collateral in an orderly sale, the condition of the economies in which our operations are located, the availability of buyers and other factors. The book value of the Collateral should not be relied on as a measure of realizable value for such assets. Portions of the Collateral may be illiquid and may have no readily ascertainable market value. The Collateral is located in a number of countries, and the multi-jurisdictional nature of any foreclosure on the Collateral may limit the realizable value of the Collateral. To the extent that holders of other secured debt or third parties enjoy liens (including statutory liens), whether or not permitted by the Indenture, such holders or third parties may have rights and remedies with respect to the Collateral securing the Notes and the Guarantees which, if exercised, could reduce the proceeds available to satisfy the obligations under the Notes and the Guarantees. The Intercreditor Agreement will provide that, in the event of any distribution of the proceeds from the sale of any shared Collateral securing the Notes, the lenders under the Revolving Credit Facility and the counterparties to certain priority hedging obligations will be entitled to receive from such distribution payment before the holders of the Notes will be entitled to receive any payment from such distribution with respect to the Notes or the Guarantees, which will reduce the amounts remaining to satisfy the obligations under the Notes. As a result, in the event of an enforcement of the liens in respect of the Notes, the proceeds from the sale of the Collateral may not be sufficient to satisfy our obligations under the Notes or the obligations of the Guarantors under the Guarantees.

### It may be difficult to realize the value of the Collateral securing the Notes.

The Collateral securing the Notes will be subject to any and all exceptions, defects, encumbrances, liens and other imperfections permitted under the Indenture. The existence of any such exceptions, defects, encumbrances, liens and other imperfections could adversely affect the value of the Collateral securing the Notes as well as the ability of the Security Agent to realize or foreclose on that Collateral.

The security interests of the Security Agent will be subject to practical problems generally associated with the realization of security interests in Collateral. For example, the Security Agent may need to obtain the consent of a third party, including in some cases regulatory requirements, to enforce a security interest. We cannot assure you that the Security Agent will be able to obtain any such consents. We also cannot assure you that the consents of any third parties will be given when required to facilitate a foreclosure on such assets. Accordingly, the Security Agent may not have the ability to foreclose upon those assets and the value of the Collateral may significantly decrease.

In addition, our business requires a variety of national, state and local permits and licenses. The continued operation of properties that comprise part of the Collateral and which depend on the maintenance of such permits and licenses may be prohibited. Our business is subject to regulations and permitting requirements and may be adversely affected if we are unable to comply with

existing regulations or requirements or changes in applicable regulations or requirements. In the event of foreclosure, the transfer of such permits and licenses may be prohibited or may require us to incur significant cost and expense. Further, we cannot assure you that the applicable governmental authorities will consent to the transfer of all such permits. If the regulatory approvals required for such transfers are not obtained or are delayed, the foreclosure may be delayed, a temporary shutdown of operations may result and the value of the Collateral may be significantly decreased.

### Your rights in the Collateral may be adversely affected by the failure to perfect security interests in the Collateral, particularly in certain Collateral that will be granted subsequent to the issuance of the Notes.

Under applicable law, a security interest in certain tangible and intangible assets can only be properly perfected, and its priority retained, through certain actions undertaken by the secured party and/or the grantor of the security. The liens in the Collateral securing the Notes may not be perfected with respect to the claims of the Notes if we or the Security Agent fails or is unable to take the actions we are required to take to perfect any of these liens. In addition, applicable law requires that certain property and rights acquired after the grant of a general security interest, such as real property, products subject to a certificate and certain proceeds, can only be perfected at, or promptly following, the time such property and rights are acquired and identified. It should also be noted that in accordance with the terms and conditions of the Security Documents, neither the Issuer nor the Guarantor is required to perfect the Collateral in relation to all security assets (such as bank accounts, dividends and receivables) before an event of default or an acceleration event. This may prejudice the effectiveness of such Collateral until such Collateral is perfected and the Collateral may still be subject to recovery risk in any insolvency proceeding thereafter.

Neither the Trustee nor the Security Agent for the Notes will monitor, or we may not comply with our obligations to inform the Trustee or Security Agent of, any future acquisition of property and rights by us, and the necessary action may not be taken to properly perfect the security interest in such after-acquired property or rights. Such failure may result in the invalidity of the security interest in the Collateral or adversely affect the priority of the security interest in favor of the Notes against third parties. Neither the Trustee nor the Security Agent for the Notes has any obligation to monitor the acquisition of additional property or rights by us or the perfection of any security interest.

### The Notes will be structurally subordinated to the liabilities of our non-guarantor subsidiaries.

Some, but not all, of our subsidiaries will guarantee the Notes. Generally, holders of indebtedness of, and trade creditors of, non-guarantor subsidiaries, including lenders under bank financing agreements, are entitled to payments of their claims from the assets of such subsidiaries before these assets are made available for distribution to any guarantor, as direct or indirect shareholder.

Accordingly, in the event that any non-guarantor subsidiary becomes insolvent, liquidates or otherwise reorganizes, the creditors of the Issuer (including the holders of the Notes) will have no right to proceed against the assets of such subsidiary and creditors of such non-guarantor subsidiary, including trade creditors, will generally be entitled to payment in full from the sale or other disposal of the assets of such subsidiary before any guarantor, as direct or indirect shareholder, will be entitled to receive any distributions from such subsidiary.

Any of the debt that our non-guarantor subsidiaries incur in the future in accordance with the Indenture will rank structurally senior to the Notes and the Guarantees.

### Insolvency laws and other limitations may adversely affect the validity of the Guarantees and Collateral.

The Issuer and the Guarantors are organized in various jurisdictions including the Netherlands, England, Finland, Germany, Poland, Sweden, Ukraine, and Italy. In general, applicable insolvency laws and limitations on the enforceability of foreign judgments could limit the enforceability of any judgments against the Issuer and the Guarantors of the Notes and Guarantees. Additionally, these jurisdictions may provide you with less protection than your home jurisdiction in the event of a bankruptcy of the Issuer and/or Guarantors.

Enforcement of each Guarantee and the relevant security will, where applicable, be limited to the extent of the amount which can be guaranteed or secured by a particular Guarantor without rendering the Guarantee, as it relates to that Guarantor or security, voidable or otherwise ineffective under applicable law and without rendering the Guarantor insolvent or subject to any legal cause that would require it to be dissolved. These laws and defenses include those that relate to fraudulent conveyance or transfer, insolvency, voidable preference, financial assistance, corporate purpose or benefit, preservation of share capital, thin capitalization and defenses affecting the rights of creditors generally.

In an insolvency proceeding, it is possible that creditors or the appointed insolvency administrator may challenge the Guarantees and security, and intercompany obligations generally, as fraudulent transfers or conveyances or on other grounds. Insolvency laws may then permit a court, if it makes certain findings, to void or invalidate all or a portion of a Guarantor's obligations under its Guarantee or the security provided by such Guarantor; direct that holders of the Notes return any amounts paid under a Guarantee or any Security Document to the relevant Guarantor or to a fund for the benefit of the Guarantor's creditors; or take other action that is detrimental to holders of our Notes.

Different jurisdictions evaluate insolvency on various criteria, but a guarantor is generally considered insolvent at the time it issued a guarantee or created any security if:

- its liabilities exceed the fair market value of its assets;
- it cannot pay its debts as and when they become due; or

- the present salable value of its assets is less than the amount required to pay its total existing debts and liabilities, including contingent and prospective liabilities, as they mature or become absolute.

We cannot assure you which standard a court would apply in determining whether a guarantor was "insolvent" as of the date the Guarantees were issued or security was created or that, regardless of the method of valuation, a court would not determine that a Guarantor was insolvent on that date. Nor can we assure you that a court would not determine, regardless of whether or not a Guarantor was insolvent on the date its Guarantee was issued or security was created, that the issuance of the Guarantees or creation of security or payments to holders of the Notes constituted fraudulent transfers on other grounds. Should a court so hold, you may cease to have any claim in respect of the Guarantor or other person and you would be a creditor solely of the Issuer and any remaining Guarantors. An overview of the enforceability issues as they relate to the Guarantees and Security Documents is set forth under "*Certain insolvency considerations and limitations on validity and enforceability of the Guarantees and the Deeds of Surety*."

### Enforcement of the Guarantees across jurisdictions may be difficult.

The Issuer is incorporated under the laws of Finland, and the Guarantors are incorporated under the laws of multiple jurisdictions. Each entity is subject to the insolvency laws of the jurisdiction in which it is incorporated. In the event that any one or more of the Issuer, the Guarantors, any future Guarantors, or any of our other subsidiaries experienced financial difficulty, the jurisdiction in which insolvency or similar proceedings might commence is uncertain. Nor can the outcome of such proceedings be predicted.

The rights under the Guarantees will be subject to the laws of a number of jurisdictions, and there can be no assurance as to how the insolvency laws of these jurisdictions will be utilized in relation to one another. The application of these laws, or any conflict among them, could adversely affect your ability to enforce your rights under the Guarantees and to realize any recovery under the Notes. See "*Certain insolvency considerations and limitations on validity and enforceability of the Guarantees and the Deeds of Surety*."

This description, as well as any other descriptions of insolvency law considerations in the jurisdictions of the Issuer and the Guarantors, is only a summary and does not purport to be complete or to discuss all of the limitations or considerations that may affect the validity and enforceability of the Notes or the Guarantees. Prospective investors in the Notes should consult their own legal advisors with respect to such limitations and considerations.

### You may be unable to recover in civil proceedings for U.S. securities laws violations.

We are organized under the laws of Finland and do not have any material assets in the United States. We anticipate that some or all of our directors and executive officers and the directors and officers of the Guarantors will be non-residents of the United States and that all or a majority of their assets will be located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon us, the Guarantors, or our or their respective directors and executive officers, or to enforce any judgments obtained in U.S. courts predicated upon civil liability provisions of the U.S. securities laws. In addition, we cannot assure you that civil liabilities predicated upon the federal securities laws of the United States will be enforceable in Finland or any other jurisdiction. See "*Service of process and enforcement of civil liabilities*."

### You may face foreign exchange risks or adverse tax consequences by investing in the Notes denominated in foreign currencies.

The Notes will be denominated and payable in euros. If you are a U.S. dollar or other non-euro investor, an investment in the Notes will entail foreign exchange-related risks due to, among other factors, possible significant changes in the value of the euro relative to the U.S. dollar or other relevant currencies because of economic, political or other factors over which we have no control. Depreciation of the euro against the U.S. dollar or other relevant currencies could cause a decrease in the effective yield of the Notes below their stated margin rate and could result in a loss to you when the return on the Notes is translated into the currency by reference to which you measure the return on your investments. Investments in the Notes by U.S. investors may also have important tax consequences as a result of foreign exchange gains, if any. See "*Certain tax considerations*."

### We may not have the ability to raise the funds necessary to finance an offer to repurchase your Notes upon the occurrence of certain events constituting a change of control as required by the Indenture, and the change of control provision in the Indenture may not afford you protection against certain corporate events.

Upon the occurrence of certain events constituting a change of control, the Issuer is required to offer to repurchase all outstanding Notes at a purchase price in cash equal to 101% of the principal amount thereof on the date of purchase plus accrued and unpaid interest to the date of purchase. If a change of control were to occur, we cannot assure you that we would have sufficient funds available at such time to pay the purchase price of the outstanding Notes. We expect that we would require third party financing to make an offer to repurchase the Notes upon a change of control. We cannot assure you that we would be able to obtain such financing. In addition, restrictions in our then-existing contractual obligations, including the Revolving Credit Facility, may not allow us to make such required repurchases upon the occurrence of certain events constituting a change of control. If an event constituting a change of control occurs at a time when the Issuer is prohibited from repurchasing Notes, the Issuer may seek the consent of the lenders under such indebtedness to the purchase of Notes or may attempt to refinance the borrowings that contain such prohibition. If the Issuer does not obtain such consent or repay such borrowings, the Issuer will remain prohibited from repurchasing any tendered Notes. A change of control may result in an event of default under, or acceleration of, the Revolving Credit Facility and other indebtedness. The repurchase of the Notes pursuant to such an offer could cause a default under such

indebtedness, even if the change of control itself does not. Any failure by the Issuer to offer to purchase Notes would constitute a default under the Indenture, which would in turn constitute a default under the Revolving Credit Facility, and could result in an acceleration of our indebtedness thereunder, which could have a material adverse effect on our business. See "*Description of the Notes—Certain covenants*."

The change of control provision contained in the Indenture may not necessarily afford you protection in the event of certain important corporate events, including a reorganization, restructuring, merger or other similar transaction involving us that may adversely affect you, because such corporate events may not involve a shift in voting power or beneficial ownership or, even if they do, may not constitute a "Change of Control" as defined in the Indenture. Except as described under "*Description of the Notes—Certain covenants—Change of control*," the Indenture does not contain provisions that require us to offer to repurchase or redeem the Notes in the event of a reorganization, restructuring, merger, recapitalization or similar transaction.

The definition of "change of control" contained in the Indenture includes a disposition of all or substantially all of the assets of the Issuer and the restricted subsidiaries taken as a whole to any person. Although there is a limited body of case law interpreting the phrase "all or substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of "all or substantially all" of the assets of the Issuer and the restricted subsidiaries taken as a whole. As a result, it may be unclear as to whether a change of control has occurred and whether the Issuer is required to make an offer to repurchase the Notes.

### The Notes will initially be held in book-entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.

The Notes will initially only be issued in global certificated form and held through Euroclear and Clearstream.

Interests in the global notes will trade in book-entry form only, and the Notes in definitive registered form, or definitive registered notes, will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners of the Notes. The common depositary, or its nominee, for Euroclear and Clearstream will be the sole registered holder of the global notes representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the global notes representing the Notes will be made to Deutsche Bank AG, London Branch, as principal paying agent, which will make payments to Euroclear and Clearstream. Thereafter, these payments will be credited to participants' accounts that hold book-entry interests in the global notes representing the Notes and credited by such participants to indirect participants. After payment to the common depositary for Euroclear and Clearstream, we will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, if you own a book-entry interest, you must rely on the procedures of Euroclear and Clearstream, and if you are not a participant in Euroclear or Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder of the Notes under the Indenture.

Unlike the holders of the Notes themselves, owners of book-entry interests will not have the direct right to act upon our solicitations for consents, requests for waivers or other actions from holders of the Notes. Instead, if you own a book-entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from Euroclear or Clearstream. The procedures implemented for the granting of such proxies may not be sufficient to enable you to vote on a timely basis.

Similarly, upon the occurrence of an event of default under the Indenture, unless and until definitive registered Notes are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted to acting through Euroclear and Clearstream. The procedures to be implemented through Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Notes.

### Transfers of the Notes are restricted, which may adversely affect the value of the Notes.

The Notes are being offered and sold pursuant to an exemption from registration under the U.S. Securities Act and applicable state securities laws of the United States. The Notes have not been and will not be registered under the U.S. Securities Act or any U.S. state securities laws. Therefore, you may not transfer or sell the Notes in the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws, or pursuant to an effective registration statement, and you may be required to bear the risk of your investment in the Notes for an indefinite period of time. The Notes and the Indenture governing the Notes contain provisions that restrict the Notes from being offered, sold or otherwise transferred except pursuant to the exemptions available pursuant to Rule 144A and Regulation S under the U.S. Securities Act, or other exceptions under the U.S. Securities Act. In addition, by acceptance of delivery of any Notes, the holder thereof agrees on its own behalf and on behalf of any investor accounts for which it has purchased the Notes that it shall not transfer the Notes in an aggregate principal amount of less than €100,000. Furthermore, we have not registered the Notes under any other country's securities laws. These restrictions will limit your ability to transfer your Notes and may prevent or impair an active trading market from developing. As a result, the restrictions on your ability to transfer your Notes may adversely impact the value of your Notes. See "*Notice to investors*."

### There is no established trading market for the Notes. If a market for the Notes does not develop, you may be unable to sell your Notes.

The Notes are new issues of securities for which there is currently no established trading market. Accordingly, there can be no assurances as to the development or liquidity of any market for them. We will apply for the Notes to be admitted to the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market. However, the Notes may not become or remain listed on that exchange. Although the Initial Purchasers have advised us that they intend to make a market in the Notes as permitted by applicable laws and regulations, they are not obligated to do so and may discontinue their market-making activities at any time at their sole discretion and without notice.

The liquidity of the trading market in the Notes and the market price quoted for the Notes may be adversely affected by changes in the overall market for similar yield securities, interest rates, our financial performance or prospects or in the prospects for companies in our industry generally. Historically, the market for non-investment grade debt has been subject to substantial volatility, which could adversely affect the price at which you may sell your Notes. In addition, subsequent to their initial issuance, the Notes may trade at a discount from their initial offering price, depending upon prevailing interest rates, the market for similar notes, our operating performance and other factors. As a result, an active trading market for the Notes may not develop or, if developed, may not continue, and you may be unable to sell your Notes.

### The Notes may not become, or remain, listed on the Luxembourg Stock Exchange.

Although the Issuer will apply to have the Notes admitted to the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market within a reasonable period after the issuance of the Notes, the Issuer cannot assure that the Notes will become or remain listed. The Issuer may cease to make or maintain such listing on the Official List of the Luxembourg Stock Exchange and may seek to obtain and maintain the listing of the Notes on another stock exchange, although there can be no assurance that the Issuer will be able to do so. Although no assurance is made as to the liquidity of the Notes as a result of listing on the Official List of the Luxembourg Stock Exchange or another recognized listing exchange for comparable issuers in accordance with the Indenture, failure to be approved for listing or the delisting of the Notes from the Official List of the Luxembourg Stock Exchange or another listing exchange in accordance with the Indenture may have a material adverse effect on a holder’s ability to sell the Notes.

### Credit ratings may not reflect all risks, are not recommendations to buy or hold securities and may be subject to revision, suspension or withdrawal at any time.

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to the structure, market, additional risk factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal by the rating agency at any time. No assurance can be given that a credit rating will remain constant for any given period of time or that a credit rating will not be lowered or withdrawn entirely by the credit rating agency if, in its judgment, circumstances in the future so warrant. A suspension, reduction or withdrawal at any time of the credit rating assigned to the Notes by one or more of the credit rating agencies may adversely affect the cost and terms and conditions of our financings and could adversely affect the value and trading of the Notes.

# Use of proceeds

The gross proceeds from the sale of the Notes offered hereby is €250.0 million, and the estimated net proceeds is €242.0 million.

We intend to use the proceeds from the Offering to (i) repay our existing indebtedness, (ii) make a distribution to our shareholders and (iii) pay the fees and expenses incurred in connection with the Offering, including underwriting fees and commissions.

## SOURCES AND USES

The estimated sources and uses are shown in the table below. Actual amounts will vary from estimated amounts depending on several factors, including differences from our estimates of fees and expenses on the Issue Date.

| Sources of Funds | (€ in millions) | Uses of Funds | (€ in millions) |
|---|---|---|---|
| | | Repayment of related party loans[(1)] | 94.8 |
| | | Capital distribution for repayment of Existing Senior Credit Facilities | 141.4 |
| | | Repayment of Ukrainian loans[(2)] | 23.9 |
| Cash | 118.1 | Distribution to shareholders | 100.0 |
| Notes offered hereby | 250.0 | Estimated commissions, fees, expenses | 8.0 |
| **Total sources** | **368.1** | **Total uses** | **368.1** |

(1) Represents the amount outstanding under the intercompany loan made to us by a parent, Sofia IV S.à r.l., in respect of borrowings under the Existing Senior Credit Facilities. See "*Capitalization*" and "*Certain relationships and related party transactions*."

(2) Amount reflects the amount outstanding under the Ukrainian loans on the Issue Date, excluding any accrued interest, break costs or premiums payable at the time of prepayment. Due to waiver requirements, extended notice periods and regulatory controls, among other factors, we will not be able to complete the prepayment of the Ukrainian loans on the Issue Date, and this repayment, and the related release of sureties and security over the assets of Slavuta Holdings LLC and Slavuta Plant Budfarfor, PJSC, will occur subsequent to the Issue Date.

# Capitalization

The following table sets forth, in each case, the consolidated cash and cash equivalents and the capitalization as of December 31, 2012, of:

- the Issuer, on a historical basis, derived from the Issuer's audited consolidated financial statements as of December 31, 2012, which were prepared in accordance with IFRS and are included elsewhere in this Offering Memorandum; and
- the Issuer, adjusted to give effect to the Offering as described in "*Use of proceeds*."

This table should be read in conjunction with "*Use of Proceeds*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," "*Description of Other Indebtedness*" and the Financial Statements and the accompanying notes appearing elsewhere in this Offering Memorandum.

Except as set forth below, there have been no other material changes to our capitalization since December 31, 2012.

| | As of December 31, 2012 | |
|---|---|---|
| | **Actual** | **As Adjusted** |
| | (€ in millions) | |
| Cash and cash equivalents[(1)] | 215.7 | 43.7 |
| Debt: | | |
| Related party loans[(2)] | 148.5 | — |
| Ukrainian loans[(3)] | 24.1 | — |
| Loans from financial institutions[(4)] | 0.3 | 0.3 |
| Notes offered hereby | — | 250.0 |
| Revolving Credit Facility[(5)] | — | — |
| **Total debt** | 172.9 | 250.3 |
| **Total equity** | 243.8 | 2.4 |
| **Total capitalization** | 416.7 | 252.7 |

(1) "As adjusted" amount reflects the repayment of the €53.7 million of related party loans described in note (2) and the repayment of €0.2 million of the Ukrainian loans described in note (3).

(2) Represents the amount outstanding under the intercompany loan made to us by a parent, Sofia IV S.à r.l., in respect of borrowings under the Existing Senior Credit Facilities as of December 31, 2012. See "*Certain relationships and related party transactions*." We have repaid €53.7 million of this amount, of which €47.9 million will be used to prepay the existing Senior Credit Facilities on or around April 30, 2013. The total amount outstanding at the Issue Date under the related party loan (which will be repaid with the proceeds of the Offering) is €94.8 million. The remaining €141.4 million owed by Sofia III S.à r.l. and outstanding under the Existing Senior Credit Facilities will be repaid with the proceeds of the Offering. See "*Use of proceeds*."

(3) Represents the amount outstanding under the Ukrainian loans at December 31, 2012. €0.2 million of the Ukrainian loans were subsequently prepaid in March and April 2013. Due to waiver requirements, extended notice periods and regulatory controls, among other factors, we will not be able to complete the prepayment of the Ukrainian loans on the Issue Date, and this repayment and the related release of sureties and security over the assets of Slavuta Holdings LLC and Slavuta Plant Budfarfor, PJSC, will occur subsequent to the Issue Date.

(4) Represents local working capital facilities and similar financings. See "*Description of other indebtedness—Other financings*."

(5) It is expected that the Revolving Credit Facility will not be drawn as of the Issue Date.

# Selected historical consolidated financial information

The tables below set forth the following selected consolidated income statement, balance sheet and cash flow information of the Issuer as of and for the years ended December 31, 2010, 2011 and 2012 (derived from the Issuer's audited consolidated financial statements).

The selected consolidated income statement, balance sheet and cash flow information for the Issuer set forth below as of and for the years ended December 31, 2010, 2011 and 2012 was derived from the audited consolidated financial statements of the Issuer, prepared in accordance with IFRS and included elsewhere in this Offering Memorandum. Financial information included herein for the year ended December 31, 2010 is derived from information in the audited consolidated financial statements for the year ended December 31, 2011 and has not been separately audited.

The historical results of the Issuer and its subsidiaries may not be indicative of our future results following consummation of the Offering.

You should read the selected financial information in conjunction with the information contained in "*Risk factors*," "*Capitalization*," "*Summary—Summary financial and other information*," and "*Management's discussion and analysis of financial condition and results of operations*," and the consolidated financial statements of the Issuer, including the related notes, appearing elsewhere in this Offering Memorandum. These results do not necessarily indicate results that may be expected for any future period.

### SUMMARY CONSOLIDATED STATEMENT OF INCOME INFORMATION

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | | (€ in millions) | |
| **Net sales** | **777.3** | **770.8** | **752.8** |
| Other operating income | 12.9 | 9.4 | 5.4 |
| Materials and services | (366.7) | (349.9) | (344.4) |
| Employee benefits | (255.3) | (222.3) | (209.3) |
| Production for own use | 1.7 | 1.0 | 1.3 |
| Other operating expenses | (184.8) | (112.3) | (103.1) |
| Depreciation, amortization and impairment losses | (33.9) | (29.7) | (29.7) |
| **Operating profit (loss)** | **(48.8)** | **67.1** | **73.0** |
| Financial income and expenses | (1.3) | (15.9) | (6.0) |
| **Profit (loss) before taxes** | **(50.1)** | **51.2** | **67.0** |
| Income taxes | (0.7) | (3.5) | 4.7 |
| **Profit (loss) for the period** | **(50.8)** | **47.7** | **71.7** |

### SUMMARY STATEMENT OF FINANCIAL POSITION INFORMATION

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | | (€ in millions) | |
| Cash | 138.5 | 161.3 | 215.7 |
| Net working capital | 47.5 | 41.7 | 29.9 |
| Total non-current assets | 238.8 | 223.3 | 219.3 |
| Total current assets | 408.1 | 406.5 | 438.3 |
| **Total assets** | **646.9** | **629.8** | **657.6** |
| Total non-current liabilities | 235.2 | 229.5 | 196.4 |
| Total current liabilities | 267.6 | 232.4 | 217.4 |
| **Total liabilities** | **502.8** | **461.9** | **413.8** |
| **Total equity** | **144.1** | **167.9** | **243.8** |
| **Total equity and liabilities** | **646.9** | **629.8** | **657.6** |

## SUMMARY CONSOLIDATED CASH FLOW INFORMATION

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | (€ in millions) | | |
| Cash flow from operating activities | (24.8) | 54.5 | 87.9 |
| Cash flow from investing activities | (28.6) | (25.3) | (11.4) |
| Cash flow from financing activities | 3.6 | (6.4) | (21.8) |
| **Change in cash and cash equivalents** | **(49.8)** | **22.8** | **54.7** |
| Cash and cash equivalents on January 1 | 188.2 | 138.5 | 161.3 |
| **Cash and cash equivalents on December 31** | **138.5** | **161.3** | **215.7** |

# Management's discussion and analysis of financial condition and results of operations

*You should read the following discussion in conjunction with the "Selected historical consolidated 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 the leading European producer of ceramics sanitaryware and bathroom fixtures. We have a number one or two position in ceramics sanitaryware in each of our core Western European markets, which comprise Germany, the Benelux countries, the Nordic countries, France, Italy, Poland and the United Kingdom, as well as strong positions in our growth markets, including Ukraine and Russia. Our brand portfolio includes many of the longest-established and most well-known European brands in the bathroom products industry, including KERAMAG (Germany), Sphinx (the Netherlands), IDO and Ifö (Nordics), Allia (France), Pozzi-Ginori (Italy), Kolo (Poland), Colombo (Ukraine and East Europe) and Twyford (United Kingdom).

We provide products in two primary categories:

- ***Ceramics sanitaryware*** includes toilets, washbasins, sinks, shower trays, pedestals, tanks, bidets and urinals. In 2012, we generated €546.5 million of net sales from ceramics sanitaryware, which represented 72.6% of our net sales.
- ***Ceramics complementary products*** includes bathroom furniture, baths, taps and mixers, showers, pre-wall systems and products based on solid surface materials. In 2012, we generated €206.3 million of net sales from ceramics complementary products, which represented 27.4% of our net sales.

We sell our bathroom products primarily to wholesalers, as well as directly to retailers (including DIY outlets) and installers, and benefit from long-standing and stable customer relationships. As of December 31, 2012, we had operations in 19 countries with 11 ceramics production facilities and approximately 6,700 employees.

In 2009, a number of events, including the stress and disruptions experienced by global financial markets, the significant decline in construction in most of our core markets, and our substantial debt obligations led us to undergo a financial restructuring. We took the opportunity our financial restructuring afforded us to implement what we call the "One Sanitec" strategy. We accelerated the creation of an integrated group of companies from a disparate group of local business units by consolidating operations and support functions. The "One Sanitec" ethos has enabled economies of scale, increased operational efficiency, cut costs, and as a result enhanced profitability. We now have a stronger focus on our most profitable brands and business lines and a more competitive cost structure. As a result of our efforts, our Adjusted EBITDA grew from €58.4 million for the year ended December 31, 2009 to €107.6 million for the year ended December 31, 2012 making us one of the most profitable European bathroom ceramics companies. We continue to implement similar measures to improve our financial performance in the future.

In 2012, 28.6% of our net sales were generated in Central Europe (comprising Germany, the Netherlands, Belgium, Luxembourg, Austria and Switzerland), 24.7% in North Europe (comprising Sweden, Denmark, Norway, Finland, the Baltics and Iceland), 19.3% in South Europe (comprising France, Italy, Spain and Portugal), 17.1% in East Europe (primarily comprising Poland, the Czech Republic, Slovakia, Russia, Ukraine and Kazakhstan), 7.2% in the United Kingdom and Ireland, and 3.1% in the Rest of the World (countries outside Europe to which we export our products).

## FACTORS AFFECTING OUR OPERATING RESULTS

### Market and general economic conditions

Demand for bathroom products originates both from private households and the commercial, industrial and institutional sectors of the project business and installation. Project business includes larger-scale residential, commercial, industrial and institutional projects, such as housing developments and industrial facilities. Across all sectors of installation, there are primarily four occasions to purchase bathroom equipment products: renovation, maintenance and improvement and new construction activities. Our financial performance therefore depends significantly on the construction and renovation markets, which are, in turn, affected to varying degrees by fluctuations in the economic conditions of the markets in which we sell our products. In particular in our core European markets, levels of new construction and renovation 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. Due to the largely discretionary nature of renovation activities and, to a lesser extent, new construction activities, consumers and investors tend to postpone such investments in times of crisis and economic insecurity, but also tend to engage in more extensive activities when the economy and confidence rebound.

As the leading producer of bathroom fixtures by value in the core European markets in which we operate (Germany, the Benelux countries, the Nordic countries, France, Italy, Poland, the United Kingdom, Russia and Ukraine), macroeconomic trends affecting Europe as a whole will also affect our results. For example, 2009 was characterized by a significant decline in GDP in most of our core markets and significantly reduced growth rates in emerging markets, with the construction industry being disproportionately affected. Economic conditions in certain of our markets, such as South Europe, have still not recovered, which has had an effect on both sales volumes (as customers are buying fewer products) and the prices we can charge for our products (as customers are increasingly price sensitive in depressed markets). See "*Summary—Current trading*." However, demand is also driven by gradual increases in renovation activities, which are fueled by consumer preferences for new product styles, product features and advanced technological standards. See "*Risk factors—Risks related to our business and industry—A large part of our financial performance is dependent upon a healthy economy and financial and monetary system. The current economic downturn and tightening of credit markets has negatively impacted our results of operations, and any continuation of or further decline in economic conditions would adversely affect our business.*"

### Bathroom products distribution trends

We sell our products through various distribution channels, primarily wholesalers. Our customers in those channels then sell our products to installers and end consumers. 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 certain markets, such as the United Kingdom, France and Poland, DIY and other retail distribution channels have grown their share of the market. We have actively focused on improving our positions in the DIY and the retail distribution channels in response to this trend. We have also seen some growth in internet-only sales channels in certain markets, although as of yet we do not believe that this has had an impact on our net sales. See "*Risk factors—Risks relating to our business and industry—If we do not adapt to changes in distribution channels in some of our markets, our sales volume and profitability may be adversely affected.*"

### Product leadership

Traditionally, brand recognition and customer loyalty, product quality and reliability, breadth of product range and manufacturing capabilities have been key factors for competition in our market. Increasingly flexibility, product design, the ability to anticipate customer demand and new trends, address new geographic markets and distribution channels, produce products for more than one brand and in multiple locations, efficient sourcing, scope and quality of service, ability to pass on cost increases, and, in particular, innovation and product optimization are gaining importance. See "*Industry—Competitive landscape*."

In recent years, we have been more actively developing market demand by introducing innovative products and systems with more sophisticated designs and enhanced functions and features. Innovation has gained increasing importance for creating demand, enhancing brand reputation and strengthening a brand's position in the market. In addition, end-users have been increasingly demanding stylish products with enhanced functionality. As a result, we have been more actively focusing on product optimization and developing innovative products and systems to meet customers' demands.

### Prices of raw materials

The raw materials we use to produce our products account for a significant portion of our operating expenses. Our raw material purchases for the production of ceramics include ball clay, kaolin, feldspar, chamotte (clay) and zirconium (coating) and for the production of ceramics complementary products include aluminum, stainless steel, glass, acrylic and packaging. Energy/gas costs also account for a significant amount of the expense involved in operating our production facilities.

Although prices for the majority of our key raw materials have remained relatively stable in recent years (other than energy prices, which have been increasing steadily over the last two years), fluctuations in the price and availability of our raw materials, particularly metals, can be caused by changes in levels of global supply and demand, the operations of our suppliers, governmental policies, political and economic conditions in certain countries where these materials are produced and acts of God, such as severe weather conditions and natural disasters, which may be further exacerbated if raw materials are traded in foreign currencies. In addition, our manufacturing plants rely upon and consume significant amounts of energy, primarily gas and electricity, in order to operate, and we are therefore subject to potential cost increases from energy price fluctuations. See "*Risk factors—Risks related to our business and industry—If the costs of our raw materials increase or their supplies decreases, we may experience increases in costs or have difficulty purchasing sufficient raw materials or components to meet our production requirements, increases in energy prices may also materially increase our costs*."

### Currency fluctuations

Because we conduct our operations in various countries, we generate a portion of our sales and incur a portion of our expenses in currencies other than the euro, principally the Swedish krona, Norwegian krone, Danish krone, Pound sterling, Russian ruble, Polish złoty, Swiss franc, Czech krona and Ukrainian hryvnia. During 2012, approximately 80% of our net currency flows at the EBITDA level was generated in currencies other than the euro (including currencies pegged to the euro, such as the Danish krone). Currency net translation effect on EBITDA was positive in 2011 and 2012, amounting to €1.3 million and €1.4 million, respectively. In financial income and expenses, we reported a net gain from foreign exchange of €3.2 million in 2012 on financial

transactions, and in 2011 we had a net loss from foreign exchange of €6.1 million. In situations 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. See "*—Quantitative and qualitative disclosures of market risks—exchange rate exposure and currency risk hedging*" and "*Risk factors—Risks related to our business and industry—Our results of operations are subject to currency fluctuations*."

We present our consolidated financial statements in euros. However, our subsidiaries prepare their financial statements in their functional currency, which includes currencies other than the euro. As a result, we must translate the assets, liabilities, revenues and expenses of all of our operations with a functional currency other than the euro into euros at then-applicable exchange rates. Transactions in foreign currencies are translated using the rates of exchange prevailing at the date of the transaction. Generally, we translate the income statements and balance sheets of our foreign subsidiaries into euros using the average exchange rate for the financial period and the year-end exchange rate, respectively. Exchange gains and losses arising from transactions in foreign currencies and translation of monetary items are recognized in the profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges. Differences resulting from the translation of the profit or loss statement and balance sheet are recorded in other comprehensive income as translation differences and included under translation differences in equity. Consequently, increases or decreases in the value of the euro may affect the value of certain line 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.

### 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 may slow during the summer holiday season and in December and January, and then increase in February to April and again in September through the first half of November. We adjust production during holiday periods, and as a result our costs can vary moderately on a seasonal basis. We typically have lower working capital in the first quarter of the year as customers tend to net their rebates against receivables, and we build up inventory between January to June to cover periods of low production in the summer holiday season.

## KEY STATEMENT OF INCOME ITEMS

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

### Net sales

Net sales include the sale of products in our two primary categories (ceramics sanitaryware and ceramics complementary products) across various sectors of installation, primarily to wholesalers, as well as to retailers (including DIY outlets) and installers. As a result of our international operations, we also record a breakdown of sales by geographical area.

### Other operating income

Other operating income includes income from activities outside our ordinary course of business, such as gains and losses from the sale of fixed assets, income from bad debt recoveries, the sale of scrap materials, rental income, subsidies received, re-invoicing of sales-related costs and similar income.

### Materials and services

Materials and services include raw material costs, energy costs, purchases and services, such as logistics and couriers, facility and certain marketing costs (*e.g.*, samples and product displays). Our raw material purchases for the production of ceramics include ball clay, kaolin, feldspar, chamotte (clay) and zirconium (coating) and for the production of ceramics complementary products include aluminum, stainless steel, glass, acrylic and packaging.

### Employee benefits

Employee benefits include salaries and wages, pension expenses and other personnel expenses.

### Production for own use

Production for own use consists of materials used internally, mainly for research and development purposes.

### Other operating expenses

Other operating expenses include expenses not directly related to production, such as expenses for sales and marketing (*i.e.*, advertising and promotion costs), logistics costs, finance and administration costs, costs relating to product innovation, if not capitalized, and other expenses related to general administration. In addition, losses from the disposal of fixed assets and other long-term investments are included within other operating expenses.

### Financial income and expenses

Financial income includes interest income and other financial income. Financial expenses include interest expenses, other financial expenses and net gains and losses from foreign currency exchange related to financial transactions.

### Income taxes

Income taxes includes current and deferred income taxes, which are recognized in the statement of income, except to the extent it relates to items recognized in other comprehensive income or directly in equity. Deferred tax assets and liabilities are recognized on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets are recognized for tax loss carryforwards and valuation allowances against deferred tax assets and are established based on what is probable in each tax jurisdiction.

## RESULTS OF OPERATIONS

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

| | Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | 2011 | | 2012 | |
| | €m | % | €m | % | €m | % |
| Net sales | 777.3 | 100.0 | 770.8 | 100.0 | 752.8 | 100.0 |
| Other operating income | 12.9 | 1.7 | 9.4 | 1.2 | 5.4 | 0.7 |
| Materials and services | (366.7) | 47.2 | (349.9) | 45.4 | (344.4) | 45.7 |
| Employee benefits | (255.3) | 32.8 | (222.3) | 28.8 | (209.3) | 27.8 |
| Production for own use | 1.7 | 0.2 | 1.0 | 0.1 | 1.3 | 0.2 |
| Other operating expenses | (184.8) | 23.8 | (112.3) | 14.6 | (103.1) | 13.7 |
| Depreciation, amortization and impairment losses | (33.9) | 4.4 | (29.7) | 3.9 | (29.7) | 3.9 |
| **Operating profit (loss)** | **(48.8)** | — | **67.1** | — | **73.0** | — |
| Financial income and expenses | (1.3) | 0.2 | (15.9) | 2.1 | (6.0) | 0.8 |
| **Profit (loss) before taxes** | **(50.1)** | **6.4** | **51.2** | **6.6** | **67.0** | **8.9** |
| Income taxes | (0.7) | 0.1 | (3.5) | 0.5 | 4.7 | 0.6 |
| **Profit (loss) for the period** | **(50.8)** | **6.5** | **47.7** | **6.2** | **71.7** | **9.5** |
| **Adjusted EBITDA**[(1)] | **77.1** | — | **105.7** | — | **107.6** | — |

(1) We define Adjusted EBITDA as EBITDA (earnings before interest, tax, depreciation and amortization) as adjusted for divested businesses, restructuring costs and the EC fine and related legal fees. See “Summary—Summary financial and other information—other financial information.”

### Year ended December 31, 2012 compared to year ended December 31, 2011

*Net sales*

Net sales decreased by €18.0 million, or 2.3%, to €752.8 million for the year ended December 31, 2012, as compared to €770.8 million for the year ended December 31, 2011, of which €6.4 million was attributable to our divestment of our French showers business, Leda S.A.S., in October 2012.

The table below sets forth our net sales by geographical area for the year ended December 31, 2012, as compared to the year ended December 31, 2011.

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| **Net sales** | 2011 | % of total | 2012 | % of total | % change |
| Central Europe | 219.2 | 28.4 | 215.2 | 28.6 | (1.9) |
| North Europe | 180.0 | 23.4 | 186.2 | 24.7 | 3.4 |
| South Europe | 163.4 | 21.2 | 145.5 | 19.3 | (11.0) |
| East Europe | 126.0 | 16.3 | 128.7 | 17.1 | 2.1 |
| United Kingdom and Ireland | 58.1 | 7.5 | 54.4 | 7.2 | (6.4) |
| Rest of World | 24.1 | 3.1 | 22.8 | 3.1 | (5.4) |
| Total | **770.8** | **100.0** | **752.8** | **100.0** | **(2.3)** |

As the table above shows, sales increased in North Europe due primarily to strong sales of bathroom ceramics and showers in Norway, while sales in South Europe decreased due to the continuing difficult economic situation in Italy and France, as well as the discontinuation of businesses or business arrangements with low profitability (such as in the United Kingdom and France). The sale of Leda, which had net sales of €23.8 million in 2011, also negatively impacted sales compared to the previous year. Sales in Central Europe and East Europe remained relatively stable due to more stable economies and volume growth, although

we saw the effects of a slowdown in the Polish and Ukrainian markets in the second half 2012 following the heightened level of construction projects in preparation for the European Championships in June 2012. Sales in the United Kingdom and Ireland were down on 2011 as we exited unprofitable business arrangements.

The following table shows our net sales by product category:

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| **Net sales** | **2011** | **% of total** | **2012** | **% of total** | **% change** |
| Ceramics sanitaryware | 551.7 | 71.6 | 546.5 | 72.6 | (0.9) |
| Ceramics complementary products | 219.1 | 28.4 | 206.3 | 27.4 | (5.8) |
| Total | **770.8** | **100.0** | **752.8** | **100.0** | **(2.3)** |

Net sales in ceramics sanitaryware totalled €546.5 million and sales in ceramics complementary products totalled €206.3 million for the year ended December 31, 2012, as compared to €551.7 million and €219.1 million, respectively, for the year ended December 31, 2011.

Sales in ceramics sanitaryware remained relatively stable primarily due to the combination of a continued strong average selling price and adjustments to our product mix towards products with a higher average selling price, which was offset by lower volumes driven by weak markets in South Europe and the exiting of unprofitable businesses in the United Kingdom and France. The main areas of growth were North Europe and East Europe (Russia and Ukraine in particular) with volumes, average selling price and product mix effects showing positive momentum compared to the prior year. Net sales of ceramics complementary products decreased for the year ended December 31, 2012 compared to the year ended December 31, 2011, primarily due to the divestment of Leda; a decline in shower sales, primarily in Central Europe; and generally lower ceramics sanitaryware volumes, which resulted in lower sales of bundled ceramics sanitaryware products. This was partially offset by growth in net sales of ceramics complementary products in our East Europe and Rest of World regions.

### *Other operating income*

Other operating income decreased by €4.0 million, or 42.6%, to €5.4 million for the year ended December 31, 2012, as compared to €9.4 million for the year ended December 31, 2011. This decrease primarily resulted from a lower gain from sales of assets as well as lower income from the re-invoicing of transportation and marketing costs and similar items related to our sales.

### *Materials and services*

Materials and services decreased by €5.5 million, or 1.6%, to €344.4 million for the year ended December 31, 2012, as compared to €349.9 million for the year ended December 31, 2011. This decrease primarily resulted from purchasing initiatives and increased sourcing from low-cost facilities, as well as the divestment of Leda during 2012, which resulted in lower purchases of aluminium. The decrease also resulted from an overall decrease in volumes.

### *Employee benefits*

Employee benefits decreased by €13.0 million, or 5.8%, to €209.3 million for the year ended December 31, 2012, as compared to €222.3 million for the year ended December 31, 2011. This decrease primarily resulted from lower wage costs due to reduced headcount in manufacturing and logistics and in several support functions, as well as the divestment of Leda in 2012.

### *Other operating expenses*

Other operating expenses decreased by €9.2 million, or 8.2%, to €103.1 million for the year ended December 31, 2012, as compared to €112.3 million for the year ended December 31, 2011. This decrease primarily resulted from a reduction in sales and marketing costs due to improvements in the centralization and efficiency of our marketing strategy (involving a common product launch approach and common web development).

### *Depreciation, amortization and impairment losses*

Depreciation, amortization and impairment losses remained stable at €29.7 million for each of the years ended December 31, 2011 and 2012.

### *Financial income and expenses*

Financial income and expenses decreased by €9.9 million, or 62.3%, to €6.0 million for the year ended December 31, 2012, as compared to €15.9 million for the year ended December 31, 2011. This decrease primarily resulted from positive changes in exchange rates during the reporting period.

### *Income taxes*

Income taxes decreased by €8.2 million to a credit of €4.7 million for the year ended December 31, 2012, as compared to taxes payable of €3.5 million for the year ended December 31, 2011. The decrease in income taxes primarily resulted from recognizing deferred taxes in the United Kingdom and Finland, and release of tax provisions in Germany.

### *Adjusted EBITDA*

Adjusted EBITDA increased by €1.9 million, or 1.8%, to €107.6 million for the year ended December 31, 2012, as compared to €105.7 million for the year ended December 31, 2011. The Adjusted EBITDA margin increased from 13.7% in 2011 to 14.3% in 2012. The increase in margin was driven by a reduction in Employee benefits and other operating expenses as a percentage of net sales, partially offset by a reduction in one-off items.

## Year ended December 31, 2011 compared to year ended December 31, 2010

### *Net sales*

Net sales decreased by €6.5 million, or 0.8%, to €770.8 million for the year ended December 31, 2011, as compared to €777.3 million for the year ended December 31, 2010 of which €9.8 million related to the sale of bath and showers businesses during 2010 (primarily the sale of Italian bath and showers business Domino S.r.l. in September 2010).

The table below sets forth our net sales by geographical area for 2011, as compared to 2010.

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| **Net sales** | **2010** | **% of total** | **2011** | **% of total** | **% change** |
| Central Europe | 200.1 | 25.7 | 219.2 | 28.4 | 9.5 |
| North Europe | 191.7 | 24.7 | 180.0 | 23.4 | (6.1) |
| South Europe | 172.0 | 22.1 | 163.4 | 21.2 | (5.0) |
| East Europe | 126.7 | 16.3 | 126.0 | 16.3 | (0.6) |
| United Kingdom and Ireland | 62.7 | 8.1 | 58.1 | 7.5 | (7.3) |
| Rest of World | 24.1 | 3.1 | 24.1 | 3.1 | 0.0 |
| | **777.3** | **100.0** | **770.8** | **100.0** | **(0.8)** |

The decrease in sales shown in the above table was due primarily to lower volumes driven by weakening markets and increased competition in certain markets in North Europe and South Europe. In South Europe, our decline in net sales was due to decreased public spending and the reduced availability of credit for our customers as well as our divestment of Domino. The decrease in net sales in North Europe was primarily due to weak market conditions in Denmark, increased competition in the shower products market in Norway and distribution challenges in the Swedish market. The decrease in net sales in the United Kingdom and Ireland was due partially to currency translation effects and partially to weak economic conditions in the United Kingdom overall, as well as cutbacks in government spending which led to a slowdown in the construction industry. These effects were partially offset by strong sales growth in Central Europe (primarily Germany) due to the successful introduction of new products in that market. Relatively flat net sales in East Europe were primarily due to the termination on October 6, 2010 of our former joint venture in Russia, NSF, which had annual sales at the time of our joint venture's termination of approximately €3.5 million.

The following table shows our net sales by product category:

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| **Net sales** | **2010** | **% of total** | **2011** | **% of total** | **% of change** |
| Ceramics sanitaryware | 572.1 | 73.6 | 551.7 | 71.6 | (3.6) |
| Ceramics complementary products | 205.2 | 26.4 | 219.1 | 28.4 | 6.8 |
| Total | **777.3** | **100.0** | **770.8** | **100.0** | **(0.8)** |

Net sales in ceramics sanitaryware totalled €551.7 million and net sales in ceramics complementary products totalled €219.1 million in 2011, as compared to €572.1 million and €205.2 million, respectively, in 2010.

Net sales in ceramics sanitaryware decreased slightly, primarily due to lower volumes, which were partially offset by the improved product and country mix. Net sales in ceramics complementary products increased primarily due to higher sales of bathroom furniture and pre-wall products, which was offset by our sale of Domino.

### *Other operating income*

Other operating income decreased by €3.5 million, or 27.1%, to €9.4 million for the year ended December 31, 2011, as compared to €12.9 million for the year ended December 31, 2010. This decrease primarily resulted from higher sales of fixed assets in the year ended December 31, 2010, primarily due to the sale of Domino.

### *Materials and services*

Materials and services decreased by €16.8 million, or 4.6%, to €349.9 million for the year ended December 31, 2011, as compared to €366.7 million for the year ended December 31, 2010. This decrease primarily resulted from improved efficiency in our production processes and production facilities due to increases in yields (improved re-fire rates) and positive effects from purchasing initiatives (*e.g.*, improved terms and conditions with suppliers).

### *Employee benefits*

Employee benefits decreased by €33.0 million, or 12.9%, to €222.3 million for the year ended December 31, 2011, as compared to €255.3 million for the year ended December 31, 2010. This decrease primarily resulted from less salaries and wages being paid in 2011 (€181.9 million), as compared to 2010 (€214.1 million), due to a reduction in total headcount from an average of 7,860 employees during 2010 and 7,570 employees as of December 31, 2010 to an average of 7,391 employees during 2011 and 7,096 employees as of December 31, 2011. Among other reasons, these reductions were due to factory closures, including Selles-sur-Cher in France and Alsager in the United Kingdom.

### *Other operating expenses*

Other operating expenses decreased by €72.5 million, or 39.2%, to €112.3 million for the year ended December 31, 2011, as compared to €184.8 million for the year ended December 31, 2010. This decrease primarily resulted from other operating expenses incurred in 2010, including the €57.7 million fine imposed by the European Commission in relation to alleged price fixing, see "*Risk factors—Risks related to our business and industry—We are subject to numerous governmental regulations, including environmental laws, health and safety regulations and antitrust laws*" and "*Business—Legal proceedings*," and significant restructuring expenses. In 2011, we recognized one time costs of €6.4 million related to factory closures in France (initiated in 2010) and in the United Kingdom (completed in 2011) and other restructuring costs of €2.5 million, which included redundancy costs related to previous members of our management team, and other restructuring activities, as well as legal and other consulting fees charged with respect to the European Commission fine.

### *Depreciation, amortization and impairment losses*

Depreciation, amortization and impairment losses decreased by €4.2 million, or 12.4%, to €29.7 million for the year ended December 31, 2011, as compared to €33.9 million for the year ended December 31, 2010. This decrease primarily resulted from the disposal of assets, which resulted in lower depreciation, as well as a more moderate investment level in all of our assets, which reduced amortization.

### *Financial income and expenses*

Financial income and expenses increased by €14.6 million to €15.9 million for the year ended December 31, 2011, as compared to €1.3 million for the year ended December 31, 2010. This increase is primarily attributable to gains from debt write-offs of €11.2 million in 2010 which were not repeated in 2011. Financial expenses increased by €3.7 million, or 27.0%, to €17.4 million for the year ended December 31, 2011, as compared to €13.7 million for the year ended December 31, 2010. This increase primarily resulted from foreign exchange losses of €6.1 million in 2011, as compared to foreign exchange gains of €1.5 million in 2010, offset by lower interest expense.

### *Income taxes*

Income taxes increased by €2.8 million to €3.5 million for the year ended December 31, 2011, as compared to €0.7 million for the year ended December 31, 2010. This increase primarily resulted from higher profit before taxes in 2011 and adjusted income taxes for prior periods, partially offset by an increase in deferred taxes.

### *Adjusted EBITDA*

Adjusted EBITDA increased by €28.6 million, or 37.1%, to €105.7 million for the year ended December 31, 2011, as compared to €77.1 million for the year ended December 31, 2010. The Adjusted EBITDA margin increased from 9.9% in 2010 to 13.7% in 2011. The primary drivers were a reduction in Materials and services and employee benefits as a percentage of net sales.

## LIQUIDITY AND CAPITAL RESOURCES

Our liquidity requirements arise primarily from the need to meet our ongoing debt service obligations and fund our working capital and capital expenditure requirements. Our principal sources of liquidity are cash generated from our operations, cash and cash equivalents on-hand and borrowings under our financing agreements. See "*Description of other indebtedness*." Based on our current expectations regarding our results of operations and cash flow and our ability to borrow in the financial and capital markets, we believe that we will have sufficient liquidity and capital resources to meet all of our current and planned liquidity needs for the foreseeable future.

If our working capital requirements exceed our projections or if our operating cash flow is lower than expected, we may be required to seek additional financing, which may not be available on commercially reasonable terms, if at all. Our ability to arrange financing generally and our cost of capital depends on numerous factors, including general macroeconomic conditions, the availability of credit from banks, other financial institutions and in the capital markets, restrictions in instruments governing our indebtedness and/or general financial performance. For a discussion of the risks related to our borrowings, see "*Risk factors—Risks relating to the Notes and our capital structure*."

### Cash flow

The following table summarizes our cash flow in the periods presented.

| | Fiscal Years Ended December 31, | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | (€ in millions) | | |
| Cash flow from operating activities | (24.8) | 54.5 | 87.9 |
| Cash flow from investing activities | (28.6) | (25.3) | (11.4) |
| Cash flow from financing activities | 3.6 | (6.4) | (21.8) |
| **Change in cash and cash equivalents** | **(49.8)** | **22.8** | **54.7** |

#### *Year ended December 31, 2012 compared to year ended December 31, 2011*

*Cash flow from operating activities*

Our cash flow from operating activities gave rise to an inflow of €87.9 million for the year ended December 31, 2012 versus an inflow of €54.5 million for the year ended December 31, 2011. This change primarily resulted from higher EBITDA and a reduction in working capital.

*Cash flow from investing activities*

Our cash flow from investing activities gave rise to an outflow of €11.4 million for the year ended December 31, 2012 versus an outflow of €25.3 million for the year ended December 31, 2011. This change primarily resulted from changes in the phasing of capital investments, as we had a reduction in required maintenance capital expenditure in 2012 as compared to 2011 due to factory upgrades carried out in 2011 and previous periods, thus requiring less maintenance in 2012.

*Cash flow from financing activities*

Our cash flow from financing activities gave rise to an outflow of €21.8 million for the year ended December 31, 2012 versus an outflow of €6.4 million for the year ended December 31, 2011. This change primarily resulted from repayment of interest bearing loans to our parent, Sofia IV S.à r.l.

*Total free cash flow*

Our total free cash flow increased by €31.9 million to an inflow of €54.7 million for the year ended December 31, 2012, as compared to an inflow of €22.8 million for the year ended December 31, 2011. This increase primarily resulted from strong cash conversion due to an improved EBITDA and reductions in working capital.

#### *Year ended December 31, 2011 compared to year ended December 31, 2010*

*Cash flow from operating activities*

Our cash flow from operating activities gave rise to an inflow of €54.5 million for the year ended December 31, 2011 versus an outflow of €24.8 million for the year ended December 31, 2010. This change primarily resulted from higher EBITDA and the one-off cash outflow relating to the European Commission fine and restructuring measures that were included in 2010 operating cash flow.

*Cash flow from investing activities*

Our cash flow from investing activities gave rise to an outflow of €25.3 million for the year ended December 31, 2011 versus an outflow of €28.6 million for the year ended December 31, 2010. This change primarily resulted from a greater inflow due to the disposal of assets, reduced capital investments in machinery and other fixed assets, offset by our acquisition of the remaining shares of Slavuta Holdings LLC.

*Cash flow from financing activities*

Our cash flow from financing activities gave rise to an outflow of €6.4 million for the year ended December 31, 2011 versus an inflow of €3.6 million for the year ended December 31, 2010. This change primarily resulted from a €5.0 million distribution to our parent company in 2011 in order to provide for the operating expenses of that entity, in comparison to nil in 2010, and settlement of loans made to our former joint venture in Russia, NSF, and its owner, related to the divestment of our shareholding in that entity.

*Total free cash flow*

Our total free cash flow increased by €72.6 million to an inflow of €22.8 million for the year ended December 31, 2011, as compared to an outflow of €49.8 million for the year ended December 31, 2010. This change primarily resulted from an improvement in EBITDA, and a decrease in capital expenditure; as well as the fact that the European Commission fine of €57.7 million was paid in 2010.

## Working capital

The following table summarizes our working capital as of the dates presented.

| | As of December 31, | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| | (€ in millions) | | |
| Inventory | 111.6 | 106.3 | 102.1 |
| Trade and other current receivables | 157.4 | 135.0 | 116.5 |
| Trade and other current payables | (221.5) | (199.6) | (188.7) |
| **Net working capital** | **47.5** | **41.7** | **29.9** |

### *Year ended December 31, 2012 compared to year ended December 31, 2011*

Our net working capital decreased by €11.8 million, or 28.3%, to €29.9 million for the year ended December 31, 2012, as compared to €41.7 million for the year ended December 31, 2011. This change primarily resulted from lower sales in the last quarter of 2012, leading to lower receivables compared with the prior year.

*Year ended December 31, 2011 compared to year ended December 31, 2010*

Our net working capital decreased by €5.8 million, or 12.2%, to €41.7 million for the year ended December 31, 2011, as compared to €47.5 million for the year ended December 31, 2010. These changes resulted from management's efforts to reduce working capital, including the continuing improvement of inventory levels due to better forecasting procedures.

## Liquidity arrangements

Liquidity is considered to be the sum of cash and cash equivalents and available committed credit lines. As of December 31, 2012, the aggregate of the unutilized committed revolving credit facility was €50.0 million (at parent company level available for the company to use) and cash and cash equivalents amounted to €215.7 million. We seek to manage liquidity risk by maintaining sufficient cash and available funding.

Following the completion of this Offering, our primary sources of liquidity will remain cash flows from operations and borrowings under our Revolving Credit Facility 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 and improve our infrastructure, implement productivity and value creation programs, new product development, enhance manufacturing facilities, improve health and safety equipments, create moulds and tools, implement flexible manufacturing capabilities and develop capitalized software. Investments, including both investments in intangible and tangible assets as well as investments in non-controlling interests were €13.0 million for the year ended December 31, 2012, €36.4 million (of which investments in non-controlling interests were €13.1 million) for the year ended December 31, 2011, and €36.4 million in 2010. We estimate that our total capital expenditures for the year ended December 31, 2013 will be approximately €20.0 million.

# CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

## Financial arrangements

We enter into long-term and short-term contractual obligations and commitments in the normal course of business, including facility agreements, loans and local cash pool arrangements arising from our commercial operations. We also occasionally enter into spot and other hedging arrangements and minor financial leases, including in relation to trucks, forklifts and other vehicles and equipment, in the normal course of business. As of December 31, 2012, our contractual cash obligations and commercial commitments over the next several periods are set forth below.

| | Year Ended December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | Between 1 and 3 years | Between 3 and 5 years | Thereafter |
| | (€ in millions) | | | | |
| Loans from financial institutions[(1)] | 24.3 | 24.3 | — | — | — |
| Related party loans[(2)] | 148.5 | — | — | 148.5 | — |
| Other interest-bearing liabilities[(3)] | 0.1 | — | 0.1 | — | — |
| Trade payables | 64.8 | 64.8 | — | — | — |
| Other liabilities[(4)] | 8.2 | 8.2 | — | — | — |
| Total | **245.9** | **97.3** | **0.1** | **148.5** | **—** |

(1) Represents loans of €24.3 million that are used to finance the operations of Slavuta Plant Budfarfor, which is an indirect Ukrainian subsidiary of the Issuer.
(2) Represents part of the debt outstanding indirectly under the Existing Senior Facilities as of December 31, 2012.
(3) Represents local overdraft facilities entered into by certain of our subsidiaries.
(4) Represents VAT and other sales tax and employment related accruals and other short term non-interest bearing liabilities.

We intend to repay all or substantially all of our existing financial indebtedness on or shortly after the Issue Date except for other interest-bearing liabilities, derivatives, trade payables and other liabilities.

### Pension obligations

In addition to the obligations shown in the table above, we also provide defined benefit pension plans, defined contribution plans and similar arrangements in accordance with local law, which are generally funded through payments to insurance companies. We provide certain employees in the Netherlands, the United Kingdom, Germany, Sweden, Italy, Norway, Ukraine, Austria, and France with defined benefit pension or similar benefit arrangements, as well as maintain an insured defined benefit pension arrangement in Finland. In 2012, our total contribution to all defined benefit plans totalled €1.**5** million. The defined benefit plan in the Netherlands was sold to a third party insurance company in June 2012. The most significant arrangement is in Germany, which accounts for approximately 40% of all such liabilities and the majority of these liabilities relate to our former employees. In addition, we have defined contribution pension arrangements in Sweden, the United Kingdom, France, Finland, Italy, Switzerland, Austria, Norway and Portugal. In the year ended December 31, 2012, costs expensed in respect of the defined contribution arrangements totalled €10.5 million.

As of December 31, 2012, total pension obligations (excluding defined contribution plans) recognized on the statement of financial position amounted to €29.9 million, as compared to €28.2 million in 2011 and €26.4 million in 2010. We expect that contributions to the defined benefit pension plans in 2013 will materially equal those in 2012.

We have no other contractual obligations incurred in the ordinary course of business.

### Off-balance sheet arrangements

As of December 31, 2012, 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 our 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. Our significant accounting policies are set out in note (1) to Sanitec Oyj's audited consolidated financial statements as of and for the year ended December 31, 2012 included elsewhere in this Offering Memorandum. The following estimates and judgments are considered important when portraying our financial position.

#### *Revenue recognition*

We recognize revenue from product sales when the customer takes the ownership and risk and rewards. As a principal rule, revenue recognition takes place at the date of delivery according to the delivery terms agreed between the customer and Sanitec. Net sales consist of the gross sales revenues reduced by indirect sales taxes and sales discounts. We estimate and record provisions for cash discounts, quantity rebates, sales returns and allowances in the period the sale is reported based on experience.

Revenues from the rendering of maintenance services and repairs are recognized when the services have been rendered or the work has been carried out.

#### *Operating profit*

We have defined operating profit as follows: operating profit is the revenue added with other operating income, less materials and services, employee benefits, production for own use, other operating expenses, and depreciation, amortization and impairment losses.

Operating profit includes those exchange rate gains and losses that are related to our operating activities. Financing-related exchange rate gains and losses are reported under financial income and expenses.

#### *Impairment of non-financial assets*

Assets that are subject to depreciation are reviewed for impairment, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized whenever the carrying amount of assets exceeds the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Value in use is determined by reference to discounted future cash flows expected to be generated by the asset.

Impairment losses are recognized in profit or loss. In respect of property, plant and equipment and intangible assets, impairment losses recognized in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

### *Inventories*

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out method or average cost method for finished goods and the average cost method for raw materials. Cost includes direct manufacturing, labor and materials, variable overhead and allocable portion of production and project administration overheads. Costs associated with assets produced for internal use are capitalized and depreciated over their estimated useful lives.

### *Provisions*

Provisions are recognized in the statement of financial position, if we have a present legal or constructive obligation as a result of a past event, and that it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provisions are related, *e.g.,* to the restructuring plans, environmental obligations, tax risks or trials. Provisions are based on the past experience and best estimates available at the balance sheet date. Our warranty policy provides for coverage of certain products at the date the sale is recorded. The estimated liability is included as a current provision. Changes in the warranty liability are charged against earnings for the period.

### *Current and deferred income taxes*

The tax expense for the period consists of current and deferred taxes. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively. Current tax on taxable income for the period is determined using the tax rates enacted or which have been substantially enacted in each country at the end of the report period/at the balance sheet date in the countries where the parent company and its subsidiaries operate and generate taxable income.

Deferred tax liabilities are recognized on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

The amount and probability of the utilization of a tax asset are reviewed at the end of each report period. Deferred taxes are measured based on the tax rates enacted or which have been substantially enacted by the end of the report period/at the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets and liabilities are offset against each other only when the entity has a legally enforceable right to set off the recognized amounts, and the deferred tax asset and tax liability relate to income taxes levied by the same tax authority.

### *Trade receivables*

Trade receivables are recognized at invoice value, less a provision for doubtful accounts. Management considers current information and events regarding the debtors' ability to repay their obligations, and makes a provision against amounts due when it is probable that the full amount will not be collected. Changes in the level of provision are recorded as bad debt expense.

### *Use of estimates in the preparation of the consolidated financial statements*

The preparation of the consolidated financial statements in conformity with IFRS requires our management to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of intangible assets, property, plant and equipment; valuation allowances for receivables, inventories and deferred income tax assets; provisions for restructuring of operations; valuation of derivative instruments; and assets and obligations related to employee benefits. Actual results could differ from those estimates.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES OF MARKET RISKS

### Commodity risk

We are exposed to fluctuations in the price of major raw material commodities used in manufacturing. While we may use derivatives to hedge our exposure to commodity price fluctuations as appropriate, following a policy approved by the our Board of Directors, we currently do not hold any substantial commodity derivative contracts or engage in any hedging related to risks in commodity or raw material prices. We may also sometimes enter into slightly longer contracts to minimize such risk.

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, which may increase our borrowing costs. Our current interest rate risk primarily arises from the Existing Senior Credit Facility and certain external loan facilities, which have floating interest rates based on EURIBOR. See "*Description of other indebtedness.*" While we may enter into derivative contracts to reduce such risks, following a policy approved by our Board of Directors, we did not hold any such interest rate derivative contracts as of December 31, 2012.

Borrowings under our Revolving Credit Facility will bear interest at floating 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

Because we conduct our operations in various countries and generate a portion of our sales and incur a portion of our expenses in currencies other than the euro, we are exposed to foreign exchange risk arising from currency exposures, primarily with respect to the Swedish krona, Norwegian krone, Danish krone, Pound sterling, Russian ruble, Polish złoty, Swiss franc, Czech krona and Ukrainian hryvnia. In situations 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. Foreign exchange risk is regarded as uncertainty of cash flows and earnings that arises from such currency exchange rate fluctuations. We approach foreign exchange risk from three angles: transaction exposure risk related to cash flows in non-euro currencies, translation risk related to foreign exchange risk associated with consolidation and economic exposure risk related to changes in the competitive environment as a result of changes in foreign exchange rates.

Transaction exposure risk comprises identified foreign exchange rate exposure, which would be affected by future exchange rate movements and have an effect on the statement of income. We define transaction exposure risk as all anticipated non-euro currency cash flows during the next fiscal period of twelve months. We aim to protect against these risks by matching foreign currency cash flows to the extent possible and hedging the remaining amount with currency derivatives in accordance with our policy. As of December 31, 2012, we did not hold any interest rate derivative contracts.

Translation risks are the equity changes caused by movements in foreign exchange rates, which we record as translation differences on the consolidated statement of comprehensive income. While we may from time to time use currency hedges as appropriate, we do not currently hedge against such risks.

Economic exposure means the risk of a deteriorating competitive environment due to exchange rate movements or the economic effect of the currency of costs and revenues affecting us and our competitors. While we may from time to time use currency hedges as appropriate, we do not currently hedge against such risks.

### Liquidity risk

We aim to maintain an optimal amount of liquidity to fund our business operations at all times while minimizing interest costs. Liquidity is considered to be the sum of cash and cash equivalents and available committed credit lines.

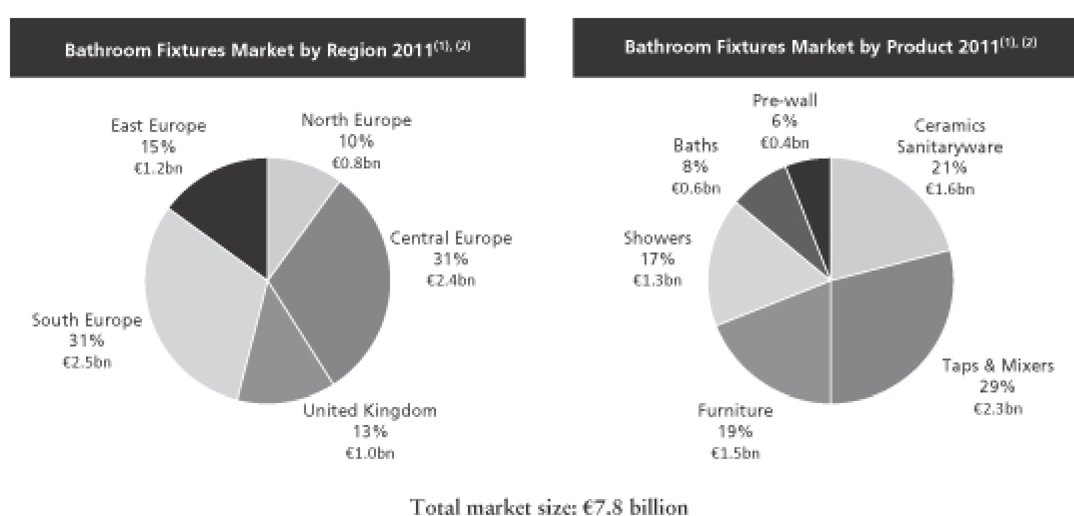
### Credit risk

Credit risk is principally associated with the probability of financial loss from the inability of counterparties to meet contractual obligations related to financial transactions or instruments. We evaluate and monitor financial counterparty risk and aim to minimize this risk by limiting our counterparties to a limited number of major banks and financial institutions, by monitoring their performance, and by working within agreed counterparty limits. We aim to reduce non-financial counterparty risk, *i.e.*, counterparty risk related to customers, by applying a credit policy, constantly monitoring aging receivables and maintaining credit insurance.

# Industry

We operate in the European bathroom solutions market, which is comprised of three main categories: (i) bathroom fixtures, (ii) tiles and (iii) accessories. Specifically, we sell products in the bathroom fixtures sub-category of the European bathroom fixtures market. Our primary business is ceramics sanitaryware (consisting of toilets, washbasins, sinks, shower trays, pedestals, tanks, bidets, and urinals); however, we also produce other bathroom fixtures, we label as "ceramics complementary products" ("**CCP**"), which include: (i) pre-wall (concealed plastic cisterns to be used with, for example, wall-hung toilets), (ii) baths (including cast-iron, steel and synthetic bathtubs), (iii) furniture (including base units, mirrors/mirror cabinets and separate cupboard units), (iv) taps and mixers (including, in the United Kingdom, commercial showers and instantaneous electric showers), and (v) shower components (including bath screens, conventional shower cubicles and shower enclosures). In Europe, the bathroom fixtures market was worth approximately €9.8 billion in 2011, €7.8 billion of which consisted of the 13 countries in which we generate the majority of our net sales (Germany, the Benelux countries, the Nordic countries, France, Italy, Poland, the United Kingdom, Russia and Ukraine) (the "**European Bathroom Fixtures Market**"). See "*Market and industry data and forecasts*" for a description of the market reports used for information in this section.

The charts below give an overview of the European Bathroom Fixtures Market by geography and product category in 2011.




Source: BRG Consult.

(1) North Europe (Sweden, Denmark, Finland, Norway), Central Europe (Germany, Belgium, Netherlands), the United Kingdom, South Europe (France, Italy), East Europe (Poland, Russia, Ukraine).

(2) Excludes hydro-massage baths and hydro-therapy cubicles.

## MARKET CHARACTERISTICS

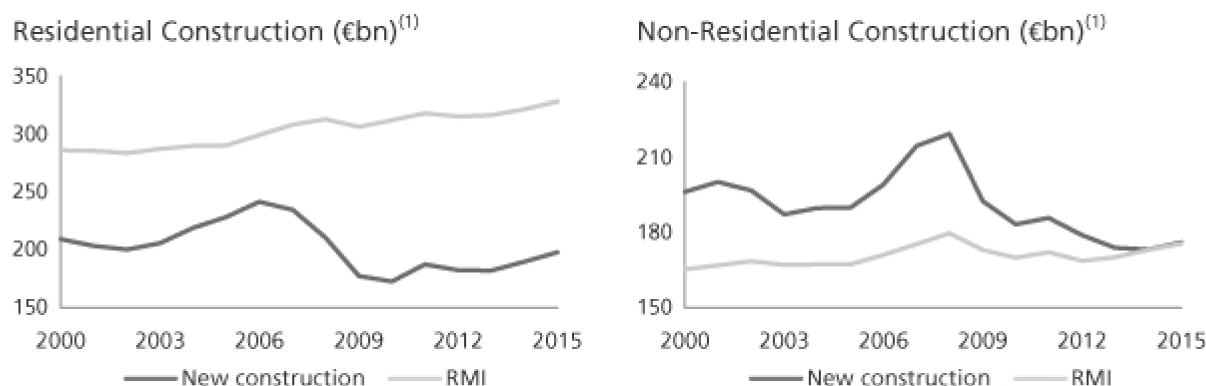
Historically, the European Bathroom Fixtures Market has experienced relatively stable growth primarily driven by growth in construction (RMI and new-build activity). In 2012, RMI corresponded to circa 70% of the ceramics sanitaryware market and new build activity corresponded to circa 30%. From 2005 to 2007, the volume of the market grew by approximately 3.2% per annum.

As a result of the global downturn that began in 2008, the volumes in the European Bathroom Fixtures Market declined by an average of 4.9% annually from 2007 to 2010, with new-build volumes impacted more than the larger renovation, maintenance and improvement market:

- From 2007 to 2009, new residential and non-residential construction declined significantly across Europe (defined for these purposes as comprised of Belgium, Denmark, Finland, France, Germany, Italy, the Netherlands, Norway, Poland, Sweden, and the United Kingdom), falling by 24.6% and 10.4% over the period, respectively.
- Over the same period, the residential and non-residential RMI activity was more resilient and only declined by 0.7% and 1.4% over the period, respectively.

According to Euroconstruct, market conditions began to stabilize from 2010 onwards, with a more moderate decline in new-build and moderate growth in RMI activity. As a result, sales volumes in the European bathroom fixtures market started to stabilize, with a more moderate annual decline of 0.6% on average from 2010 to 2012.

In light of positive economic forecasts in our core markets, the outlook through to 2015 is more favorable. In Europe (defined for these purposes as comprising Belgium, Denmark, Finland, France, Germany, Italy, the Netherlands, Norway, Poland, Sweden, and the United Kingdom), Euroconstruct foresees annual growth in construction levels by value of an average of 1.3% between 2012 and 2015.




Source: Euroconstruct, December 2012.

(1) Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Poland, Sweden, and the United Kingdom.

## MARKET GROWTH

Volumes in the European Bathroom Fixtures Market are forecast to grow by 1.5% annually from 2012 to 2015. The highest growth forecasts are for East Europe, the United Kingdom and North Europe, growing at 3.5%, 2.9% and 2.3% CAGR, respectively. We generated approximately 50% of our 2012 net sales in these markets. Furthermore, such market growth includes a moderate but favorable shift in product mix towards more expensive products. Volume growth is expected to be driven by the CCP segment, which is forecast to grow by an average of 1.8% per year from 2012 to 2015.

The following charts outline the historical and expected growth in sales volumes within our European Bathroom Fixtures Market 2005 to 2015 by region and by product category:

| Region | 2005–09 CAGR (vol) | 2009–12 CAGR (vol) | 2012–15 CAGR (vol) | 2012 Volumes (m) |
|---|---|---|---|---|
| Central Europe...... | (1.8)% | 0.9% | 0.1% | 32.4 |
| North Europe ........ | (1.5)% | (0.7)% | 2.3% | 7.7 |
| South Europe ........ | (3.9)% | (3.3)% | (0.6)% | 37.4 |
| East Europe........... | 2.7% | 4.1% | 3.5% | 43.5 |
| UK ....................... | (7.0)% | (4.2)% | 2.9% | 18.9 |

| Product | 2005–09 CAGR (vol) | 2009–12 CAGR (vol) | 2012–15 CAGR (vol) | 2012 Volumes (m) |
|---|---|---|---|---|
| Ceramics sanitaryware ....... | (3.1)% | (0.7)% | 0.9% | 50.4 |
| Ceramics complementary products: | | | | |
| Taps & Mixers ... | (1.1)% | 1.0% | 2.2% | 55.1 |
| Furniture............ | (1.6)% | (0.1)% | 2.1% | 11.5 |
| Shower .............. | (3.4)% | (1.3)% | 1.6% | 9.3 |
| Baths ................. | (4.5)% | (1.9)% | 1.3% | 5.2 |
| Pre-wall ............. | (2.2)% | (2.8)% | (0.1)% | 8.6 |

In the ceramics sanitaryware segment, East Europe has shown higher volume growth when compared to other regions, due to relatively higher growth in gross domestic product following the 2008 financial crisis. All our other markets, except South Europe, are expected to return to a positive growth rate by 2015. The following chart outlines the historical and expected growth in sales volume within the European ceramics sanitaryware segment from 2005 to 2015 by region:

| Region | 2005–09 CAGR (vol) | 2009–12 CAGR (vol) | 2012–15 CAGR (vol) | 2012 Volumes (m) |
|---|---|---|---|---|
| Central Europe ............................................................................................ | (2.2)% | 0.7% | 0.6% | 8.8 |
| North Europe............................................................................................... | (4.2)% | (0.4)% | 2.1% | 2.4 |
| South Europe............................................................................................... | (5.3)% | (5.3)% | (1.6)% | 13.0 |
| East Europe ................................................................................................. | 1.8% | 4.2% | 1.6% | 20.7 |
| UK................................................................................................................ | (9.1)% | (7.0)% | 4.1% | 5.5 |

We believe that there are a number of other market trends that will influence future demand.

- *Increased consumer focus on bathroom solutions*: As consumers' disposable income has risen over time, we have seen increasing value placed on bathroom solutions. The number of bathrooms per household has increased over time, and bathrooms are increasingly customized, refreshed and upgraded. Consumers are demanding new features and more options from their bathroom solutions, driving the trend towards more expensive and aesthetically pleasing products.

- *Innovation in product functionality and design*: We believe that continuous product innovation in the design, style and functionality of bathroom solutions encourages consumers to replace or renew their existing bathrooms and encourages the purchase of a broader complementary product mix.
- *Focus on the environment*: We see a growing market for environmentally friendly bathroom solutions that conserve water and energy, driven by a growing awareness of climate change and water scarcity as well as increasing utility costs. We believe that this is likely to drive consumers to upgrade their existing bathrooms with newer, more efficient bathroom solutions, a space where our innovative solutions are well placed.

We believe that these factors, in addition to more fundamental drivers such as the growth in the number of households, an aging building stock and increasing affluence and urbanization in emerging markets, are positive trends for the European Bathroom Fixtures Market.

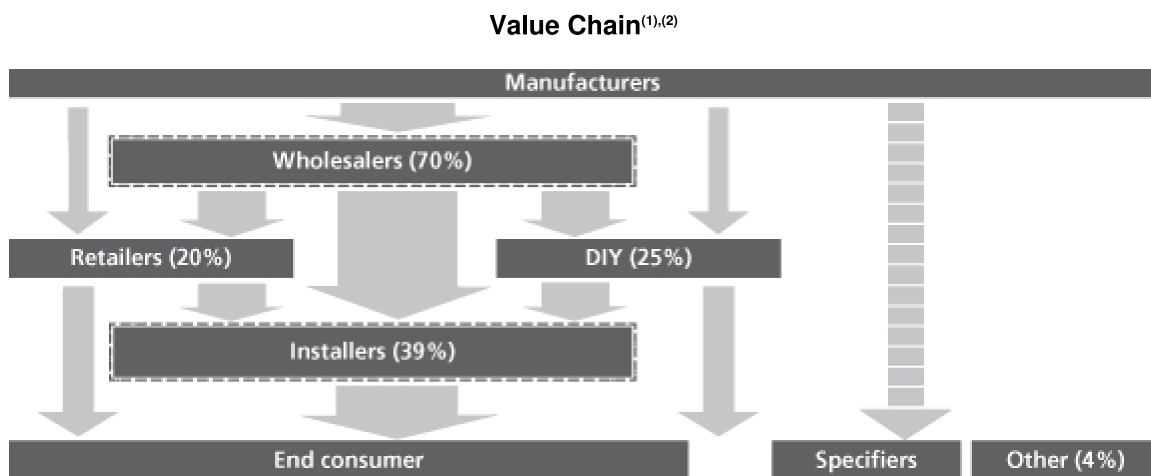
## DISTRIBUTION

There are three core distribution channels for bathroom solutions in Europe: wholesalers, retailers and DIY outlets. While approximately 70% of volumes flow through wholesalers, the actual purchase decisions are made mostly by installers, contractors and architects purchasing via the DIY channel or traditional retail outlets. Generally, there is a high level of loyalty in the customer base, which increases the importance of focusing on the key decision makers in the market. Market participants include:

- **Manufacturers**, such as Sanitec, who sell primarily to wholesalers, installers, contractors and retailers (including DIY outlets);
- **Wholesalers** who act as intermediaries, buying large quantities of goods and reselling these goods to installers, DIY chains, and retailers;
- **Installers and contractors**, ranging from installers for large construction projects to smaller plumbers, who play a key role in the purchasing decision;
- **DIY outlets** with a limited service offering (large stores, fewer personnel) and a focus on the lower price segment of the market;
- **Retailers** who sell directly to consumers or installers, often via showrooms, with a broader service offering than DIY outlets; and
- **End consumers**.

The chart below illustrates the value chain and participants in the sanitaryware market, as well as the relative importance of each distribution channel.

**Value Chain(1),(2)**




Source: BRG Consult.

(1) Percentage indicated next to the market participants refers to the estimated volume handled in the value chain in 2012. The total is above 100% due to volumes passing through several market participants before reaching the end consumer.

(2) Sanitaryware includes ceramics sanitaryware, concealed plastic cisterns and exposed plastic cisterns, for France, Germany, the Netherlands, Italy, Poland, Russia, Sweden and the United Kingdom.

- **Wholesalers** handle the majority of volumes passed through the value chain and consequently it is key for manufacturers to have strong relationships with wholesalers. We believe wholesalers favor large manufacturers with a highly reliable supply chain, broad product portfolios and well-recognized consumer brands—thus comprehensively serving varied stakeholders down the value chain. Entities such as Sanitec are also preferable to wholesalers because of the high quality of customer service we can provide.

- **Installers** play an important role in the decision to purchase a particular brand of bathroom solution or fixture. Moreover installers are more likely to recommend a brand they have used with good results in the past—we believe brand loyalty is important to these stakeholders. We have and will continue to develop brand loyalty given our reputation for high quality, easy installation, low maintenance, and reliable service. We also believe that our popularity with installers will continue to create a "pull" effect on the purchasing decisions of other players in the market, increasing the demand for our products with wholesalers and retailers.
- **DIY outlets** have grown in importance in certain markets. Historically, the DIY channel has generally been more focused on the lower-end segment of the market, emphasizing price over brand name through the sale of private label brands. However, DIY chains are increasingly seeking to differentiate their offerings by partnering with leading manufacturers to provide a higher quality alternative to their private labels. The success of the DIY channel differs from country to country, driven by consumer preference and market penetration. In Germany and the Nordics, for example, we believe the DIY channel has less significance compared to other countries. Between 2012 and 2017, the share of ceramics sanitaryware volume passing through the DIY channel is expected to be stable.
- **Retailers** also constitute an important part of the bathroom fixtures market. While comprising only a small proportion of direct sales, we believe that retailers influence the purchasing decisions of a larger share of consumers, as many consumers visit showrooms prior to making their purchasing decisions, irrespective of the actual point of sale. Retailers tend to focus on offering total bathroom solutions to their customers. As such, we believe that these retailers prefer manufacturers with a comprehensive and coordinated product offering such as Sanitec.

It should be noted that, while currently still a comparably small market segment, e-commerce is becoming increasingly important, particularly as a marketing channel to both end consumers as well as installers.

## COMPETITIVE LANDSCAPE

We are the leading European producer of ceramics sanitaryware and bathroom fixtures. We have a number one or two position in ceramics sanitaryware in each of our core Western European markets, which comprise Germany, the Benelux countries, the Nordic countries, France, Italy, Poland and the United Kingdom, as well as strong positions in our growth markets, including Ukraine and Russia. In terms of ceramics complementary products, we have top five positions in the bath and shower segments and top ten positions in the pre-wall (eighth) and furniture (sixth) segments. There are also several regional markets where we have leading positions (for example, pre-wall in North Europe). Whilst the European market for ceramics sanitaryware is relatively consolidated, several CCP categories are more fragmented and characterized by specialist players active mostly in one product category and/or region, with a limited number of larger global players having broader product ranges. Our main competitors in the ceramics sanitaryware and ceramics complementary products segments in 2011 are set out below, together with their respective market position by volume.

### European Ceramics Sanitaryware Market Position by region, 2011

| Market Position | Central Europe | North Europe | South Europe | UK and Ireland | East Europe |
|---|---|---|---|---|---|
| 1 | **Sanitec** | **Sanitec** | **Sanitec** | Ideal Standard | Roca |
| 2 | Villeroy & Boch | Villeroy & Boch | Ideal Standard | **Sanitec** | **Sanitec** |
| 3 | Duravit | Svedbergs | Villeroy & Boch | Lecico | Rovese |
| 4 | Eczacibaşi | Ideal Standard | Roca | Roca | Kirovskaya Keramika |
| 5 | Roca | Rovese | Kohler | Eczacibaşi | Samarskii Zavod |
| Top 5 volume market share | 68% | 88% | 52% | 78% | 60% |

### Ceramics Complementary Products Market Position by category, 2011

| Market Position | Baths | Shower | Pre-wall | Furniture | Taps & Mixers |
|---|---|---|---|---|---|
| 1 | Kaldewei | Novellini | Geberit | Windhurst | Grohe |
| 2 | Roca | Kaldewei | Grohe | Royo | Masco |
| 3 | Viz | Fetim | Aliaxis | Fackelmann | Ideal Standard |
| 4 | **Sanitec** | **Sanitec** | Kariba | Aquaton | Hansa |
| 5 | Ideal Standard | Jacuzzi Brands | Tece | Eczacibaşi | Oras |
| Top 5 volume market share | 42% | 24% | 50% | 15% | 34% |

Source: BRG Consult.

Furthermore, we have showed strong profitability in comparison to several of our peers in 2011 and 2012 as the following table represents:

| | Net sales (Euro, million) | | | Growth (%) | | EBITDA margin (%) | | |
|---|---|---|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2011 | 2012 | 2010 | 2011 | 2012 |
| Sanitec[(1)] | 777 | 771 | 753 | (0.8) | (2.3) | 9.9 | 13.7 | 14.3 |
| Ideal Standard[(1)] | 753 | 713 | 715 | (5.4) | 0.2 | 6.8 | 3.8 | 2.8 |
| Villeroy & Boch[(2)] | 447 | 462 | 466 | 3.4 | 0.8 | 9.0 | 8.2 | 8.8 |
| Roca[(3)] | 1,498 | 1,551 | n/a | 3.5 | n/a | 12.2 | 11.8 | n/a |
| Rovese[(4)] | 373 | 399 | 406 | 7.0 | 1.9 | 16.4 | 15.0 | 9.7 |

(1) Margins calculated based on adjusted EBITDA.
(2) Bathroom and Wellness division only, margins calculated based on reported EBITDA.
(3) Margins calculated based on reported EBITDA.
(4) Margins calculated based on reported EBITDA, using an exchange rate of €/PLN 4.11.

# Business

## OVERVIEW

We are the leading European producer of ceramics sanitaryware and bathroom fixtures. We have a number one or two position in ceramics sanitaryware in each of our core Western European markets, which comprise Germany, the Benelux countries, the Nordic countries, France, Italy, Poland and the United Kingdom, as well as strong positions in our growth markets, including Ukraine and Russia. Our brand portfolio includes many of the longest-established and most well-known European brands in the bathroom products industry, including KERAMAG (Germany), Sphinx (the Netherlands), IDO and Ifö (Nordics), Allia (France), Pozzi-Ginori (Italy), Kolo (Poland), Colombo (Ukraine and East Europe) and Twyford (United Kingdom).

We provide products in two primary categories:

- ***Ceramics sanitaryware*** includes toilets, washbasins, sinks, shower trays, pedestals, tanks, bidets and urinals. In 2012, we generated €546.5 million of net sales from ceramics sanitaryware, which represented 72.6% of our net sales.
- ***Ceramics complementary products*** includes bathroom furniture, baths, taps and mixers, showers, pre-wall systems and products based on solid surface materials. In 2012, we generated €206.3 million of net sales from ceramics complementary products, which represented 27.4% of our net sales.

We sell our bathroom products primarily to wholesalers, as well as directly to retailers (including DIY outlets) and installers, and benefit from long-standing and stable customer relationships. As of December 31, 2012, we had operations in 19 countries with 11 ceramics production facilities and approximately 6,700 employees.

In 2009, a number of events, including the stress and disruptions experienced by global financial markets, the significant decline in construction in most of our core markets, and our substantial debt obligations led us to undergo a financial restructuring. We took the opportunity our financial restructuring afforded us to implement what we call the "One Sanitec" strategy. We accelerated the creation of an integrated group of companies from a disparate group of local business units by consolidating operations and support functions. The "One Sanitec" ethos has enabled economies of scale, increased operational efficiency, cut costs, and as a result enhanced profitability. We now have a stronger focus on our most profitable brands and business lines and a more competitive cost structure. As a result of our efforts, our Adjusted EBITDA grew from €58.4 million for the year ended December 31, 2009 to €107.6 million for the year ended December 31, 2012 making us one of the most profitable European bathroom ceramics companies. We continue to implement similar measures to improve our financial performance in the future.

In 2012, 28.6% of our net sales were generated in Central Europe (comprising Germany, the Netherlands, Belgium, Luxembourg, Austria and Switzerland), 24.7% in North Europe (comprising Sweden, Denmark, Norway, Finland, the Baltics and Iceland), 19.3% in South Europe (comprising France, Italy, Spain and Portugal), 17.1% in East Europe (primarily comprising Poland, the Czech Republic, Slovakia, Russia, Ukraine and Kazakhstan), 7.2% in the United Kingdom and Ireland, and 3.1% in the Rest of the World (countries outside Europe to which we export our products).

## COMPETITIVE STRENGTHS

We believe that the following strengths differentiate us from our competitors and provide us with a competitive advantage in the markets in which we operate:

***Leading market positions in the most resilient European markets***. We are the leading European producer of ceramics sanitaryware and bathroom fixtures. We have a number one or two position in ceramics sanitaryware in each of our core Western European markets which comprise Germany, the Benelux countries, the Nordic countries, France, Italy, Poland and the United Kingdom, as well as strong positions in our growth markets, including Ukraine and Russia. We have a geographic footprint that is weighted towards the economies in Europe that have proven the most resilient in the recent global financial crisis (for example, 53.3% of our net sales in 2012 came from regions that we refer to as North Europe (the Nordic countries) and Central Europe (Germany, Benelux, Austria and Switzerland). As a result our business is less weighted towards the economies that have struggled more to recover from the market downturn. Our strong position in the ceramics sanitaryware market in Ukraine (and growing market share in Russia) positions us well to continue to exploit high-growth markets in East Europe.

***Strong portfolio of well-recognized national brands***. We have a portfolio of some of the oldest and most well-known national brands in the bathroom products industry. The majority of our strategic brands (KERAMAG, Sphinx, IDO, Ifö, Allia, Pozzi-Ginori, Kolo, Colombo and Twyford) have over 100 years of history in their respective local markets. We also maintain tactical brands (such as Ceravid, Perline, Porsgrund and Selles) which complement, protect and support our strategic brands and address DIY demand in certain markets. We believe that our brands are perceived to represent product innovation and design leadership as well as high quality and ease of installation. We believe that this brand strength facilitates the introduction of new products and fosters loyalty and trust among our customers and installers, who seek to provide their customers with reliable products from well-known brands. Our brand strength has also facilitated our expansion into new strategic markets, such as the introduction of the Pozzi-Ginori (Italian) brand to the Chinese market and the Twyford (United Kingdom) brand to new customers in Commonwealth countries such as Hong Kong, Australia and certain sub-Saharan African countries, and supported our continued growth in the Middle East.

***Loyal customer base***. We have long-standing and stable relationships with our customers, who are primarily wholesalers as well as retailers (including DIY outlets) and installers. We have maintained the loyalty of our installers (who have a high amount of influence on the ultimate purchasing decision) by, among other things, manufacturing high-quality and innovative products, simplifying installation through product design and easy availability of products and spare parts, and local service and product support.

***Sustainable profitability improvement driven by "One Sanitec" strategy and cost savings initiatives***. Since 2010, our new management team has successfully implemented our "One Sanitec" strategy, creating an integrated group of companies with:

- a transparent reporting process, which enables a commercial policy focused on delivering a high level of profitability and allows for detailed analysis of the true financial performance across the group, which in turn enables better business decision-making; and
- appropriately centralized operations (including warehouse and distribution centers) and support functions to capture economies of scale, reduce our cost base, increase operational efficiency and enhance profitability, while maintaining a strong local sales force to serve individual market needs.

We have also implemented numerous other initiatives (the full impact of which has not yet been realized), including increasing the share of production in low cost facilities and closing or divesting certain plants, reducing the number of our suppliers, increasing sourcing in low cost facilities and rationalizing our product ranges. As a result of these initiatives, along with other measures, we have increased Adjusted EBITDA from €58.4 million for the year ended December 31, 2009 to €107.6 million for the year ended December 31, 2012. With these and other measures, we believe that we have established a platform that allows us to grow and focus on new opportunities, but is also dynamic and flexible enough to allow us to adapt to market changes as they occur.

***Stable industry, well-positioned for recovering end markets***. Market shares in the industry in which we operate tend to be relatively stable over time, driven by (i) the specialist knowledge required for ceramics production, (ii) significant required investment in production facilities and (iii) the need for strong brand recognition and access to local distribution channels. Demand for our ceramics sanitaryware products is also largely driven by the less cyclical RMI sector of the market, with RMI accounting for circa 70% and new build accounting for circa 30% of our demand in 2012, resulting in relatively stable markets for our products. We believe we are well-positioned for a cyclical upturn in the new build sector, which will further drive volume growth.

***Highly experienced management.*** Our top management team consists of our CEO, CFO, COO, executives for Global Business Development and Change Management, Product Management and Design, and Human Resources. The majority of the current management team joined the business between 2008 and 2010 and led the restructuring and recovery of the business, growing Adjusted EBITDA from €58.4 million in 2009 to €107.6 million in 2012. Our CEO, Peter Nilsson, was appointed to this position in 2010, having acted as chairman of the Sanitec board since 2008. Our CFO, Gun Nilsson, joined the business in 2010 having previously acted as CFO of a publicly traded company on the NASDAQ OMX. Our Global Business Development and Change Management function is led by Magnus Terrvik, who joined the business in 2010, having previously spent 17 years with McKinsey and Company.

## BUSINESS STRATEGY

***Drive value through innovation and product leadership***. We operate in a mixture of mature and emerging markets. In the more mature, core Western European markets where we already have the number one or number two positions, we expect our market share to remain stable or increase slightly over the near term. Our markets (even those that were more resilient in response to the global economic crisis of 2009 onwards) have yet to regain their 2008 levels. While we expect our sales volumes to increase as our markets strengthen, in order to continue to develop our business, we are prioritizing profit over volume by continuing to invest in product innovation and product leadership and focusing on enhancing our product mix (for example, by launching KERAMAG Design as our pan-European premium brand).

***Capitalize on expected growth in ceramics complementary products.*** Customers increasingly look for bathroom suites with integrated furniture, bath, showers, taps and mixers, and ceramics products; there is also an increasing trend towards the use of wall-mounted toilets (which require the supply of a toilet along with a pre-wall element). We see a significant opportunity to grow sales in our group overall by increasing the amount of bundled products that we sell. By leveraging our local ceramics sanitaryware brands and our successes in individual markets, we intend to capitalize on this market opportunity through, among other things, the following steps:

- training and incentivizing our sales force, providing them with clear sales targets for bundled products;
- conducting installer training and educating them on specific product design characteristics;
- improving our showroom infrastructure to highlight bundled products; and
- coordinating product development between our ceramics sanitaryware and ceramics complementary products teams to ensure an integrated offering of innovative products.

***Increase sales by pursuing growth opportunities in East Europe***. We believe that significant growth opportunities exist in East Europe as we expect growth rates for bathroom products in this region will be higher than in more mature European markets. We are well positioned to benefit from this growth as East Europe (primarily comprising Poland, the Czech Republic, Slovakia, Russia, Ukraine and Kazakhstan) represented 17.1% of our net sales in 2012. We believe that we have the potential to significantly increase our market share in East European countries, leveraging our leading position in the Ukrainian ceramics sanitaryware market, our growing market share in Russia, our local and European brands and our East Europe asset base.

***Continue to capture benefits of scale, optimize operational efficiencies and reduce costs***. We are implementing measures in the following key areas:

- ***Optimizing plant network***. In the past years, we have significantly improved our production and supply footprint. For example, we have closed four ceramics plants (in Alsager (United Kingdom), Maastricht (the Netherlands), Bayonne and Selles-sur-Cher (France)) and divested five other plants (Leda (France), Domino (Italy), NSF (Russia), Minsk Mazowiecki (Poland) and Varde (Denmark)). We now have an integrated, flexible network that balances low cost facilities focusing on high volume products and other facilities focusing on high complexity products, enabling us to serve the varying demands of the different markets in which we compete. We will continue to improve the footprint, evaluating opportunities to better allocate production, increase flexibility and improve operational efficiency.
- ***Consolidating Group functions and activities***. Although we have made advances since 2009, we are continuing to consolidate Group functions and activities in order to continue to reap the benefits of scale and to reduce costs in line with our "One Sanitec" strategy. We have identified numerous purchasing savings in a variety of areas, including production input materials, as well as indirect costs such as in marketing, business services, office supply, insurance services, human resources and information technology.
- ***Optimizing product portfolio***. We continue to coordinate our product offering across the Group and work on simplifying our product portfolio by reducing the number of series, models and SKUs and thereby significantly reducing the complexity of our offerings while enhancing our ranges in each individual national market. We believe that these initiatives will support reduced production costs, lower inventory levels and enhance our supplier purchasing power.

## HISTORY

The majority of our strategic brands have over 100 years of history in their respective national markets. Our integrated group has its origins as a subsidiary of Wärtsilä Corporation, which grouped together its bathroom operations in 1990 to form Sanitec. Prior to 1991, we were mainly active in Finland, Sweden and Norway. Since that point, we have grown organically, including in Russia, and by strategically expanding our presence in ceramics sanitaryware and ceramics complementary products in Europe through the acquisitions of manufacturers with leading national brands in Germany, the Benelux countries, France, Italy, Poland, Ukraine and the United Kingdom.

In 2005, we were acquired by EQT IV Fund ("**EQT**") via five acquisition vehicles. In 2009, in connection with our financial restructuring, we established our current corporate structure as shown under "*Summary corporate structure*". EQT is a leading manager of private equity funds with investments in Northern and Eastern Europe, Asia and the United States. EQT has raised 15 private equity funds with more than €20 billion of committed capital. Since its establishment, EQT has invested some €11 billion in more than 110 companies. For over 18 years and through varying economic cycles, EQT has adopted a business model driven by its industrial heritage and an operational approach focused on the long term development of portfolio companies and executing a strategy that generates returns through sales and earnings growth.

## PRODUCTS AND BRANDS

We manufacture and market an extensive range of branded bathroom fixtures covering all price segments of the market. Our portfolio includes ceramics sanitaryware products, showers, baths, bathroom furniture, pre-wall systems, and taps and mixers. We believe that the breadth and depth of our product range provides us with a key competitive advantage, provides value to customers and enhances our ability to leverage our strong brands. Our largest markets (generating over 80% of net sales in 2012) were the Nordic countries (Sweden, Finland, Norway and Denmark), Germany, France, Italy, the Netherlands, Belgium, the United Kingdom, Poland, Ukraine and Russia.

### Ceramics sanitaryware products

Our ceramics sanitaryware product range includes toilets, washbasins, sinks, shower trays, pedestals, tanks, bidets, urinals and other ceramic bathroom accessories. We market our bathroom ceramics under, *inter alia*, the Allia, Ceravid, Colombo, IDO, Ifö, KERAMAG, Kolo, Perline, Porsgrund, Pozzi-Ginori, Selles, Sphinx and Twyford brands. In 2012, ceramics sanitaryware accounted for approximately 72.6% of our net sales.

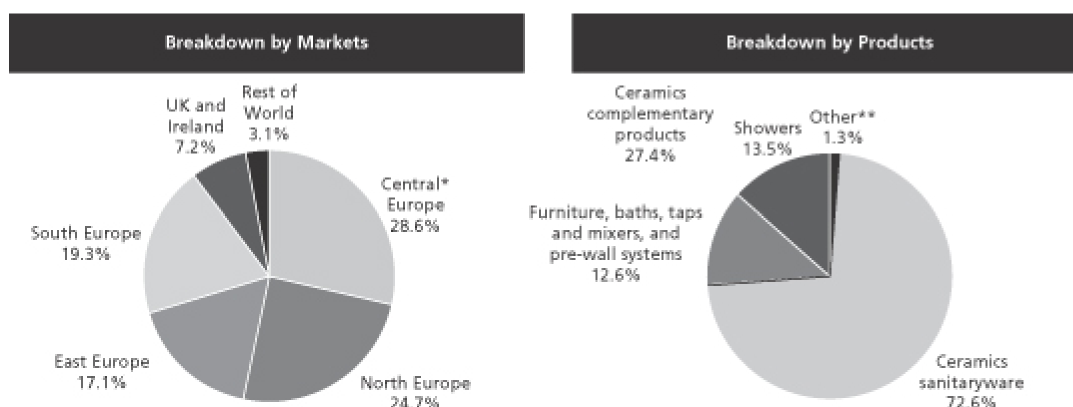
### Ceramics complementary products

Our ceramics complementary product range includes showers, baths, furniture, pre-wall systems, taps and mixers. We sell our ceramics complementary products in the same markets and under the same brands as our ceramics sanitaryware products. We also sell shower and shower-related products such as cubicles, enclosures, columns and non-ceramics trays, as well as solid surface materials for use in sanitary fittings and other applications, under the Koralle and Varicor brands, respectively. In 2012, ceramics complementary products accounted for approximately 27.4% of our net sales.

### Distribution and customers

We sell to most of the key distributors in our different core markets, and some of those customers are parts of multi-national customer groups. In 2012, the aggregated sales of the top 10 and 20 customer groups accounted for approximately 47.6% and 59.4%, respectively, of our net sales. In practice, commercial and business relationships are managed on an individual market and business-unit level, so counterparty risk is significantly lower. We sell more than 80% of our bathroom fixtures to wholesalers; we also sell all bathroom fixtures through retailers (including DIY outlets) and installers in our core markets. Except for sales to customers in the Baltics, Denmark and Italy, where sales are conducted through agents, sales within our key markets are conducted by our Group companies. In addition, we have sales offices in Austria, Switzerland, the Czech Republic, Slovakia and China. Sales outside these markets, or where we do not have our own sales offices, are made through agents or distributors in such countries.

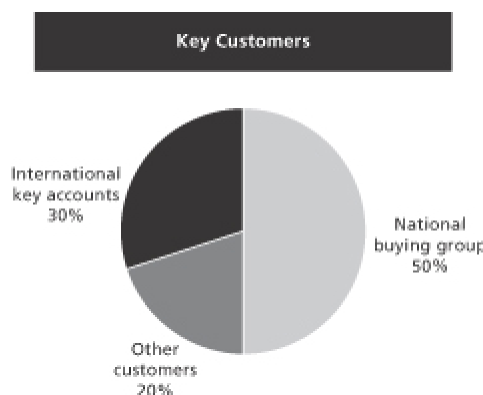
Below is a chart depicting breakdowns of net sales by geographical markets for the year ended December 31, 2012:




(*) Comprises Germany, the Netherlands, Belgium, Luxembourg, Austria and Switzerland.
(**) Constitutes solid surface materials marketed under the Varicor brand name.

We divide our key customers into three categories: international key customers with a presence in multiple countries; national buying groups that constitute more than €1.0 million in sales per year; and other customers, who do not fall into the preceding two categories. All our customer agreements are entered into on a local level; therefore, customers having businesses in several countries normally have business relationships with multiple business units.

Below is a chart depicting the breakdown of our net sales by customer category:




In addition, we also export products to countries outside the regions where we have subsidiaries or sales offices. Such sales are made through country- or region- specific distributors or agents.

## MARKETING AND SALES

Although we have centralized many marketing and sales-related activities, we sell our bathroom products under our strong national brand names through our national sales forces, who provide in-depth market knowledge and management expertise and cover clients directly in their allocated region. In most of our core markets, our sales organization is structured with a country manager responsible for the local sales organization and for implementing strategic initiatives provided by our global sales and marketing leadership. Sales budgets are set by group management and local sales teams through a top-down (group to regional to national) approach and are implemented on a local level with a commission-based sales structure.

We encourage wholesalers and retailers to stock and actively sell our range of bathroom products by offering workshops, training and showroom support to promote our brands. We provide technical, commercial and sales training, as appropriate. We have strengthened our relationships with installers and plumbers by providing on-demand product information and installation guidance, as well as technical training and support from our service teams. In addition, we increasingly tailor our marketing efforts to appeal directly to our installers and retailers (through, for example, a mobile academy and by expanding our use of web-based and hands-on instructional tools, such as smartphone applications, email and YouTube).

As of December 31, 2012, over 500 of our employees (including permanent and temporary employees) were directly involved in sales and marketing.

## PRODUCTION

### Optimization of production

In the past four years, we have significantly adjusted our cost base. This was in part achieved through shifting from decentralized local operations to a shared, networked production footprint and increasing the capacity of our low-cost facilities. As of December 31, 2012, we had a bathroom ceramics production capacity of approximately 14.4 million pieces across 11 plants, 67% of which was produced at low-cost plants in Ukraine, Poland, Portugal and Eastern Germany. Our remaining ceramics production capacity in countries such as Sweden and Finland is focused on highly automated production. Our other production facilities in Italy, France and Germany are focused on more complex products. See "—*Properties and assets*." Our eight other smaller plants mainly focus on the production of ceramics complementary products.

Between 2009 and 2012, we closed four facilities (in Alsager (United Kingdom), Maastricht (the Netherlands), Bayonne and Selles-sur-Cher (France)) and divested five plants (Leda S.A.S. (France), Domino S.r.l. (Italy), NSF LLC (Russia), Minsk Mazowiecki (owned by Scanaqua Sp. z o.o. in Poland) and Varde (owned by Scandi-Aqualine A/S in Denmark)) and shifted volumes to other production locations.

### Ceramics sanitaryware production process

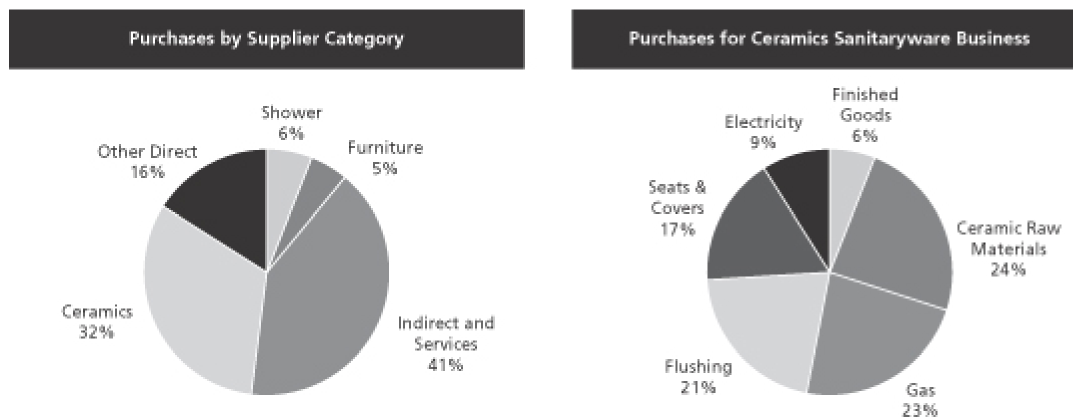
The production process for bathroom ceramics has three main steps: casting, glazing and firing. Efficient production requires experienced and skilled personnel to meet required output quality and yield rates. Casting involves the injection of slip, the constituent material for the manufacture of bathroom ceramics, either manually into a gypsum mold, known as bench casting, or automatically at very high pressure into a plastic mold, known as high pressure casting, which shapes the slip into a ceramic piece. Slip is made up of ball clay, water, kaolin, quartz, feldspar, zircon and other inorganic ingredients. After drying, the ceramic piece is then glazed either by spraying or dipping, which can be done both manually and automatically. Firing is the final step and involves passing the ceramic piece through a tunnel kiln for approximately 14 to 22 hours up to temperatures of approximately 1,250ºC.

### Ceramics complementary products production process

Our ceramics complementary products production facilities are significantly less asset-intensive and focus on, *e.g.*, assembly of showers, production of steel or acrylic baths, as well as solid surface material production.

## RAW MATERIALS AND PROCUREMENT

We source a wide range of materials from third parties globally in connection with our manufacturing activities. At the end of 2012, we had more than 13,100 active suppliers and our total purchases amounted to €445.8 million, of which our top ten suppliers accounted for approximately 12% of our purchases. We have established centralized coordination and professional purchasing practices to consolidate vendors and increase our bargaining power, which we believe to have significant ongoing savings potential. Our most important suppliers supply the raw materials required for the production of ceramics such as ball clay, kaolin, feldspar, chamotte (clay) and zirconium (coating) and for the production of ceramics complementary products, such as aluminum, stainless steel, glass, acrylic and packaging. Below are two charts depicting breakdowns of purchases by supplier category and for our ceramics sanitaryware business:




In 2012, 95% of ceramics volumes were produced in our own facilities. With respect to ceramics complementary products, we rely more on external sourcing of ready-made products (although they are to a large extent designed and developed in-house). For example, the majority of our steel bathtubs are sourced from external suppliers, as are all of our pre-wall systems, taps and mixers and almost all of our furniture. Our shower products are both self-manufactured and purchased from suppliers of ready-made products.

The majority of our top twenty suppliers are based in Europe.

We believe that our suppliers are generally easily substitutable in the short term as the input materials tend to be generic and we buy supplies on a purchase order basis or on short term contracts. We are therefore not dependent on any single supplier.

## RESEARCH AND DEVELOPMENT

Our Group's research and development activities focus on the environmental (for example, introducing to the market the water conserving 2/4 liter flushing toilet), design and functionality (for example, the rim-free toilet, and coatings such as KeraTect and IföClean, which make the products easier to clean and more hygienic) features of our products as well as the development of new products.

In 2012, we consolidated our centralized innovation and design, technical product development, and all product management resources into the new Group function, Product Management and Design ("**PMD**").

As of December 31, 2012, 159 of our employees (including permanent and temporary employees) were directly involved in PMD. Our total research and development costs (PMD expenses) amounted to €9.5 million in 2010, €9.0 million in 2011 and €9.7 million in 2012. As a percentage of net sales, our total research and development costs (PMD expenses) were 1.2%, 1.2% and 1.3%, respectively, for those years.

## COMPETITION

See "*Industry—Competitive landscape*."

## INTELLECTUAL PROPERTY RIGHTS

We have registered approximately 400 different trademarks worldwide for our key ceramics sanitaryware brands (KERAMAG, Sphinx, IDO, Ifö, Allia, Pozzi-Ginori, Kolo, Colombo and Twyford), two shower brands, four supporting brands, and our solid surface material brand Varicor. We also hold several patents primarily related to innovations in connection with toilets and urinals such as flushing methods and dosing devices as well as several registered industrial designs relating to bathroom fixtures.

In 2009, we adopted our current trademark policy. Our trademarks currently exist under approximately 1,600 registrations worldwide. Our trademarks, patents and designs are generally owned by the legal entity using the specific intellectual property right, although, the Company and Sanitec Europe Oy also own certain registered intellectual property rights relating to trademarks, patents and designs.

Our strategic brands are protected by trademark registrations in various countries throughout the world, including the principal markets in which they are sold. We have centralized the administration of domain names via Safenames Ltd, a United Kingdom-based company, which administers approximately 340 of our domain names, with the remaining domain names being administered by Sanitec Kolo. We have granted trademark licenses to third parties relating to the use of certain brands and products in selected markets. We have also entered into several agreements with external designers relating to the design of ceramics sanitaryware products, bathroom fixtures, shower products and bathroom furniture.

The protection of process innovations and other technology is also important to our business. We rely upon patents, proprietary expertise, continuing technological process innovations and other trade secrets to develop and maintain our competitive position. We seek to protect our trade secrets by entering into confidentiality agreements with third-party developers. In addition, we seek to ensure that information is exchanged only to the extent necessary in communications with customers and suppliers.

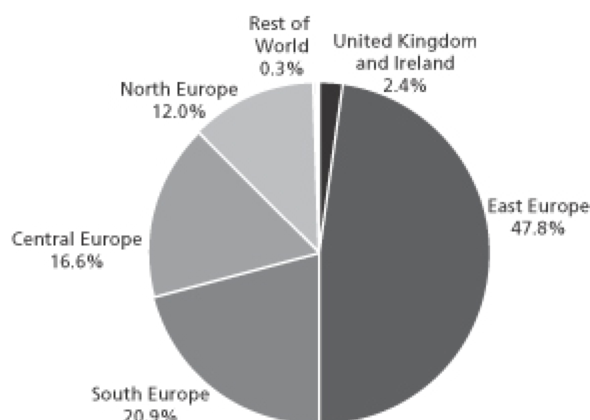
We are currently not involved in, and are not aware of, any material infringements of or material disputes relating to any of our trademarks, except for a few minor oppositions against trademark applications made by third parties. In certain countries, including China, third parties hold the registered trademark for "Twyford," while our registration covers "Twyfords" and similar incorrect registrations. We are not involved in any material infringement of third party intellectual property rights and have not been subject to any material disputes relating to such infringement since 2008.

## INFORMATION TECHNOLOGY ("IT") SYSTEMS AND TECHNOLOGY INFRASTRUCTURE

Our information management ("**IM**") function, which is staffed with 60 personnel, manages IT support for all of our group companies. Our shared information management services and activities are provided under an intra-group service level agreement for IT-related services, while the majority of our IT hosting services are outsourced.

## EMPLOYEES

As of December 31, 2012, we had 6,700 employees, of which almost 50% were located in East Europe (Ukraine, Poland, Czech Republic and Russia). More than 70% of all our employees are employed at our production facilities. Below is a chart depicting the average split of full-time employees per region:




Since 2009, we have not experienced any material labor strikes or lockouts, other than a strike of employees working at our factory in Selles-sur-Cher in 2010 in connection with its closure and national strikes that are not related to our business. Our industrial relations are primarily handled at the local level. We consider our relations with our employees and their unions to be satisfactory. We are, in the ordinary course of business, occasionally party to disputes with employees mainly relating to claims of wrongful dismissal. For a description of pending claims and disputes with employees, see "—*Legal proceedings*." Generally, our companies engaged in production, as well as a few additional entities, have entered into and comply with local collective bargaining agreements.

## PROPERTIES AND ASSETS

We conduct our business at several locations in 19 countries. The premises consist primarily of 26 production and distribution centers and approximately 38 offices and showrooms. We own all production sites except for sites in Dymer and parts of Slavuta (both in Ukraine). We lease premises in approximately 40 locations from third party lessors, of which two leases relate to production facilities. In addition, we have entered into one sale-and-leaseback arrangement relating to real property in Alsager, United Kingdom. We also act as the lessor in relation to third parties with respect to certain minor premises such as canteens at some of our production sites.

The table below provides an overview of our material owned real properties and leased facilities.

| Country | Location | Owned /Leased | Production | Production Capacity (in millions of pieces per annum) |
|---|---|---|---|---|
| Finland | Ekenäs | Owned | CSW | 1.0 |
| France | Digoin | Owned | CSW | 0.4 |
| | La Villeneuve au Chêne | Owned | CSW | 0.3 |
| | Limoges | Owned | Ceramic kitchen sinks / minor scale furniture | 0.4 |
| | Wisches | Owned | Surface materials | 0.1 |
| Germany | Vlotho | Owned | Shower | 0.2 |
| | Haldensleben | Owned | CSW | 1.1 |
| | Wesel | Owned | CSW | 0.5 |
| Italy | Gaeta | Owned | CSW | 0.8 |
| Poland | Kolo[(1)] | Owned | CSW | 1.9 |
| | Wloclawek[(1)] | Owned | CSW | 1.6 |
| | Ozorkow | Owned | Acrylic/bath and shower | 0.5 |
| Portugal | Carregado | Owned | CSW | 1.7 |
| Sweden | Bromölla | Owned | CSW | 1.4 |
| | Mörrum | Owned | Bath and shower (stainless steel /steel bath) | 0.7 |
| Switzerland | Dagmersellen | Owned | Shower | 0.0 |
| Ukraine | Slavuta (Hall 6)[(2)] and | Owned | CSW | |
| | Slavuta (Halls 1-5)[(2)] | Leased | CSW | 3.5[(3)] |
| | Dymer | Leased | Acrylic baths/whirlpool (plant) | 0.1 |
| Belgium | Genk | Leased | Distribution center | N/A |
| Germany | Ratingen | Leased | Office and Showroom Distribution center | N/A |

(1) We have the permanent right of use of our production facilities in Kolo and Wloclawek for a duration of 99 years.
(2) Our production facility (Hall 6) is owned and production facilities (Halls 1-5) are leased from the State Property Fund of Ukraine by Slavuta Plant Budfarfor, PJSC; the land beneath all production facilities is leased from the city of Slavuta.
(3) This figure represents the full capacity target for Slavuta (Halls 1-6).

## LEGAL PROCEEDINGS

At any given time we may be a party to litigation or be subject to non-litigated claims arising out of the normal operations of our business, such as ordinary warranty claims, claims related to products destroyed in transport, other product claims (such as claims that we have provided products that do not meet specifications), and claims from employees related to work injury or wrongful dismissal. We do not expect any liability arising from any of these legal proceedings to have a material impact on our results of operations, liquidity, capital resources or financial position. Except as set out below, there are no material legal proceedings currently outstanding.

### Price fixing cartel case

On June 23, 2010, the European Commission announced its decision to impose a fine for the alleged participation in a price fixing cartel and anticompetitive practices by 17 European bathroom fittings and fixtures manufacturers, including the Company and certain of its subsidiaries, over a period of 12 years (1992-2004). The behavior of the relevant entities was imputed to Sanitec Europe Oy, which was considered to exercise decisive influence over their conduct during the alleged infringement period. In total, Sanitec Europe Oy, jointly and severally with certain of its subsidiaries, was fined €57.7 million in aggregate, which was paid in full on September 30, 2010. Sanitec Europe Oy and the relevant subsidiaries filed applications appealing the decision and level of fines imposed and the oral hearing took place on May 22, 2012. The appeal process is currently pending and it is possible that the decision will be made before year end. However, this cannot be guaranteed due to the complexity of the case and the number of pending appeals. We cannot be certain that we will not be subject to third party claims in respect of these matters or that we will not be required to make payments in settlement of such claims.

### Claim brought by PCT former employees

A group of approximately 87 former employees of one of our now closed production facilities in France, Produit Ceramique de Touraine SA ("**PCT**"), are disputing their termination compensation and claiming €7.1 million in additional compensation for past redundancies. The matter is ongoing and a first labor court conciliation hearing between the parties in 2011 was unsuccessful for the claimants. Further hearings have been postponed, but the next hearing is currently scheduled to take place in October 2013. We consider the risk for additional payments to be remote and believe the court will rule in our favor, therefore we have not made any provisions for this claim.

### Tax disputes

One of our production facilities, Eurocer Industria de Sanitaros S.A., which is located in Portugal and employs approximately 370 workers, and two members of the company's management, are currently the subject of an investigation by the Portuguese tax and customs authorities as a result of actions taken by a former subcontractor that provided certain of our local workforce from 2007 to 2011. It is alleged that such subcontractor failed to properly account to the government for VAT and failed to correctly withhold social security and other similar payments. The investigation is still at a preliminary stage and we are not, at this time, able to estimate the likelihood and quantity of any liabilities that may result from this investigation.

The Group is subject to local tax audits, re-assessment and related proceedings from time to time. The German tax audit for the financial years 2001-2006 completed in December 2012 resulted in additional net tax of €7 million payable by the Group. A new tax audit covering the years 2007-2011 began in 2012. In Italy, the Group is in the process of appealing against various material reassessments issued by the local tax authorities for the financial years 2004-2007. The reassessments could lead to additional taxes payable of approximately €4 million. It may take several years to resolve the Italian tax litigation. In Ukraine, decisions and assessments of local tax authorities are contested and appealed by the Group continuously. We regularly monitor the possible tax risks due in relation to these on-going processes, our estimated liability for all such audits are included as a non-current provision (as of December 31, 2012, the amount was €4.6 million).

### Warranty claims in connection with products supplied by Portuguese supplier

On November 30, 2010, we entered into a compensation and settlement agreement with a Portuguese supplier regarding costs and damages incurred by us as a result of claims from end-customers in the Nordics and France resulting from defective products (flushing devices and mechanisms, inlet hoses and inner cisterns) supplied by them. Following this settlement agreement, we have become aware of further defective products produced or delivered by the same supplier which have or may result in damages. We have now undertaken an investigation to review to what extent the supplier's defective products have been used in Sanitec's products and pursuant to this investigation, we have reported these losses to our insurance provider and also entered into discussions with the supplier to clear and settle losses and damages which were not included in the settlement agreement.

## REGULATION AND ENVIRONMENTAL MATTERS

We are subject to a number of European Union, national, regional and local environmental and occupational health and safety laws, rules and regulations relating to the protection of the environment and natural resources including, among other things, the management of hazardous substances and waste, air emissions, the discharge of water, transportation, remediation of contamination and workplace health and safety. Our operations require us to maintain certain environmental permits for the production of ceramics sanitaryware and metal-based bath and shower products. In addition, our production units have generally been certified according to the ISO 9001 quality management standards and the ISO 14001 environmental management standards.

Our compliance matters are handled centrally through the adoption of guidelines and establishment of standards and principles and locally by each respective Group company responsible for implementation, follow up and handling of day-to-day matters. In 2010, we established a Compliance Committee, which is responsible for, *inter alia*, compliance matters and general policies of the Group. The Compliance Committee established a Code of Conduct applicable to the Group, which consists of standards and principles to be followed by our employees in their everyday roles and functions, including guidelines with respect to compliance with the law in relation to, *inter alia,* conflicts of interests, confidential information, bribery, environment, health and safety, harassment and discrimination.

We also supervise and monitor environmental matters at the site level, with regular maintenance and environmental remediation to remove pollution and contaminants, as well as ongoing discussions and actions to improve performance and ensure compliance with applicable regulations and permits. Certain of our production facilities have asbestos-containing materials on-site, and a few of our facilities, due to their long industrial history, have the potential for soil and groundwater contamination. In March 2012, we engaged an external consultant to conduct an environmental review with respect to our production facilities, which included a review of our current environmental permits. Generally, we are in compliance with our permits and applicable environmental laws. However, we are currently not in compliance with certain permits, including permits with respect to the following facilities, which are expected to incur a cost liability of at least €100,000: Mörrum, Sweden (dust emissions from the filtering system exceed the permitted level under the environmental permit held); La Villeneuve au Chene, France (the plant does not contain necessary containment arrangements for contaminated stormwater and fire-fighting water); Limoges, France (the plant exceeds the permitted threshold for concentration of total suspended solids in uncontaminated stormwater and certain wastewater discharges); and Wisches, France (absence of fire-fighting water on site). We continue to monitor each of these sites and have taken actions to remedy each of these issues.

## INSURANCE

We currently hold five group-wide insurance policies, which insure us against: (i) property damage and business interruption, (ii) general and product liability, (iii) credit losses, (iv) directors and officers liability and (v) crime. We also hold a directors and officers run-off cover policy relating to the Company and our previous parent company Sanitec Holdings Oy (which is not currently a part of the Group). We administer these policies centrally. In addition, we obtain local insurance policies in certain cases, for instance relating to travel, company cars, logistics and healthcare.

# Management

The Issuer is a public limited liability company incorporated in Finland with management headquarters at Kaupintie 2, FI-00440 Helsinki, Finland.

## EXECUTIVE OFFICERS AND DIRECTORS

Set forth below are the names, ages and positions of our executive officers as of the date of this Offering Memorandum.

| Name | Age | Position with the Company |
|---|---|---|
| ***Executive Officers*** | | |
| Peter Nilsson | 50 | President and Chief Executive Officer |
| Gun Nilsson | 58 | Executive Vice President and Chief Financial Officer |
| Harald Treml | 51 | Executive Vice President and Chief Operating Officer |
| Miguel Definti | 38 | Executive Vice President, Product Management & Design |
| Michael Hellmund | 52 | Executive Vice President, Human Resources |
| Magnus Terrvik | 49 | Executive Vice President, Global Business Development & Change Management |
| Krister Boëthius | 36 | Director of Global Business Development & Change Management |
| ***Directors*** | | |
| Fredrik Cappelen | 56 | Director and Chairman of the Board |
| Adrian Barden | 58 | Director |
| Caspar Callerström | 40 | Director |
| Pekka Lettijeff | 52 | Director |
| Ulf Mattsson | 49 | Director |

The following are biographical summaries for our executive officers named above:

*Peter Nilsson* has been the President and Chief Executive Officer of the Issuer since 2010. Between 2008 and 2010 he was Chairman of the Board. Previously he served as President and Chief Executive Officer of Duni AB from 2004 to 2007, and spent 16 years in various positions in management and business development ending as Senior Vice President at the Swedish Match Group. He also has experience running his own business consultancy firm and has completed Swedish military service. Mr. Nilsson holds a Master's of Science in Business Administration and Economics from the Stockholm School of Economics.

*Gun Nilsson* has been Executive Vice President and Chief Financial Officer of the Issuer since 2010. She joined Sanitec from the Chief Financial Officer position at the NASDAQ-traded company Nobia and has broad finance and executive management experience with several listed and privately owned companies, including PriceWaterhouseCoopers, the Bonnier Group, Gambro Holding AB and Duni AB. Mrs. Nilsson holds a Master's of Science in Business Administration and Economics from the Stockholm School of Economics.

*Harald Treml* joined the Issuer in 2008 and has been Executive Vice President and Chief Operating Officer since 2010. Mr. Treml was previously the Vice President for Logistics at Electrolux Europe, and has extensive experience in supply chain management, logistics, process optimization and information technology. He holds a degree in Business Informatics from Bildungswerk der DAG, Aalen Germany.

*Miguel Definti* joined the Issuer in 2012 as Executive Vice President for Product Management & Design. He was previously head of product management at Georg Fischer, a Swiss manufacturer of piping systems, where he gained market development experience in the plumbing and piping field. In addition to training in sanitary engineering, Mr. Definti holds a degree in Business Administration from the University of Applied Sciences of Northwestern Switzerland.

*Michael Hellmund* is Executive Vice President for Human Resources at the Issuer, which he joined in 1997. Mr. Hellmund has a long history of human resources and executive management positions in Sanitec Group companies in the Netherlands and Germany, and has been Chief Executive Officer of Keramag AG since 1997. Mr. Hellmund has a degree in law from the University of Köln.

*Magnus Terrvik* has been Executive Vice President, Global Business Development & Change Management since 2010, after a seventeen-year career at McKinsey and Company, where he worked on several change and improvement programs across multiple industries. Mr. Terrvik holds a Master of Science in Industrial Engineering and Management from Chalmers University of Technology.

*Krister Boëthius* joined the Issuer as Director of Global Business Development & Change Management in 2010. He previously spent seven years at McKinsey and Company, where he focused on strategy and operational development. Mr. Boëthius holds a Master of Science in Industrial Engineering and Management from Chalmers University of Technology and a Bachelors degree in Economics from Gothenburg University.

A minimum of one executive officer of the Issuer serves as a director and/or executive of each of the Guarantors.

The following are biographical summaries for our directors named above:

*Fredrik Cappelen* is the Chairman of the Board of the Issuer. He was formerly CEO of Nobia for thirteen years and also held executive and managerial positions at STORA Finepaper Group and Kavko GmbH. He also serves on the boards of Granngården, Dustin AB, Munksjö AB, Byggmax Group AB and Securitas AB. Mr Cappelen holds a degree in Business Administration from Uppsala University.

*Adrian Barden* has served on the Board of the Issuer since 2008. Mr. Barden owns his own private consultancy firm specializing in construction and private equity. Previously he was Group Business Development Manager at Wolseley PLC. He has attended the University of Lausanne and the Wharton School at the University of Pennsylvania.

*Caspar Callerström* is Head of Equity at EQT Partners AB. He also serves on the boards of Dometic Group and Scandic among other companies. Mr. Callerström holds degrees in Financial Economics and International Business from the Stockholm School of Economics.

*Pekka Lettijeff* is Chief Supply Chain Officer at Konecranes PLC, and has previously held executive positions in supply chain management at Nokia, AstraZeneca and General Motors. Mr. Lettijeff holds a degree in Business Administration from the University of Växjö.

*Ulf Mattsson* is the former CEO of Gambro AB of which he is now a Director. He has served on the Board of the Issuer since 2009 and serves as Chairman of the Board or Director of several Swedish companies including AcadeMedia AB and AddTech AB. He holds a degree in Business Administration and Economics from the University of Stockholm.

### Board practices

As a public limited liability company incorporated in Finland, our decision making and administration is governed by the Finnish Companies Act (624/2006, as amended), our Articles of Association and our internal Governance Guidelines of the Board of Directors. As we are not listed on NASDAQ OMX Helsinki Ltd, we are not subject to the Finnish Securities Market Association's Finnish Corporate Governance Code 2010 for listed companies.

Pursuant to the Finnish Companies Act, responsibility for our control and management is divided between the general meeting of shareholders, the Board of Directors and the President and CEO. Shareholders participate in our control and management through resolutions passed at general meetings of shareholders. The tasks and responsibilities of the Board of Directors are determined on the basis of the Finnish Companies Act as well as other applicable legislation. The Board of Directors supervises our administration and the appropriate organization of our operations. The Board of Directors has general authority to decide on and act in any matters not specifically reserved by law or under our Articles of Association to any other governing body. The Board of Directors decides upon matters not belonging to our day-to-day management led by the President and CEO or considered to have major importance, including significant engagements and investments.

Pursuant to our Articles of Association, the Board of Directors consists of three to nine members and one deputy member, if any, each of whom is elected for a term expiring at the close of the following annual general meeting of shareholders. The Board of Directors is quorate when more than one-half of the members are present. A decision by the Board of Directors must be the opinion supported by more than one-half of the members present at a meeting. In the event of a tie vote, the Chairman has the casting vote.

### Compensation

The aggregate compensation paid by us to the members of the board of directors and our top management team is as follows:

| | Period from January 1 - December 31, 2012 | Period from January 1 - December 31, 2011 |
|---|---|---|
| Board members and members of top management team .................................. | 2.9 | 3.4 |
| | 2.9 | 3.4 |

In addition to salary, members of our top management team are generally entitled to, with some exceptions, an annual bonus of maximum 50-60% of their annual salary in accordance with the Sanitec bonus scheme, annual pensions premiums equal to 15-27.5% of their annual salary, sickness benefits equal to 75-100% of their monthly salary for the first 3-6 months of any period of illness and a company car.

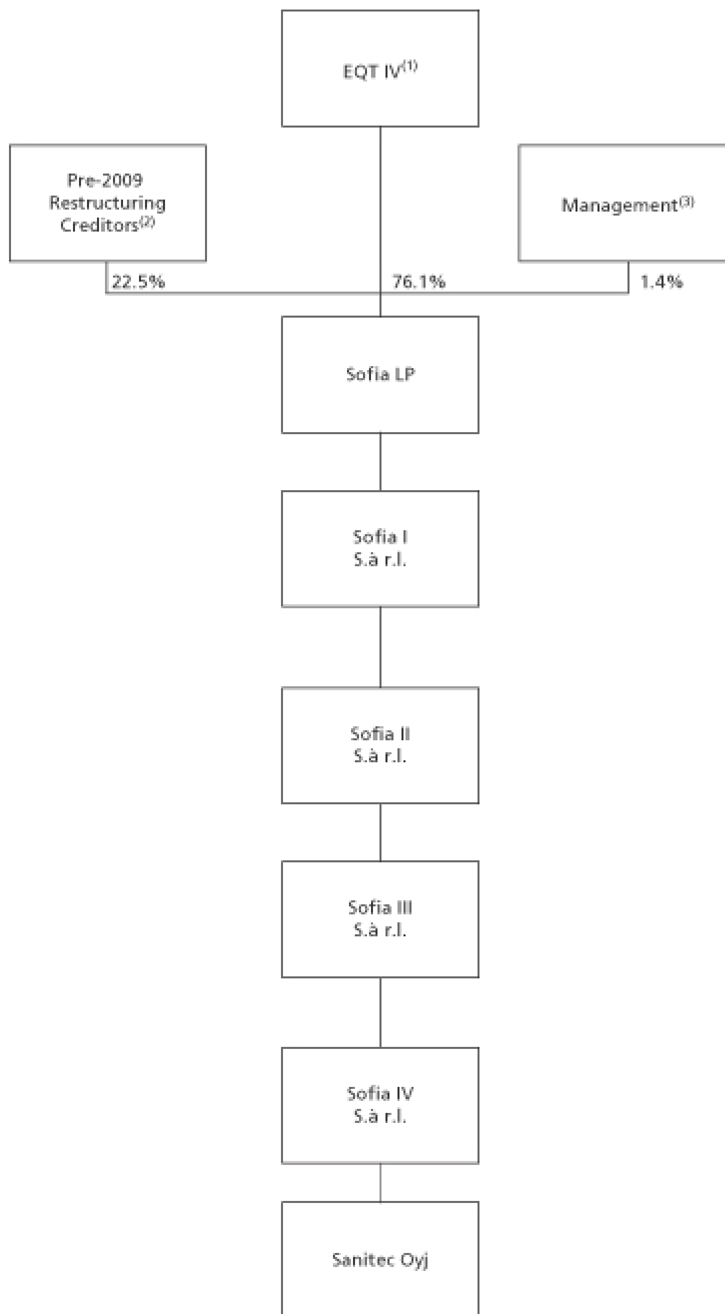
In the event their employment agreements are terminated by the Company, all top management employees (with some exceptions) are entitled to at least 12 months' severance pay. The majority of management is bound by non-compete and non-solicitation (with respect to customers and other employees) obligations during 12 months after the cessation of their employment. The non-compete provisions do not contain any express provision for compensation during the non-compete period.

### Share ownership

Certain members of a senior management have a beneficial ownership interest in Sofia LP. See "*Principal shareholders*."

# Principal shareholders

The following diagram shows a simplified version of our equity ownership structure:




(1) Comprising EQT IV (No.1) Limited Partnership (the "No.1 Partnership"); (2) EQT IV (No.2) Limited Partnership (the "No.2 Partnership"); (3) EQT IV GmbH & Co. KG (the "German Partnership"); and (4) the EQT IV co-investment scheme (the "Co-Investment Scheme" and together with the No.1 Partnership, the No.2 Partnership and the German Partnership, "EQT IV"). The general partner of EQT IV is EQT IV Limited.

(2) In 2009, following our restructuring, The Royal Bank of Scotland plc, Frankfurt Branch, as security trustee on behalf of certain lenders, enforced certain security interests securing the then-existing senior and second lien liabilities, including the share pledge granted by Sanitec Holdings Oy (then holding company of the Group). As a consequence, 22.5% of our equity interests are owned indirectly by our former lenders or transferees thereof. The equity interests of our former lenders or transferees thereof are non-voting.

(3) Comprises members of our management that participate in a management equity program.

# Certain relationships and related party transactions

## Existing senior credit facilities

On December 31, 2012 we had loans and interest payable to one of our parents, Sofia IV S.à r.l., in an amount of €148.5 million, which represented our intercompany liability with respect to the Existing Senior Credit Facilities. Our Existing Senior Credit Facilities will be repaid with the proceeds from this Offering as described under "Use of proceeds."

## Liability for former ultimate parent company

On December 31, 2012, the Group had a liability of €0.4 million (€0.4 million) to Caesar Holding Limited, our former ultimate parent company owned by EQT, relating to transaction costs payable on the acquisition of shares.

# Description of other indebtedness

*The following contains a summary of the expected terms of the Revolving Facility and the Intercreditor Agreement; it does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents. Terms not otherwise defined in this section shall, unless the context otherwise requires, have the same meanings set out in the Revolving Facility Agreement or the Intercreditor Agreement, as applicable.*

## REVOLVING CREDIT FACILITY

On the Issue Date we will enter into the Revolving Facility Agreement providing for a €50.0 million senior revolving credit facility. The Revolving Facility Agreement will provide for €50.0 million of committed financing, which will be available for utilization by way of, among other things, revolving loans and letters of credit. Borrowings under the Revolving Credit Facility will be used to finance or refinance the general corporate and working capital purposes of the Group (as defined in the Revolving Facility Agreement) (including acquisitions of companies, businesses and undertakings).

The original borrowers under the Revolving Facility Agreement will be the Issuer and Sanitec Europe Oy. The Revolving Credit Facility will be guaranteed by the Guarantors and the Issuer. The facility agent (the **"Agent"**) under the Revolving Credit Facility will be Danske Bank A/S. The Revolving Credit Facility may be utilized from and including the date on which all conditions precedent under the Revolving Facility Agreement are satisfied but no earlier than one Business Day after the closing date. No loans will be drawn under the Revolving Credit Facility on the Issue Date.

### Ancillary facilities

Subject to an aggregate limit of 75% of the total commitments (as defined in the Revolving Facility Agreement) for use of the ancillary facilities under the Revolving Facility Agreement, a lender may make available to a borrower under the Revolving Credit Facility all or part of that lender's undrawn commitment in the Revolving Credit Facility by way of ancillary facilities such as overdraft facilities, guarantee, bonding, documentary or stand by letter of credit facilities, short-term loan facilities, or any other facility or accommodation required in connection with the business of the Group which is agreed by the Company with an ancillary lender, subject to the satisfaction of certain conditions precedent.

### Repayments and prepayments

The Revolving Credit Facility will terminate on the earlier of the date that falls (i) 54 months after the first utilization date under the Revolving Credit Facility and (ii) four months prior to the maturity of the Notes; any amount still outstanding at that time will be immediately due and payable.

Subject to certain conditions, we may voluntarily prepay our utilizations and/or permanently cancel all or part of the available commitments under the Revolving Credit Facility by giving five business days' prior notice to the Agent (but if in part, being a minimum amount of Euro 1,000,000). Amounts repaid may (subject to the terms of the Revolving Facility Agreement) be reborrowed.

In addition to voluntary prepayments, the Revolving Facility Agreement requires mandatory prepayment in full or in part in certain circumstances (and in certain circumstances, cancellation), including:

(1) with respect to any lender, if it becomes unlawful for such lender to perform any of its obligations under the Revolving Facility Agreement;

(2) upon a Change of Control (defined as (i) prior to a listing of the Issuer (or any holding company of the Issuer or any member of the Group) certain investors ceasing to control or own more than 50% of the issued share capital and voting rights of the Issuer and/or the ability to determine the composition of the majority of the board or equivalent body of the Issuer and otherwise as defined in the Indenture; and (ii) following a listing of the Issuer (or any holding company of the Issuer or any member of the Group (as relevant)) as defined in the Indenture);

(3) upon any Asset Sale (as defined in the Indenture); and

(4) upon a disposal (in one or more series) of more than 50% of the consolidated gross assets of the Group calculated as at May 31, 2013.

### Interest and fees

The Revolving Credit Facility will initially bear interest at a rate per annum equal to EURIBOR (or in relation to any loan in any currency other than euro, LIBOR plus certain mandatory costs and a margin of 2% per annum (other than with respect to drawings in USD, which shall bear a margin of 2.2% per annum). We are also required to pay a commitment fee, in arrears on the last day of each financial quarter during the availability period, on available but unused commitments under the Revolving Credit Facility at a rate of 40% of the margin under the Revolving Facility Agreement.

We are also required to pay fees related to the issuance of ancillary facilities, letters of credit, and certain fees to the Agent and the Security Agent in connection with the Revolving Credit Facility.

### Security and Guarantees

The Revolving Credit Facility will be guaranteed irrevocably and unconditionally, subject to certain customary limitations and agreed security principles, on a joint and several basis, by each of our subsidiaries that is a guarantor (or a surety) of the Notes and by the Issuer.

The Revolving Credit Facility will require that, for each annual period beginning January 1, 2014 (determined upon the receipt of annual financial statements), the Issuer and the guarantors of the Revolving Credit Facility generate at least 80.0% of the Issuer's consolidated EBITDA and 80.0% of the Issuer's total assets (determined based on such annual financial statements).

### Covenants

The Revolving Facility Agreement contains customary information and negative covenants (including restrictive covenants that largely replicate those contained in the Indenture), subject to certain agreed exceptions. The Revolving Facility Agreement also requires the Issuer, each Borrower and each guarantor under the Revolving Facility Agreement to observe certain customary affirmative covenants. In this respect, our financial and operating performance will be monitored by a financial covenant (requiring us to ensure that our Consolidated Net Leverage Ratio in respect of any Relevant Period shall not exceed 5:1).

### Note purchase condition

The Revolving Credit Facility requires that if more than 50% of the original aggregate principal amount of the Notes on the date of issue is repurchased, the Revolving Credit Facility will be repaid and cancelled in the same proportion as that by which the Notes are reduced by such repurchase.

### Events of default

The Revolving Facility Agreement contains customary events of default (subject in certain cases to agreed grace periods, thresholds and other qualifications) the occurrence of which would allow the lenders to accelerate all or part of the outstanding utilizations and/or terminate their commitments and/or declare all or part of their utilizations payable on demand and/or declare that cash cover in respect of letters of credit and ancillary facilities is immediately due and payable.

### Governing law

The Revolving Facility Agreement and any non-contractual obligation arising out of or in connection with it will be governed by and construed and enforced in accordance with English law, although the restrictive covenants, which are included in the Revolving Facility Agreement and largely replicate those contained in the Indenture, will be interpreted in accordance with New York law (without prejudice to the fact that all the other provisions of the Revolving Facility Agreement are governed by English law).

### Intercreditor Agreement

In connection with entering into the Revolving Facility Agreement and the Indenture, the Issuer, the Borrowers and the Guarantors, among others, will enter into an intercreditor agreement (the ''**Intercreditor Agreement**'') to govern the relationships and relative priorities among: (i) the creditors of the Revolving Credit Facility (the ''**RCF Lenders**''); (ii) the Trustee on behalf of itself and the holders of the Notes (the **"Noteholders"**) (iii) future hedge counterparties under certain hedging agreements (the ''**Hedge Counterparties**''); (iv) certain future creditors of the Restricted Group; (v) certain intra-group creditors, structural creditors and debtors; (vi) various creditor representatives; and (vii) Wilmington Trust (London) Limited as Security Agent.

The Company and each of its subsidiaries that incurs any liability or provides any guarantee under the Revolving Credit Facility or the Indenture or the Pari Passu Debt documentation (as defined below) is referred to in this description as ''**Debtors**''.

The Intercreditor Agreement will set out, among other things:

- the relative ranking of certain indebtedness of the Debtors;
- the relative ranking of certain security granted by the Debtors;
- when payments can be made in respect of certain indebtedness of the Debtors;
- when enforcement actions can be taken in respect of that indebtedness;
- the terms pursuant to which that indebtedness will be subordinated upon the occurrence of certain insolvency events;
- turnover provisions; and
- when security, guarantees and Deeds of Surety will be released to permit a sale of any assets subject to transaction security (the ''Collateral'').

The Intercreditor Agreement will contain provisions relating to future indebtedness that may be incurred by the Debtors, provided that it is permitted by the terms of the Revolving Facility Agreement and the Indenture, which may rank *pari passu* with the Revolving Credit Facility and the Notes and be secured by the Collateral (''**Pari Passu Debt**'') subject to the terms of the Intercreditor Agreement. The Creditors of the Pari Passu Debt (the **"Pari Passu Creditors"**) will have the rights under the Intercreditor Agreement, which are summarized below.

The Intercreditor Agreement also allows, (a) the incurrence of additional credit facilities up to an agreed limit and (b) after the Credit Facilities Liabilities (as defined below) have been fully and finally discharged, for the Debtors to enter into a new super senior credit facility, provided that the total amount outstanding under such facility is permitted under the Indenture. For the purposes of this description, any references to the Revolving Credit Facility or the RCF Lenders or Credit Facilities Liabilities (as defined below) should be read as including any such additional credit facilities and/or new super senior credit facility.

By accepting a Note, the relevant holder thereof shall be deemed to have agreed to, and accepted the terms and conditions of, the Intercreditor Agreement.

The following description is a summary of certain provisions that will be contained in the Intercreditor Agreement. It does not restate the Intercreditor Agreement in its entirety nor does it describe provisions relating to the rights and obligations of holders of other classes of our debt. As such, we urge you to read the Intercreditor Agreement because it, and not the description that follows, defines the rights of the holders of the Notes.

### Ranking and priority

The Intercreditor Agreement will provide, subject to the provisions regarding permitted payments and application of proceeds below, that the right and priority of payment of, among others, all present and future liabilities and obligations under the Revolving Credit Facility (the "**Credit Facilities Liabilities**"), the hedging agreements entered into by the Hedge Counterparties (including any hedging liabilities designated as priority hedging liabilities, up to a maximum of €25 million ("**Priority Hedging Liabilities**") (the "**Hedging Liabilities**"), the Notes (the "**Notes Liabilities**") and the Pari Passu Debt will rank *pari passu* in right and priority of payment without any preference or payment between them.

These liabilities will rank ahead of any liabilities of the Debtors to the Company and its subsidiaries (the "**Intra-Group Liabilities**") or any debt to a shareholder or non-Group entity (the "**Structural Liabilities**" and together with the Intra-Group Liabilities, the "**Subordinated Liabilities**"). The Intercreditor Agreement does not purport to rank the Subordinated Liabilities as between themselves.

### Collateral

The RCF Lenders, the Hedge Counterparties, the Noteholders and the Pari Passu Creditors will benefit from a common guarantee and security package and no such secured creditor may take the benefit of any guarantee or security from the Restricted Group or the Company unless such guarantee or security is also offered (to the extent legally possible and consistent with the Agreed Security Principles) for the benefit of the other secured creditors. The Collateral shall rank and secure the liabilities owed to the RCF Lenders, the Hedge Counterparties, the Noteholders and the Pari Passu Creditors *pari passu* and without any preference between them.

In addition, the Intercreditor Agreement provides that the guarantees, the Deeds of Surety and Collateral will be released in certain circumstances described further below in "*—Release of security and guarantees—Non-distressed disposals*" and "*—Release of security and guarantees—Distressed disposals*."

Pursuant to the terms of the Intercreditor Agreement, all proceeds from enforcement of the Collateral will be applied as provided below under "*—Application of Proceeds*".

### Permitted payments

Prior to an acceleration event or enforcement of the Collateral, the Intercreditor Agreement will permit payments to be made by the Debtors under the Revolving Facility Agreement, the Indenture and any Pari Passu Debt documentation (provided that such payments are permitted under such documents) and does not limit or restrict any payment by any Debtor in the ordinary course of business. The Intercreditor Agreement also permits payments to lenders of Intra-Group Liabilities, provided that there has been no acceleration or enforcement of the Collateral. Payments may be made in respect of Structural Liabilities to the extent not prohibited by the Revolving Facility Agreement, the Indenture and the Pari Passu Debt documentation. There are also restrictions on payments to Hedge Counterparties except for certain specified permitted payments.

No Notes repurchase shall occur: (i) whilst a non-payment, breach of financial covenant or insolvency event of default is continuing; or (ii) if an acceleration event has occurred under the Revolving Facility Agreement. This shall not apply where on or before the date of the occurrence of the relevant event of default, the Company has irrevocably committed to the launch of any debt issuance, such launch to take place within 45 days of the date of the relevant event of default, with the intention of applying the proceeds of such debt issuance towards, inter alia, the repurchase of at least 50% of the Notes calculated as at 31 May, 2013.

The Debtors may no longer make payments in respect of the Credit Facilities Liabilities, the Hedging Liabilities, the Notes Liabilities or the Pari Passu Debt after an acceleration event or enforcement of the Collateral unless in accordance with the enforcement proceeds waterfall described below under "*—Application of proceeds*."

An acceleration event includes the relevant creditor representative exercising any or all of its rights under the acceleration provisions of the Revolving Facility Agreement (which includes placing on demand of liabilities thereunder), the Indenture or the Pari Passu Debt documentation.

### Limitations on enforcement

For the purposes of enforcement, (a) the RCF Lenders and their creditor representatives and the counterparties in respect of Priority Hedging Liabilities (who shall act as their own creditor representatives) ("**Priority Hedging Creditors**") are referred to as the **"Super Senior Creditors"** and (b) the creditors of the Notes, the Pari Passu Creditors and the creditors of the Hedging Liabilities that are not Priority Hedging Liabilities (**"Non-Priority Hedging Creditors"**) are referred to as the **"Senior Creditors."**

If any of the Super Senior Creditors or the Senior Creditors wish to enforce the Collateral they must give 10 business days' notice of the proposed enforcement instructions to the creditor representatives for the other creditor classes and the Security Agent. The giving of this notice triggers a 20-day consultation period during which time the creditor representatives for each of the creditor classes must discuss the proposals in good faith with a view to co-ordinating the proposed instructions.

A creditor representative is not obliged to consult as described above (or shall only be obliged to consult for a shorter period) if:

- the Collateral has become enforceable as a result of a bankruptcy event;
- the Majority Super Senior Creditors (as defined below) or the Majority Senior Creditors (as defined below) determine in good faith, that to do so and thereby delay enforcement could reasonably be expected to have a material adverse effect on (A) the Security Agent's ability to enforce any of the Collateral or (B) the realization proceeds of any enforcement of the Collateral in any material respect; or
- the required creditor representatives so agree.

The **"Majority Super Senior Creditors"** are those Super Senior Creditors whose credit commitments and/or amounts owed at the relevant time aggregate more than 66 2/3 per cent of the total credit commitments and/or amounts owed to the Super Senior Creditors.

The **"Majority Senior Creditors"** are those Senior Creditors whose outstanding principal amounts, participations, undrawn commitments and/or amounts owed at the relevant time aggregate more than 50% of the total outstanding principal amount, participation, undrawn commitment and/or amounts owed to the Senior Creditors

### Conflicting enforcement instructions

At the end of the consultation period, the Security Agent must act on the instructions of the Instructing Group.

If an insolvency event has occurred in relation to any member of the Group, the Majority Super Senior Creditors will constitute the Instructing Group. If there are conflicting enforcement instructions given to the Security Agent by the different classes of creditors who can constitute the Instructing Group, then provided that the Majority Senior Creditors have complied with the consultation obligations set out above and, those instructions are consistent with the security enforcement principles (see further below), the enforcement instructions from the Majority Senior Creditors will prevail over those of the Super Senior Creditors and the Majority Senior Creditors will constitute the Instructing Group. Failure by a class of creditors to give instructions will be deemed to be an instruction that conflicts with any other enforcement instructions. After the Security Agent has commenced enforcement over the Collateral, it will not accept any subsequent instructions from anyone other than the Instructing Group that instructed it to take such action, except as described in the paragraph below.

If (a) the Security Agent has not taken any enforcement action within 3 months of the date of the first enforcement instructions and the Security Agent is not an RCF Lender or an affiliate of an RCF Lender; or (b) the Super Senior Creditors have not been repaid in full and fully discharged within six months of the date of the first enforcement instructions, any enforcement instructions given by the Majority Super Senior Creditors will then prevail, provided that they are consistent with the security enforcement principles.

Any enforcement instructions given must comply with certain security enforcement principles and the security enforcement objective, including the following:

- to achieve the security enforcement objective, namely to maximize, so far as consistent with prompt and expeditious realization of value from enforcement of the Collateral, the recovery of all of the secured parties;
- all enforcement proceeds will be received in cash by the Security Agent or sufficient enforcement proceeds will be received in cash by the Security Agent to ensure that after distribution in accordance with the Intercreditor Agreement, the Credit Facilities Liabilities will be repaid in full;
- to the extent that the enforcement is over Collateral (other than capital stock) with an aggregate book value exceeding €5 million or over capital stock, the Security Agent shall obtain an opinion from a "big four" accounting firm, Grant Thornton, BDO, a recognized independent investment bank or other reputable independent third-party professional firm that is regularly engaged in providing valuations of the relevant type and size of assets, that, among other things, the proceeds received from such enforcement is fair from a financial point of view taking into account all relevant circumstances and that such sale is otherwise in accordance with the security enforcement objective (the "**Financial Advisor Opinion**"); and
- the Financial Advisor's Opinion will be conclusive evidence that the security enforcement objective have been met.

### Turnover

Subject to certain exclusions, if any Noteholder, RCF Lender, Pari Passu Creditor, Hedge Counterparty (or any of their respective creditor representatives) receives or recovers the proceeds of any enforcement of any Collateral except in accordance with "—*Application of proceeds*" below, that person must:

- in relation to amounts not received or recovered by way of set-off, hold that amount on trust for the Security Agent and promptly pay an amount equal to that amount to the Security Agent for application in accordance with the terms of the Intercreditor Agreement; and
- in relation to receipts and recoveries received or recovered by way of set-off, promptly pay an amount equal to that recovery to the Security Agent for application in accordance with the terms of the Intercreditor Agreement.

The Trustee shall only have an obligation to turn over or repay amounts received or recovered by it as described above (i) if it had actual knowledge that the receipt or recovery is an amount received in breach of a provision of the Intercreditor Agreement; and (ii) to the extent that, prior to receiving that knowledge, it has not distributed the amount of that receipt to the Noteholders in accordance with the Indenture. A similar protection exists for any trustees of Pari Passu Debt.

There is also a general turnover obligation on the subordinated creditors to turnover all amounts not received in accordance with the Intercreditor Agreement.

### Application of Proceeds

All amounts from time to time received or recovered by the Security Agent in connection with the realization or enforcement of all or any part of the Collateral or otherwise paid to the Security Agent under the Intercreditor Agreement for application as set forth below shall be held by the Security Agent on trust and applied in the following order:

- *first*, pro rata and *pari passu*, in payment of certain amounts owing to the Trustee and any amounts owing to the creditor representative for the Pari Passu Creditors and the Security Agent and any receiver or delegate, then pro rata and *pari passu* in payment of all costs and expenses incurred by each other creditor representative and any receiver, attorney or agent appointed by such creditor representative, then pro rata and *pari passu* in payment of all costs and expenses incurred by the Principal Paying Agent, Registrar and Luxembourg Listing Agent;
- *second*, pro rata and *pari passu*, in payment of all costs and expenses incurred by the Super Senior Creditors in connection with the enforcement of the Collateral or any action taken at the request of the Security Agent;
- *third*, pro rata and *pari passu*, in payment to the agent of the RCF Lenders for its own behalf and on behalf of the arrangers of the Revolving Credit Facility and the RCF Lenders and the Priority Hedging Creditors for application towards the discharge of the Credit Facilities Liabilities and any Priority Hedging Liabilities;
- *fourth*, pro rata and *pari passu*, in payment of all costs and expenses incurred by the Noteholders, the Pari Passu Creditors and the Non-Priority Hedging Creditors in connection with the enforcement of the Collateral or any action taken at the request of the Security Agent;
- *fifth*, pro rata and *pari passu,* in payment to (i) the Trustee on behalf of the Noteholders for application towards the discharge of the Notes Liabilities in accordance with the Indenture; (ii) the creditor representatives of the Pari Passu Creditors for application towards the discharge of the Pari Passu Debt; and (iii) the Hedge Counterparties for application towards the discharge of the Hedging Liabilities (other than Priority Hedging Liabilities); and
- *sixth*, after all the secured creditors have been repaid in full, in payment of the surplus (if any) to the relevant Debtor.

### Option to purchase

The Noteholders and Pari Passu Creditors, which are holders of certain issued debt securities, may, after the acceleration event or the enforcement of any of the Collateral, and subject to various conditions set out in the Intercreditor Agreement (including the grant of an acceptable indemnity against clawback), exercise an option to purchase all (but not part only) of the Credit Facilities Liabilities and Priority Hedging Liabilities in full and at par.

### Release of security and guarantees—Non-distressed disposals

In circumstances where a disposal is not a distressed disposal (and is otherwise permitted by the terms of the Revolving Facility Agreement, the Indenture and any Pari Passu Debt documentation), the Intercreditor Agreement will provide that the Security Agent is authorized:

(a) to release the Collateral or any other claim over the relevant asset; and

(b) if the relevant asset consists of shares in the capital of a Debtor, to release the Collateral or any other claim over that Debtor's assets and the assets of any of their subsidiaries,

provided that in the case of a disposal to another member of the group, any required replacement security is granted by the transferee before or at the same time as the release and, if required by the terms of the Revolving Facility Agreement, Indenture, the hedging agreements entered into by the Hedge Counterparties or Pari Passu Documents, any proceeds from the disposal are applied in mandatory prepayment of the relevant debt.

### Release of Security and Guarantees—Distressed disposals

In circumstances where a distressed disposal is being effected, the Intercreditor Agreement will provide that the Security Agent is authorized:

(a) to release the Collateral or any other claim over the relevant asset;

(b) if the asset which is disposed of consists of shares in the capital of a Debtor, to release (a) that Debtor and any subsidiary of that Debtor from all or any part of its borrowing liabilities, guaranteeing liabilities (including in relation to the Notes) and certain other liabilities; (b) any Collateral granted over that Debtor's assets and the assets of any of its subsidiaries; and (c) any other claim of a subordinated creditor, Debtor or intra-group lender over that Debtor's assets or over the assets of any subsidiary of that Debtor;

(c) if the asset which is disposed of consists of shares in the capital of any holding company of a Debtor, to release (a) that holding company and any subsidiary of that holding company from all or any part of its borrowing liabilities, guaranteeing liabilities (including in relation to the Notes) and certain other liabilities; (b) any Collateral granted over the assets of any subsidiary of that holding company; and (c) any other claim of a subordinated creditor, Debtor or intra-group lender over the assets of any subsidiary of that holding company;

(d) if the asset which is disposed of consists of shares in the capital of a Debtor or any holding company of a Debtor, to dispose of all or any part of that Debtor's or the holding company of that Debtor's borrowing liabilities, guaranteeing liabilities (other than in relation to the Notes) and certain other liabilities; and

(e) if the asset which is disposed of consists of shares in the capital of a Debtor or any holding company of a Debtor, to transfer Intra-Group Liabilities and debtor liabilities owed by that Debtor or holding company of a Debtor to another Debtor.

Any net proceeds of the disposal must be applied in accordance with the enforcement proceeds waterfall described above under "*—Application of proceeds*.''

### Amendment

Except for amendments of a minor, technical or administrative nature which may be effected by the Security Agent, or amendments that only affect one class of secured party and which could not be reasonably expected to materially and adversely affect the interests of the other classes, which can be implemented by the consent of that affected class, the Intercreditor Agreement may be amended with the consent of only the required percentage of the RCF Lenders as set out in the Intercreditor Agreement, the required percentage of Noteholders (as set out in the Indenture), the required percentage of Pari Passu Creditors (as set out in the relevant Pari Passu Debt documentation), the Company and the Security Agent unless it relates to certain specified matters such as ranking, priority, subordination, turnover, enforcement, disposal proceeds, amendments or the payment waterfall. Such amendments require consent from all Super Senior Creditors, the required percentage of Noteholders (as set out in the Indenture), the required percentage of Pari Passu Creditors (as set out in the relevant Pari Passu Debt documentation), and each Hedge Counterparty (to the extent such amendments adversely affect it or relate to the nature or scope of Transaction Security), the Company and the Security Agent.

No amendment or waiver of the Intercreditor Agreement may impose new or additional obligations on or withdraw or reduce the rights of any party (other than in a way which affects creditors of that party's class generally) to the Intercreditor Agreement without the prior consent of that party.

The Intercreditor Agreement may be amended without the consent of the Noteholders in certain circumstances set out further in *"Description of the Notes—Amendments to the Intercreditor Agreement and additional Intercreditor Agreements"* below.

To the extent the Debtors wish to enter into Pari Passu Debt or other additional or replacement indebtedness which is permitted to share in the Collateral pursuant to the Revolving Facility Agreement, Indenture and other Pari Passu Debt documentation, then the parties to the Intercreditor Agreement may be required to enter into a replacement intercreditor agreement as set out further in *"Description of the Notes—Amendments to the Intercreditor Agreement and additional Intercreditor Agreements"* below on substantially the same terms as the Intercreditor Agreement.

The Intercreditor Agreement also permits the Security Agent (subject to the terms of the Revolving Credit Facility Agreement) to enter into new or supplemental security and/or release and retake Transaction Security if certain conditions are met, set out further in *"Description of the Notes—Certain Covenants—Impairment of security interest."*

### Ukrainian loans

In March 2008, Slavuta Plant Budfarfor; PJSC entered into term loan and working capital facilities with UniCredit Bank, under which there were €12.5 million and €1.9 million outstanding as of December 31, 2012.

In March 2010, Slavuta Plant Budfarfor, PJSC entered into a loan agreement with the Finnish Fund for Industrial Cooperation Ltd ("**Finnfund**"), a development finance company for promoting and financing enterprises in emerging countries that is majority owned by the Government of Finland of which the amount outstanding as of December 31, 2012 was €9.6 million.

In April 2013, Slavuta Plant Budfarfor, PJSC received a waiver from Unicredit Bank and Finnfund, which waived potential covenant breaches as at December 31, 2012, and certain amendments to the loan agreement with Unicredit Bank were agreed.

The three Ukrainian loans will be prepaid in full with the proceeds of this Offering. See *"Use of proceeds."* Due to waiver requirements, extended notice periods and regulatory controls, among other factors, we will not be able to complete the prepayment of the Ukrainian loans on the Issue Date, and this repayment will occur subsequent to the Issue Date.

### Other financings

We have a small number of bilateral loans with third parties existing at our subsidiaries totaling approximately €0.3 million as at December 31, 2012 (excluding the Ukrainian loans, which will be repaid with the proceeds of this Offering. See *"Use of proceeds"*). These other loans have been used, among other things, to fund, *e.g.,* trucks and forklifts. We have also entered into factoring arrangements in France and Poland in an amount (as at December 31, 2012) of approximately €4.0 million (total arrangement limits thereunder being approximately €15 million). From time to time, we also enter into hedging arrangements in the ordinary course of business to, for example, hedge sales to foreign entities in foreign currencies with foreign exchange forward contracts.

# Description of the Notes

The definitions of certain terms used in this description are set forth under the subheading "—Certain definitions." In this "Description of the Notes," the word "Issuer" refers only to Sanitec Oyj, a public limited liability company incorporated under the laws of Finland, and not to any of its Subsidiaries, except for the purpose of financial data determined on a consolidated or combined basis, as the case may be.

The Issuer will issue and the Guarantors (as defined below) will guarantee €250 million aggregate principal amount of euro-denominated senior secured floating rate notes due 2018 (the "Notes") under an indenture to be dated May 10, 2013 (the "Indenture") among the Issuer, the Guarantors, Deutsche Trustee Company Limited, as trustee (the "Trustee"), Deutsche Bank Luxembourg S.A., as registrar (the "Registrar") and transfer agent (the "Transfer Agent") and Wilmington Trust (London) Limited as security agent (the "Security Agent"). The phrase "Notes" refers also to Book-Entry Interests (as defined below) in the Notes. Except as set forth herein, the terms of the Notes include those set forth in the Indenture.

The Indenture, the Notes and the Guarantees will be subject to the terms of the Intercreditor Agreement and any additional intercreditor agreements entered into in the future. The terms of the Intercreditor Agreement are important to understanding the terms and ranking of the Liens on the Collateral securing the Notes and the Guarantees. See "Description of other indebtedness—Intercreditor Agreement" for a description of the material terms of the Intercreditor Agreement.

The following description is only a summary of the material terms of the Indenture. It does not, however, restate the Indenture in its entirety, and where reference is made to particular provisions of the Indenture, such provisions, including the definitions of certain terms, are qualified in their entirety by reference to all the provisions of the Notes and the Indenture. You should read the Indenture and the Intercreditor Agreement because they contain additional information and because they and not this description define your rights as a holder of the Notes. A copy of the form of the Indenture and the Intercreditor Agreement may be obtained by requesting it from the Issuer at the address indicated under "Listing and general information."

The Indenture will not be qualified under the Trust Indenture Act of 1939. Consequently, the holders of Notes generally will not be entitled to the protections provided under the Trust Indenture Act to holders of debt securities issued under a qualified indenture, including those requiring the Trustee to resign in the event of certain conflicts of interest and to inform the holders of Notes of certain relationships between it and the Issuer or the Guarantors.

The Issuer will make an application for the Notes to be admitted to the official list of the Luxembourg Stock Exchange and to be admitted to trading on the Euro MTF of the Luxembourg Stock Exchange (the "Euro MTF"). The Issuer can provide no assurance that this application will be accepted. See "—Payments on the Notes; Paying Agent, Registrar and Transfer Agent for the Notes."

The registered holder of a Note will be treated as the owner of it for all purposes. Only registered holders will have rights under the Indenture.

### BRIEF DESCRIPTION OF THE NOTES

The Notes will be:

(a) general obligations of the Issuer;

(b) guaranteed on a senior basis by the Guarantors; and

(c) secured on a first priority basis by Liens on the Collateral as described below under "—Security."

The Notes will mature on May 15, 2018.

### THE GUARANTEES

As of the Issue Date, the Notes will initially be fully and unconditionally guaranteed on a senior basis by Sanitec UK Limited, Twyford Holdings Limited, Twyford Bathrooms, Sanitec Europe Oy, IDO Kylpyhuone Oy, Allia Holding GmbH, KERAMAG Keramische Werke Aktiengesellschaft, Sanitec Holding Italy S.p.A., Pozzi-Ginori S.p.A., Lincoln Land Fünfte B.V., B.V. DE SPHINX MAASTRICHT, Sanitec Kolo Sp. z o.o., Sanitec Holdings Sweden AB, Ifö Sanitär Aktiebolag, and subsequent to the Issue Date, Slavuta Holdings LLC and Slavuta Plant Budfarfor, PJSC (the "Guarantors" and each, a "Guarantor"), and in the future by each additional Restricted Subsidiary that is required to guarantee the Notes as described under "—Limitation on Guarantees of Debt by Restricted Subsidiaries." The guarantees by the Guarantors are referred to herein as the "Guarantees."

The Guarantors will guarantee the due and punctual payment of all amounts payable under the Notes, including principal, premium, if any, and interest payable under the Notes.

Each Guarantor that makes a payment or distribution under its Guarantee will be entitled to contribution from any other Guarantor.

### Release of Guarantees

The Guarantee of a Guarantor will be released:

(a) in connection with any sale, transfer or other disposition of all or substantially all of the assets of such Guarantor or any holding company of such Guarantor (including by way of merger, consolidation, amalgamation or combination) to a Person that is not (either before or after giving effect to such transaction) the Issuer or any Restricted Subsidiaries, if the sale, transfer or other disposition does not violate the covenant described under "Certain covenants—Limitation on sale of certain assets" below;

(b) in connection with any sale, transfer or other disposition of Capital Stock of that Guarantor or any holding company of such Guarantor to a Person that is not (either before or after giving effect to such transaction) the Issuer or any Restricted Subsidiaries, if the sale, transfer or other disposition does not violate the covenant described under "Limitation on sale of certain assets" below and the Guarantor ceases to be a Restricted Subsidiary as a result of the sale, transfer or other disposition;

(c) if the Issuer designates any Restricted Subsidiary that is a Guarantor to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture;

(d) with respect to the Guarantee of any Guarantor that was required to provide such Guarantee pursuant to the covenant described under the caption "—Certain covenants—Limitation on Guarantees of Debt by Restricted Subsidiaries," upon such Guarantor being unconditionally released and discharged from its liability with respect to the Debt giving rise to the requirement to provide such Guarantee;

(e) upon repayment in full of the Notes;

(f) in accordance with the caption entitled "—Amendments and waivers;"

(g) as a result of a transaction permitted by the second paragraph under the caption entitled "—Consolidation, merger and sale of assets;"

(h) upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture as provided below under the captions "—Legal defeasance and covenant defeasance of the Indenture" and "—Satisfaction and discharge;" and

(i) in connection with certain enforcement actions taken by the creditors under certain of our secured indebtedness in accordance with the Intercreditor Agreement as described below under "—Description of other indebtedness—Intercreditor Agreement."

## RANKING OF THE NOTES AND THE GUARANTEES

### The Notes

The Notes will be senior debt of the Issuer and will:

(a) rank *pari passu* in right of payment with all the Issuer's existing and future indebtedness that is not subordinated in right of payment to the Notes (including the Revolving Facility Agreement);

(b) rank senior in right of payment to any and all the Issuer's existing and future indebtedness that is expressly subordinated in right of payment to the Notes;

(c) effectively be subordinated in right of payment to any and all the Issuer's existing and future indebtedness that is secured by Liens on assets that are not Collateral to the extent of the value of the assets securing such indebtedness;

(d) be structurally subordinated to all existing and future obligations of the Issuer's subsidiaries that are not Guarantors;

(e) be guaranteed on a senior basis by each of the Subsidiary Guarantors; and

(f) be secured on a first priority basis by Liens on the Collateral as described below under "—Security."

### The Guarantees

The Guarantee of each Guarantor will:

(a) be a general obligation of such Guarantor;

(b) rank *pari passu* in right of payment with all of such Guarantor's existing and future indebtedness that is not subordinated in right of payment to its Guarantee (including the guarantees given by such Guarantor in favor of the Revolving Facility Agreement);

(c) rank senior in right of payment to any existing and future indebtedness of such Guarantor that is expressly subordinated in right of payment to its Guarantee;

(d) effectively be subordinated in right of payment to all of such Guarantor's existing and future indebtedness that is secured by Liens on its assets that are not Collateral to the extent of the value of the assets securing such indebtedness;

(e) be structurally subordinated to all existing and future obligations of the Guarantor's Subsidiaries that do not provide Guarantees; and

(f) be secured on a first priority basis by Liens on the Collateral as described below under "—Security."

## SECURITY

The obligations of the Issuer under the Notes and the obligations of the Guarantors under their respective Guarantees under the Indenture will be secured by Liens on the following assets (the "Collateral"):

(a) from or promptly following the Issue Date, the share capital of the Issuer and each of the following entities:

- Sanitec UK Limited (England and Wales);
- Twyford Holdings Limited (England and Wales);
- Twyford Bathrooms (England and Wales);
- Sanitec Europe Oy (Finland);
- IDO Kylpyhuone Oy (Finland);
- Allia International S.A. (France);
- Allia Holding GmbH (Germany);
- KERAMAG Keramische Werke Aktiengesellschaft (Germany);
- Sanitec Holding Italy S.p.A. (Italy);
- Pozzi-Ginori S.p.A. (Italy);
- Lincoln Land Fünfte B.V. (Netherlands);
- Sanitec Kolo Sp. z o.o. (formerly Sanitec Holding Poland Sp. z o.o.) (Poland);
- Ifö Sanitär Aktiebolag (Sweden);
- Sanitec Holdings Sweden AB (Sweden); and
- Slavuta Holdings LLC.

(b) In addition, the Collateral will include:

- subsequent to the Issue Date, a pledge over the capital stock of Slavuta Plant Budfarfor, PJSC;
- a floating charge, or security transfer of, over the assets of the Issuer, Sanitec UK Limited, Twyford Holdings Limited, Twyford Bathrooms, Sanitec Europe Oy, Ekenäs, KERAMAG Keramische Werke Aktiengesellschaft, B.V. DE SPHINX MAASTRICHT, Sanitec Kolo Sp. z o.o. (formerly Sanitec Holding Poland Sp. z o.o.) and Ifö Sanitär Aktiebolag and, subsequent to the Issue Date, IDO Kylpyhuone Oy;
- certain bank accounts of the Issuer, Twyford Bathrooms, Sanitec Europe Oy, IDO Kylpyhuone Oy, KERAMAG Keramische Werke Aktiengesellschaft, Pozzi-Ginori S.p.A., Lincoln Land Fünfte B.V., B.V. DE SPHINX MAASTRICHT, Sanitec Kolo Sp. z o.o., Kolo (formerly Sanitec Holding Poland Sp. z o.o.), Sanitec Holdings Sweden AB and Ifö Sanitär Aktiebolag;
- certain trademark rights over Twyford Bathrooms, IDO Kylpyhuone Oy, KERAMAG Keramische Werke Aktiengesellschaft, Pozzi-Ginori S.p.A., B.V. DE SPHINX MAASTRICHT, Sanitec Kolo Sp. Z.o.o. (formerly Sanitec Holding Poland Sp. z o.o.), Ifö Sanitär Aktiebolag and, subsequent to the Issue Date, Slavuta Holdings LLC and subsequent to the Issue Date, the trademarks of IDO Kylpyhuone Oy;
- certain mortgages over the real property of Sanitec Europe Corporation, Sanitec Kolo Sp. z o.o. (formerly Sanitec Holding Poland Sp. z o.o.), Ifö Sanitär Aktiebolag and, subsequent to the Issue Date, Slavuta Plant Budfarfor, PJSC; and
- certain trade receivables of IDO Kylpyhuone Oy, KERAMAG Keramische Werke Aktiengesellschaft, Pozzi-Ginori S.p.A., B.V. DE SPHINX MAASTRICHT, Sanitec Kolo Sp. z o.o. (formerly Sanitec Holding Poland Sp. z o.o.), Ifö Sanitär Aktiebolag and, subsequent to the Issue Date, Slavuta Plant Budfarfor, PJSC.

The Collateral will be pledged pursuant to, and subject to the terms of, the security documents to the Security Agent, acting on behalf of the holders of the obligations that are secured by the Collateral, including holders of the Notes.

Certain of the liens on the Collateral may not be in place and/or may not be perfected on the Issue Date. Please see "Risk factors—Risks related to the Notes and our Capital Structure."

The Revolving Credit Facility and the Indenture pursuant to the "Limitations on Guarantees of Debt by Restricted Subsidiaries" covenant will require that, for each annual period beginning January 1, 2014 (determined upon the receipt of annual financial statements), the Issuer and the Guarantors will generate an excess of 80.0% of the Issuer's consolidated EBITDA and 80% of the Issuer's total assets (determined based on such annual financial statements). As of December 31, 2012, with the inclusion of the

Ukrainian Guarantors, the Issuer and the Guarantors would have generated 87.7% and the Issuer's consolidated EBITDA and 85.7% of the Issuer's total assets. To the extent the Ukrainian Guarantors do not accede to the Revolving Credit Facility and the Indenture in connection with the satisfaction of these threshold requirements, the Issuer will cause other non-Guarantor subsidiaries to become Guarantors to meet these levels. See "Risk factors—Risks Relating to the Notes and our Capital Structure—Guarantees (Deeds of Surety) and security interests of our Ukrainian subsidiaries will not be available on the Issue Date."

The Intercreditor Agreement will provide (among other things) that any proceeds received from enforcement of the security shared by the Revolving Facility Agreement and the Notes will first be applied to satisfy any obligations outstanding under the Revolving Facility Agreement and thereafter to satisfy the obligations under the Notes. See "Description of other indebtedness—Intercreditor Agreement.''

Each holder of Notes, by accepting a Note, shall be deemed: (i) to have authorized the Trustee and the Security Agent, as the case may be, to enter into the Security Documents and the Intercreditor Agreement; and (ii) to be bound thereby. Each holder of Notes, by accepting a Note, appoints the Trustee or the Security Agent, as the case may be, as its agent under the Security Documents and the Intercreditor Agreement and authorizes it to act as such.

The Security Documents will provide that the rights of the holders of the Notes with respect to the Collateral must be exercised by the Security Agent. Since the holders of the Notes are not a party to the Security Documents, holders may not, individually or collectively, take any direct action to enforce any rights in their favor under the Security Documents. The holders may only act through the Trustee or the Security Agent, as applicable. The Security Agent will agree to any release of the security interest created by the Security Documents as directed by the Trustee that is in accordance with the Indenture without requiring any consent of the holders. Subject to the terms of the Intercreditor Agreement, the holders of the Notes will, in certain circumstances, share in the ability to direct the Trustee to direct Security Agent to commence enforcement action under the Security Documents. However, in enforcing the Liens provided for under the Security Documents, the Security Agent will take direction from the Trustee. See "Description of other indebtedness—Intercreditor Agreement."

Subject to the terms of the Security Documents, the Issuer and the Guarantors will be entitled to exercise any and all voting rights and to receive and retain any and all cash dividends, stock dividends, liquidating dividends, non-cash dividends, shares of stock resulting from stock splits or reclassifications, rights issue, warrants, options and other distributions (whether similar or dissimilar to the foregoing) in respect of the shares that are part of the Collateral.

The value of the Collateral securing the Notes may not be sufficient to satisfy the Issuer's and the Guarantors' obligations under the Notes and the related Guarantees. See "Risk factors—Risks relating to the Notes and our Capital Structure." There can be no assurance that the proceeds of any sale of the Collateral, in whole or in part, pursuant to the Indenture and the Security Documents following an Event of Default, would be sufficient to satisfy amounts due on the Notes. By its nature, the Collateral is illiquid and has no readily ascertainable market value. Accordingly, there can be no assurance that the Collateral would be sold in a timely manner or at all.

The Security Documents are governed by applicable local law and provide that the rights with respect to the Notes and the Indenture must be exercised by the Security Agent and in respect of the entire outstanding amount of the Notes.

## RELEASE OF LIENS

All of the Liens granted under the Security Documents in favor of the Security Agent will be automatically and unconditionally released upon Legal Defeasance or Covenant Defeasance as described under "—Legal defeasance or covenant defeasance of the Indenture" or if all obligations under the Indenture are discharged in accordance with the terms of the Indenture, in each case in accordance with the terms and conditions in the Indenture.

The Liens granted by a Guarantor (and the Liens, if any, over the Capital Stock of such Guarantor) in favor of the Security Agent will be automatically and unconditionally released:

(a) in connection with any sale, assignment, transfer, conveyance or other disposition of such property or assets to a Person that is not (either before or after giving effect to such transaction) the Issuer or any Restricted Subsidiaries, if the sale or other disposition does not violate the covenant described under "—Certain covenants—Limitation on sale of certain assets" below;

(b) in connection with any sale, transfer or other disposition of Capital Stock of that Guarantor or any holding company of such Guarantor to a Person that is not (either before or after giving effect to such transaction) the Issuer or any Restricted Subsidiary (unless expressly permitted thereunder), if the sale, transfer or other disposition does not violate the covenant described under "—Certain covenants—Limitation on sale of certain assets" below and the Guarantor ceases to be a Restricted Subsidiary as a result of the sale, transfer or other disposition;

(c) in the case of a Guarantor that is released from its Guarantee pursuant to the terms of the Indenture, the release of the property and assets of, and Capital Stock of, such Guarantor;

(d) if the Issuer designates any Restricted Subsidiary as an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture;

(e) in accordance with the caption entitled "—Amendments and waivers;"

(f) upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture as provided below under the captions "—Legal defeasance and covenant defeasance of the Indenture" and "—Satisfaction and discharge;"

(g) in connection with certain enforcement actions taken by the creditors under certain of our secured indebtedness in accordance with the Intercreditor Agreement as described below under "—Description of other indebtedness—Intercreditor Agreement;"

(h) in accordance with the covenant described under "—Certain covenants—Impairment of Security Interests" below;

(i) upon repayment in full of the Notes; and

(j) otherwise in accordance with the terms of the Indenture.

Following written request from the Issuer and/or the Guarantor the Security Agent and the Trustee will take all necessary action as requested to effectuate any release of Collateral securing the Notes and the Guarantees, in accordance with the provisions of the Indenture, the Intercreditor Agreement or any Additional Intercreditor Agreement and the relevant Security Document. Each of the releases set forth above shall be effected by the Security Agent without the consent of the holders or any action on the part of the Trustee.

## LIMITATIONS UNDER GUARANTEES AND SECURITY INTERESTS

The obligations of each Guarantor under its Guarantee and the Security Interests it has granted to secure the Notes will be limited to an amount not to exceed the maximum amount that can be guaranteed by such Guarantor without resulting in its obligations under its Guarantee and Security Interests, as applicable, being voidable or unenforceable under applicable laws relating to fraudulent transfer or under similar laws affecting the rights of creditors generally, or the maximum amount otherwise permitted by law. In particular, each Guarantee and its Security Interests will be limited as required to comply with corporate benefit, maintenance of capital and other laws applicable in the jurisdiction of the relevant Guarantor. By virtue of these limitations, a Guarantor's obligations under its Guarantee or its Security Interests could be significantly less than amounts payable in respect of the Notes, or a Guarantor may have effectively no obligations under its Guarantee or its Security Interests. See "Certain Insolvency Considerations and Limitations on the Validity and Enforceability of the Guarantees and the Deeds of Surety."

At December 31, 2012, on a *pro forma* basis to reflect the Transactions:

(a) the Issuer and its Subsidiaries would have had total indebtedness of €250.3 million and up to an additional €50.0 million available for borrowings under the committed and undrawn portion of the Revolving Facility Agreement; and

(b) the Subsidiaries of the Issuer that are not Guarantors would have had *de minimis* total third-party funded indebtedness, as well as trade payables and tax liabilities, to which the Notes and the Guarantees are structurally subordinated.

We estimate that the Issuer and the Guarantors would have generated 84.2% of the Company's EBITDA and would have held 79.6% of the Company's consolidated total assets for the year ended December 31, 2012. In the event of a bankruptcy, liquidation or reorganization of any of these non-guarantor Subsidiaries, the non-guarantor Subsidiaries will likely be required to repay financial and trade creditors before distributing any assets to the Issuer or the Guarantors.

As of the Issue Date, all of the Issuer's Subsidiaries will be "Restricted Subsidiaries." However, under the circumstances described below under the caption "—Certain covenants—Designation of Unrestricted and Restricted Subsidiaries," the Issuer will be permitted to designate certain of its Subsidiaries as "Unrestricted Subsidiaries." Unrestricted Subsidiaries of the Issuer will not be subject to any of the restrictive covenants in the Indenture.

Although the Indenture will contain limitations on the amount of additional Debt that the Issuer and the Restricted Subsidiaries may incur, the amount of such additional Debt could be substantial.

## PRINCIPAL, MATURITY AND INTEREST

The Notes will mature on May 15, 2018. The redemption price at maturity is 100% plus accrued interest.The Notes will bear interest at a rate per annum (the "Applicable Rate"), reset quarterly, equal to EURIBOR plus 475 basis points, as determined by an agent appointed by the Issuer to calculate EURIBOR for purposes of the Indenture (the "Calculation Agent"), which shall initially be Deutsche Bank AG, London Branch.

Interest will be payable quarterly in arrears on each February 15, May 15, August 15 and November 15, commencing on August 15, 2013. If a particular interest payment date is not a business day, then the payment date will move to the next business day. Therefore the interest period will be one or more days longer. The Issuer will pay interest to those persons who were holders of record on the February 1, May 1, August 1 and November 1 or immediately preceding the applicable interest payment date, as the case may be. The Notes will bear interest from the Issue Date or, if interest has already been paid, from the date it was most recently paid.

The Calculation Agent will, as soon as practicable after 11:00 a.m., Brussels time, on each Determination Date, determine the Applicable Rate, and calculate the aggregate amount of interest payable on the Notes in respect of the following Interest Period (the "Interest Amount"). The Interest Amount will be calculated by applying the Applicable Rate to the principal amount of the Notes outstanding at the commencement of the Interest Period, multiplying each such amount by the actual number of days in the Interest Period concerned divided by 360.

All percentages resulting from any of the above calculations will be rounded, if necessary, to the nearest one hundred thousandth of a percentage point, with five one-millionths of a percentage point being rounded upwards (*e.g.*, 4.876545% (or 0.04876545) being rounded to 4.87655% (or 0.487655)). All euro amounts used in or resulting from such calculations will be rounded to the nearest euro cent (with one-half euro cent being rounded upwards). The determination of the Applicable Rate and the Interest Amount by the Calculation Agent shall, in the absence of willful default, bad faith or manifest error, be binding on all parties.

The Calculation Agent will, upon the written request of the holder of any Note, provide the interest rate then in effect with respect to the Notes.

The rights of holders of beneficial interests in the Notes to receive the payments of interest on the Notes will be subject to applicable procedures of the book-entry depositary and Euroclear and Clearstream, as applicable.

Interest will be computed on the basis of a 360-day year and the actual number of days elapsed. Interest on overdue principal and interest and Additional Amounts (as defined below) and premium, if any, will accrue at a rate that is 1% higher than the then Applicable Rate on the Notes.

The Applicable Rate on the Notes will in no event be higher than the maximum rate permitted by applicable law.

Set forth below is a summary of certain of the defined terms used in the Indenture relating to the calculation of interest on the Notes:

"Determination Date," with respect to an Interest Period, will be the day that is the first day of such Interest Period.

"EURIBOR," with respect to an Interest Period, will be the rate (expressed as a percentage per annum) for deposits in euros for a three-month period beginning on (and including) the Determination Date that appears on Reuters Page EURIBOR01 as of 11:00 a.m. Brussels time, on the Determination Date. If Reuters Page EURIBOR01 does not include such a rate or is unavailable on a Determination Date, the Calculation Agent will request the principal London office of each of four major banks in the Euro-zone interbank market, as selected by the Calculation Agent to provide such bank's offered quotation (expressed as a percentage per annum) as of approximately 11:00 a.m., London time, on such Determination Date, to prime banks in the Euro-zone interbank market for deposits in a Representative Amount in euro for a three-month period beginning on (and including) the Determination Date. If at least two such offered quotations are so provided, the rate for the Interest Period will be the arithmetic mean of such quotations. If fewer than two such quotations are so provided, the rate for the Interest Period will be the arithmetic mean of such rates quoted by major banks in London, selected by the Calculation Agent, at approximately 11:00 a.m., London time, on the Determination Date, for loans in euros to leading European banks for a three-month period beginning on (and including) the Determination Date and in a Representative Amount.

"Euro-zone" means the region composed of member states of the European Union that at the relevant time have adopted the euro.

"Interest Period" means the period commencing on and including an interest payment date and ending on but excluding the next succeeding interest payment date, with the exception that the first Interest Period shall commence on and include the Issue Date and end on and exclude August 15, 2013.

"Representative Amount" means the greater of (a) €1.0 million and (b) an amount that is representative for a single transaction in the relevant market at the relevant time.

"Reuters Page EURIBOR01" means the display page so designated on Reuters (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor).

Subject to the covenant described under "—Certain covenants—Limitation on Debt," the Issuer is permitted to issue additional Notes as part of a further issue under the Indenture ("Additional Notes") from time to time. The Notes and the Additional Notes that are actually issued will be treated as a single class for all purposes of the Indenture, including waivers, amendments, redemptions and offers to purchase, except for certain waivers and amendments; provided, however, that such Additional Notes will not be issued under the same CUSIP, ISIN, Common Code or other identifying number as the outstanding Notes of that series unless such Additional Notes are fungible with such Notes for U.S. federal income tax purposes. Unless the context otherwise requires, references to the "Notes" for all purposes of the Indenture and in this "Description of the Notes" include references to any Additional Notes that are actually issued.

## FORM OF NOTES

The Notes will be issued on the Issue Date only in fully registered form without coupons and only in minimum denominations of €100,000 and integral multiples of €1,000 in excess thereof.

Notes sold within the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act ("Rule 144A") will initially be represented by Global Notes (as defined below) in registered form without interest coupons attached (the "144A Global Notes"). The 144A Global Notes will be deposited, on the Issue Date, with a common depository and registered in the name of the nominee of the common depository for the accounts of Euroclear and Clearstream. Notes sold outside the United States pursuant to Regulation S under the Securities Act will initially be represented by Global Notes in registered form without interest coupons attached (the "Regulation S Global Notes" and, together with the 144A Global Notes, the "Global Notes"). The Regulation S Global Notes will be deposited, on the Issue Date, with a common depository and registered in the name of the nominee of the common depository for the accounts of Euroclear and Clearstream. See "Book-entry, delivery and form."

## TRANSFER AND EXCHANGE

The Global Notes may be transferred in accordance with the Indenture. Ownership of interests in the Global Notes (the "Book-Entry Interests") will be limited to Persons that have accounts with Euroclear or Clearstream or Persons that may hold interests through such participants. Ownership of interests in the Book-Entry Interests and transfers thereof will be subject to the restrictions on transfer and certification requirements summarized below and described more fully under "Notice to investors." In addition, transfers of Book-Entry Interests between participants in Euroclear or Clearstream will be effected by Euroclear or Clearstream pursuant to customary procedures and subject to the applicable rules and procedures established by Euroclear or Clearstream and their respective participants. Book-Entry Interests in the 144A Global Notes (the "Restricted Book-Entry Interests") may be transferred to a person who takes delivery in the form of Book-Entry Interests in the Regulation S Global Notes (the "Regulation S Book-Entry Interests") only upon delivery by the transferor to the Registrar of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Regulation S under the Securities Act.

Any Book-Entry Interest that is transferred as described in the immediately preceding paragraphs will, upon transfer, cease to be a Book-Entry Interest in the Global Note from which it was transferred and will become a Book-Entry Interest in the Global Note to which it was transferred. Accordingly, from and after such transfer, it will become subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in the Global Note to which it was transferred.

If definitive notes in registered form ("Definitive Registered Notes") are issued, they will be issued only in minimum denominations of €100,000 principal amount and integral multiples of €1,000 in excess thereof, upon receipt by the Registrar of instructions relating thereto and any certificates and other documentation required by the Indenture. It is expected that such instructions will be based upon directions received by Euroclear or Clearstream, as applicable, from the participant which owns the relevant Book-Entry Interests. Definitive Registered Notes issued in exchange for a Book-Entry Interest will, except as set forth in the Indenture or as otherwise determined by the Issuer in compliance with applicable law, be subject to, and will have a legend with respect to, the restrictions on transfer summarized below and described more fully under "Notice to investors."

Subject to the restrictions on transfer referred to above, Notes issued as Definitive Registered Notes may be transferred or exchanged, in whole or in part, in minimum denominations of €100,000 in principal amount and integral multiples of €1,000 in excess thereof, to persons who take delivery thereof in the form of Definitive Registered Notes. In connection with any such transfer or exchange, the Indenture will require the transferring or exchanging holder to, among other things, furnish to the Registrar appropriate endorsements and transfer documents, furnish information regarding the account of the transferee where appropriate, furnish certain certificates and opinions, and pay any Taxes in connection with such transfer or exchange. Any such transfer or exchange will be made without charge to the holder, other than any Taxes payable in connection with such transfer or exchange.

Notwithstanding the foregoing, the Issuer is not required to register the transfer of any Definitive Registered Notes:

(a) for a period of 15 days prior to any date fixed for the redemption of the Notes;

(b) for a period of 15 days immediately prior to the date fixed for selection of Notes to be redeemed in part;

(c) for a period of 15 days prior to the record date with respect to any interest payment date; or

(d) which the holder has tendered (and not withdrawn) for repurchase in connection with a Change of Control Offer, Excess Proceeds Offer or Notes Offer.

The Notes will be subject to certain restrictions on transfer and certification requirements, as described under "Notice to investors."

## PAYMENTS ON THE NOTES; PAYING AGENT, REGISTRAR AND TRANSFER AGENT FOR THE NOTES

The Issuer will maintain one or more paying agents (each, a "Paying Agent," and together, the "Paying Agents") for the Notes in the City of London (the "Principal Paying Agent"). The initial Principal Paying Agent will be Deutsche Bank AG, London Branch.

The Issuer may change the Paying Agents, the Registrars or the Transfer Agents without prior notice to the holders of the Notes. For so long as the Notes are listed on the Euro MTF and the rules of the Luxembourg Stock Exchange so require, the Issuer will publish a notice of any change of registrar or transfer agent on the official website of the Luxembourg Stock Exchange.

In addition, the Issuer or any of its Subsidiaries may act as paying agent in connection with the Notes other than for the purposes of effecting a redemption described under "—Optional redemption" or an offer to purchase the Notes described under "—Purchase of Notes upon a Change of Control" or "—Certain covenants—Limitation on sale of certain assets." The Issuer will make payments on the Global Notes to the Paying Agents for further credit to Euroclear or Clearstream (as applicable) which will in turn, distribute such payments in accordance with its procedures. The Issuer will make all payments in same-day funds.

The Issuer undertakes that it will maintain a paying agent in an EU Member State that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income, or any law implementing or complying with, or introduced in order to conform to, such Directive.

The Issuer will maintain one or more registrars (each, a "Registrar"). The initial Registrar will be Deutsche Bank Luxembourg S.A. for the Notes. The initial transfer agent will be Deutsche Bank Luxembourg S.A. in Luxembourg. The Registrar will maintain a register for the Notes reflecting ownership of Definitive Registered Notes (as defined herein) outstanding from time to time and will make payments on and facilitate transfer of Definitive Registered Notes on behalf of the Issuer.

No service charge will be made for any registration of a transfer, exchange or redemption of the Notes, but the Issuer may require payment of a sum sufficient to cover any transfer tax or similar governmental charge payable in connection with any such registration of transfer or exchange (but not for a redemption).

## ADDITIONAL AMOUNTS

All payments made by the Issuer under or with respect to the Notes or any of the Guarantors with respect to any Guarantee will be made free and clear of and without withholding or deduction for, or on account of, any present or future tax, duty, levy, assessment or other governmental charge, including any related interest, penalties or additions to tax ("Taxes") unless the withholding or deduction of such Taxes is then required by law. If any deduction or withholding for, or on account of, any Taxes imposed or levied by or on behalf of (1) any jurisdiction in which the Issuer or any Guarantor is then incorporated or organized, engaged in business for tax purposes or resident for tax purposes or any political subdivision thereof or therein or (2) any jurisdiction from or through which payment is made by or on behalf of the Issuer or any Guarantor (including the jurisdiction of any paying agent for the Notes) or any political subdivision thereof or therein (each, a "Tax Jurisdiction") will at any time be required to be made from any payments made by the Issuer under or with respect to the Notes or any of the Guarantors under or with respect to any Guarantee, including payments of principal, redemption price, interest or premium, the Issuer or the relevant Guarantor, as applicable, will pay such additional amounts (the "Additional Amounts") as may be necessary in order that the net amounts received in respect of such payments by each holder of Notes after such withholding, deduction or imposition (including any such withholding, deduction or imposition from such Additional Amounts) will equal the respective amounts that would have been received in respect of such payments in the absence of such withholding or deduction; *provided*, *however*, that no Additional Amounts will be payable with respect to:

(a) any Taxes, to the extent such Taxes would not have been imposed but for the existence of any actual or deemed present or former connection between the holder or the beneficial owner of the Notes (or between a fiduciary, settlor, beneficiary, partner of, member or shareholder of, or possessor of a power over, the relevant holder, if the relevant holder is an estate, trust, nominee, partnership, limited liability company or corporation) and the relevant Tax Jurisdiction (including being a resident of such jurisdiction for Tax purposes), other than the holding of such Note, the enforcement of rights under such Note or under a Guarantee or the receipt of any payments in respect of such Note or a Guarantee;

(b) any Taxes, to the extent such Taxes were imposed as a result of the presentation of a Note for payment where presentation is required more than 30 days after the relevant payment is first made available for payment to the holder (except to the extent that the holder would have been entitled to Additional Amounts had the Note been presented on the last day of such 30 day period);

(c) any estate, inheritance, gift, sales, transfer, personal property or similar Taxes;

(d) any Taxes withheld, deducted or imposed on a payment to an individual that are required to be made pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of November 26 and 27, 2000 on the taxation of savings income, or any law implementing or complying with or introduced in order to conform to, such directive;

(e) Taxes imposed on or with respect to a payment made to a holder or beneficial owner of Notes who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a member state of the European Union;

(f) any Taxes payable other than by deduction or withholding from payments under, or with respect to, the Notes or with respect to any Guarantee;

(g) any Taxes to the extent such Taxes are imposed or withheld by reason of the failure of the holder or beneficial owner of Notes, following the Issuer's written request addressed to the holder or beneficial owner (and made at a time that would enable the holder or beneficial owner acting reasonably to comply with that request), to comply with any certification, identification, information or other reporting requirements, whether required by statute, treaty, regulation or administrative practice of a Tax Jurisdiction, as a precondition to exemption from, or reduction in the rate of deduction or withholding of, Taxes imposed by the Tax Jurisdiction (including, without limitation, a certification that the holder or beneficial owner is not resident in the Tax Jurisdiction), but in each case, only to the extent the holder or beneficial owner is legally entitled to provide such certification or documentation;

(h) any Taxes imposed on or with respect to any payment by the Issuer or any of the Guarantors to the holder if such holder is a fiduciary or partnership or any person other than the sole beneficial owner of such payment to the extent that Taxes would not have been imposed on such payment had such holder been the sole beneficial owner of such Note;

(i) any withholding or deduction required to be made from a payment pursuant to sections 1471-1474 of the U.S. Internal Revenue Code, as of the issue date (or any amended or successor version), and any current or future regulations or official interpretations thereof, any similar law or regulation adopted pursuant to an intergovernmental agreement between a non-U.S. jurisdiction and the United States with respect to the foregoing or any agreements entered into pursuant to section 1471(b)(1) of the Code; or

(j) any combination of items (a) through (i) above.

In addition to the foregoing, the Issuer and the Guarantors, as the case may be, will also pay and indemnify the holder for any present or future stamp, issue, registration, court or documentary taxes, or any other excise or property taxes, charges or similar levies (including penalties, interest and any other reasonable expenses related thereto) which are levied by any Tax Jurisdiction on the execution, delivery, issuance or registration of any of the Notes, the Indenture, any Guarantee or any other document referred to therein (other than a transfer of Notes other than the initial resale by the initial purchasers), or the receipt of any payments with respect thereto, (limited, solely in the case of taxes attributable to the receipt of any payments with respect thereto, to any such taxes imposed in a Tax Jurisdiction that are not excluded under clauses (a) through (e), (g) or (h) above or any combination thereof), or any such taxes, charges or similar levies imposed by any jurisdiction as a result of, or in connection with, the enforcement of any of the Notes or any Guarantee.

If the Issuer or any Guarantor, as the case may be, becomes aware that it will be obligated to pay Additional Amounts with respect to any payment under or with respect to the Notes or any Guarantee, each of the Issuer or the relevant Guarantor, as the case may be, will deliver to the Trustee on a date that is at least 30 days prior to the date of that payment (unless the obligation to pay Additional Amounts arises less than 45 days prior to that payment date, in which case the Issuer or the relevant Guarantor shall notify the Trustee promptly thereafter) an Officer's Certificate stating the fact that Additional Amounts will be payable and the amount estimated to be so payable. The Officer's Certificate(s) must also set forth any other information reasonably necessary to enable the paying agents to pay such Additional Amounts to holders on the relevant payment date. The Trustee shall be entitled to rely solely on such Officer's Certificate as conclusive proof that such payments are necessary.

The Issuer or the relevant Guarantor will make all withholdings and deductions required by law and will remit the full amount deducted or withheld to the relevant Tax authority in accordance with applicable law. The Issuer or the relevant Guarantor will use its reasonable efforts to obtain Tax receipts from each Tax authority evidencing the payment of any Taxes so deducted or withheld. The Issuer or the relevant Guarantor will furnish to the Trustee (or to a holder or beneficial owner upon written request), within a reasonable time after the date the payment of any Taxes so deducted or withheld is made, certified copies of Tax receipts evidencing payment by the Issuer or a Guarantor, as the case may be, or if, notwithstanding such entity's efforts to obtain receipts, receipts are not obtained, other evidence of payments (reasonably satisfactory to the Trustee) by such entity. If reasonably requested by the Trustee, the Issuer or the relevant Guarantor will provide to the Trustee such information as may be in the possession of the Issuer or the relevant Guarantor (and not otherwise in the possession of the Trustee) to enable the Trustee to determine the amount of withholding taxes attributable to any particular holder; *provided, however*, that in no event shall the Issuer or the relevant Guarantor be required to disclose any information that it reasonably deems to be confidential.

Whenever in the Indenture or in this "Description of the Notes" there is mentioned, in any context, the payment of amounts based upon the principal amount of the Notes or of principal, interest or of any other amount payable under, or with respect to, any of the Notes or any Guarantee, such mention shall be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

The above obligations will survive any termination, defeasance or discharge of the Indenture, any transfer by a holder or beneficial owner of its Notes, and will apply, *mutatis mutandis*, to any jurisdiction in which any successor Person to the Issuer or any Guarantor is incorporated, engaged in business for tax purposes or resident for tax purposes or any jurisdiction from or through which such Person makes any payment on the Notes (or any Guarantee) and any political subdivision thereof or therein.

## CURRENCY INDEMNITY

The sole currency of account and payment for all sums payable under the Notes and the Guarantees and the Indenture is euro. Any amount received or recovered in respect of the Notes or the Guarantees in a currency other than euro (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer, any Subsidiary or otherwise) by the Trustee or a holder of the Notes in respect of any sum expressed to be due to such holder from the Issuer or the relevant Guarantor will constitute a discharge of their obligation only to the extent of the euro amount, which the recipient is able to purchase with the amount so received or recovered in such other currency on the date of that receipt or recovery (or, if it is not possible to make that purchase on that date, on the first date on which it is possible to do so). If the euro amount to be recovered is less than the euro amount expressed to be due to the recipient under any Note, the Issuer or the relevant Guarantor will indemnify the recipient against the cost of making any further purchase of euro, in an amount equal to such difference. These indemnities, which, for the avoidance of doubt, shall cover any losses resulting from currency exchange and to the extent permitted by law:

(a) constitute a separate and independent obligation from the Issuer's and the Guarantors' other obligations;

(b) give rise to a separate and independent cause of action;

(c) apply irrespective of any waiver granted by any holder of a Note or the Trustee from time to time; and

(d) will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or any other judgment or order.

## OPTIONAL REDEMPTION

### Optional redemption of the Notes prior to May 15, 2014

At any time prior to May 15, 2014, upon not less than 30 nor more than 60 days' written notice, the Issuer may also redeem all or part of the Notes, at a redemption price equal to 100% of the principal amount thereof plus the Applicable Redemption Premium of the Notes plus accrued and unpaid interest on the Notes to, but not including, the redemption date. Any such redemption or notice may, at the Issuer's discretion, be subject to one or more conditions precedent.

### Optional redemption of Notes on or after May 15, 2014

At any time on or after May 15, 2014 and prior to maturity, upon not less than 30 nor more than 60 days' prior written notice to the holders of the Notes, the Issuer may redeem all or part of the Notes. These redemptions will be in amounts of €100,000 or integral multiples of €1,000 in excess thereof at the following redemption prices (expressed as percentages of their principal amount at maturity), plus accrued and unpaid interest, if any, to, but not including, the redemption date, if redeemed during the 12-month period commencing on May 15 of the years set forth below. This redemption is subject to the right of holders of record on the relevant regular record date that is prior to the redemption date to receive interest due on an interest payment date.

| Year | Notes redemption prices |
|---|---|
| 2014 | 101.000% |
| 2015 and thereafter | 100.000% |

Unless the Issuer defaults in the payment of the redemption price, interest will cease to accrue on the Notes or portion thereof called for redemption on the applicable redemption date. Any such redemption or notice may, at the Issuer's discretion, be subject to one or more conditions precedent.

### Redemption upon changes in withholding taxes

The Issuer may redeem the Notes, in whole but not in part, at its discretion at any time upon giving not less than 30 nor more than 60 days' prior notice to the holders of the Notes (which notice will be irrevocable and given in accordance with the procedures described in "—Selection and notice"), at a redemption price equal to 100% of the aggregate principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed by the Issuer for redemption (a "Tax Redemption Date") and all Additional Amounts (if any) then due and which will become due on the Tax Redemption Date as a result of the redemption or otherwise (subject to the right of holders of the Notes on the relevant record date to receive interest due on the relevant interest payment date and Additional Amounts (if any) in respect thereof), if on the next date on which any amount would be payable in respect of the Notes or the Guarantees, the Issuer or the relevant Guarantor is or would be required to pay Additional Amounts (but, in the case of the relevant Guarantor, only if such amount cannot be paid by the Issuer or another Guarantor who can pay such amount without the obligation to pay Additional Amounts), and the Issuer or Guarantor, as applicable, cannot avoid any such payment obligation by taking reasonable measures available to it (including making payment through a paying agent located in another jurisdiction), and the requirement arises as a result of:

(a) any amendment to, or change in, the laws (or any regulations or rulings promulgated thereunder) of a relevant Tax Jurisdiction which change or amendment has not been publicly announced as formally proposed before and which becomes effective on or after the Issue Date (or, if the applicable Tax Jurisdiction became a Tax Jurisdiction on a date after the Issue Date, such later date); or

(b) any amendment to, or change in, an official written interpretation or application of such laws, regulations or rulings (including by virtue of a holding, judgment, order by a court of competent jurisdiction or a change in published administrative practice) which amendment or change has not been publicly announced as formally proposed before and which becomes effective on or after the Issue Date (or, if the applicable Tax Jurisdiction became a Tax Jurisdiction on a date after the Issue Date, such later date) (each of the foregoing clauses (a) and (b), a "Change in Tax Law").

The Issuer will not give any such notice of redemption earlier than 60 days prior to the earliest date on which the Issuer or Guarantor, as applicable, would be obligated to make such payment or withholding if a payment in respect of the Notes was then due, and the obligation to pay Additional Amounts must be in effect at the time such notice is given. Prior to the publication or, where relevant, mailing of any notice of redemption of the Notes pursuant to the foregoing, the Issuer will deliver to the Trustee an opinion of independent tax counsel (the choice of such counsel to be subject to the prior written approval of the Trustee (such approval not to be unreasonably withheld)) to the effect that there has been such amendment or change which would entitle the Issuer to redeem the Notes pursuant to the terms of the Indenture. In addition, before the Issuer publishes or mails notice of redemption of the Notes as described above, it will deliver to the Trustee an Officer's Certificate to the effect that it cannot avoid its obligation to pay Additional Amounts by the Issuer taking reasonable measures available to it.

Absent manifest error, the Trustee will accept and shall be entitled to rely on such Officer's Certificate and opinion of counsel as sufficient evidence of the existence and satisfaction of the conditions precedent as described above, in which event it will be conclusive and binding on the holders of Notes.

The foregoing provisions shall apply (a) to a Guarantor only after such time as such Guarantor is obligated to make at least one payment on the Notes and (b) *mutatis mutandis* to any successor Person, after such successor Person becomes a party to the Indenture, with respect to a Change in Tax Law occurring after the time such successor Person becomes a party to the Indenture.

## SINKING FUND; OFFERS TO PURCHASE; OPEN MARKET PURCHASES

The Issuer is not required to make any mandatory redemption or sinking fund payments with respect to the Notes. However, under certain circumstances, the Issuer may be required to offer to purchase the Notes as described under the captions "—Purchase of Notes upon a Change of Control" and "—Certain covenants—Limitation on sale of certain assets." The Issuer and any Restricted Subsidiaries may at any time and from time to time purchase Notes in the open market or otherwise.

## PURCHASE OF NOTES UPON A CHANGE OF CONTROL

If a Change of Control occurs at any time, then the Issuer must make an offer (a "Change of Control Offer") to each holder of Notes to repurchase all or any part (equal to €100,000 or in integral multiples of €1,000 in excess thereof) of such holder's Notes, at a purchase price (the "Change of Control Purchase Price") in cash in an amount equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but not including, the date of purchase (the "Change of Control Purchase Date") (subject to the rights of holders of record on relevant regular record dates that are prior to the Change of Control Purchase Date to receive interest due on an interest payment date). Purchases made under a Change of Control Offer will also be subject to other procedures set forth in the Indenture.

Unless the Issuer has unconditionally exercised its right to redeem all the Notes in accordance with the Indenture and all conditions to such redemption have been satisfied or waived, within 30 days following any Change of Control, the Issuer will deliver a notice to each holder of the Notes at such holder's registered address or otherwise deliver a notice in accordance with the procedures described under "—Selection and notice," stating that a Change of Control Offer is being made and offering to repurchase Notes on the Change of Control Purchase Date, and the notice will state:

(a) that a Change of Control has occurred, and the date it occurred and offering to purchase the Notes on the date specified in the notice;

(b) the circumstances and relevant facts regarding such Change of Control (including, but not limited to, applicable information with respect to pro forma historical income, cash flow and capitalization after giving effect to the Change of Control);

(c) the Change of Control Purchase Price and the Change of Control Purchase Date, which will be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed, or such later date as is necessary to comply with requirements under the Exchange Act and any applicable securities laws or regulations;

(d) that any Note accepted for payment pursuant to the Change of Control Offer will cease to accrue interest after the Change of Control Purchase Date unless the Change of Control Purchase Price is not paid;

(e) that any Note (or part thereof) not tendered will continue to accrue interest; and

(f) any other procedures that a holder of Notes must follow to accept a Change of Control Offer or to withdraw such acceptance.

The Paying Agent will promptly mail (or cause to be delivered) to each holder of Notes properly tendered the Change of Control Purchase Price for such Notes. The Trustee (or the authenticating agent appointed by it) will promptly authenticate and deliver (or cause to be transferred by book-entry) to each holder a new Note or Notes equal in principal amount to any unpurchased portion of Notes surrendered, if any, to the holder of Notes in global form or to each holder of certificated Notes; *provided* that each new Note will be in a principal amount of €100,000 or in integral multiples of €1,000 in excess thereof. The Issuer will publicly announce the results of a Change of Control Offer on or as soon as practicable after the Change of Control Purchase Date.

The ability of the Issuer to repurchase Notes pursuant to a Change of Control Offer may be limited by a number of factors. Upon the occurrence of a Change of Control (as defined in the Indenture, the Revolving Credit Facility will be cancelled and all outstanding utilizations and ancillary outstandings, together with accrued interest, and all amounts accrued under the finance documents (as defined therein) shall become immediately due and payable. The Issuer's future indebtedness and the future indebtedness of its Subsidiaries may also require such indebtedness to be repurchased upon a change of control. Moreover, the exercise by the holders of the Notes of their right to require a repurchase of the Notes upon a Change of Control could cause a default under such indebtedness, even if the Change of Control itself does not, due to the possible financial effect on the Issuer of such repurchase.

If a Change of Control Offer is made, the Issuer cannot provide any assurance that it will have available funds sufficient to pay the Change of Control Purchase Price for all the Notes that might be delivered by holders of the Notes seeking to accept the Change of Control Offer. If the Issuer fails to make or consummate a Change of Control Offer or pay the Change of Control Purchase Price when due, such failure would result in an Event of Default and would give the Trustee and the holders of the Notes the rights described under "—Events of Default."

Even if sufficient funds were otherwise available, the terms of the other indebtedness of the Issuer and its Subsidiaries may prohibit the prepayment of the Notes prior to their scheduled maturity. If the Issuer was not able to prepay any indebtedness containing any such restrictions or obtain requisite consents, the Issuer would be unable to fulfill its repurchase obligations to holders of Notes who exercise their right to redeem their Notes following a Change of Control, which would cause a Default under the Indenture. A Default under the Indenture, unless waived by holders, would result in a cross default under certain of the financing arrangements described under "Description of other indebtedness."

The Issuer will not be required to make a Change of Control Offer if (1) a third-party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Issuer and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer, or (2) a notice of redemption has been given pursuant to the Indenture as described above under the caption "—Optional redemption," unless and until there is a default in payment of the applicable redemption price. The Change of Control provisions described above will be applicable whether or not any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control, the provisions of the Indenture will not give holders the right to require the Issuer to repurchase the Notes in the event of certain highly leveraged transactions, or certain other transactions, including a reorganization, restructuring, merger or similar transaction that may adversely affect holders of the Notes, if such transaction is not a transaction defined as a Change of Control. Any such transaction, however, would have to comply with the applicable provisions of the Indenture, including the "—Limitation on Debt" covenant. The existence of a holder of the Notes' right to require the Issuer to repurchase such holder's Notes upon a Change of Control may deter a third-party from acquiring the Issuer or its Subsidiaries in a transaction which constitutes a Change of Control.

Notwithstanding anything to the contrary contained herein, a Change of Control Offer may be made in advance of a Change of Control, conditioned upon the consummation of such Change of Control, if a definitive agreement is in place for the Change of Control at the time the Change of Control Offer is made.

The Issuer will comply with the applicable tender offer rules, including Rule 14e-1 under the Exchange Act, and any other applicable securities laws and regulations in connection with a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with provisions of the Indenture, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached their obligations under the Indenture by virtue of such conflict.

"Change of Control" means the occurrence of any of the following events:

(a) the Issuer becomes aware of (by way of a report or any other filing pursuant to Section 13(d) of the Exchange Act, proxy, vote, written notice or otherwise) any "person" or "group" of related persons (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act as in effect on the Issue Date), other than one or more Permitted Holders, is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act as in effect on the Issue Date), directly or indirectly, of more than 50% of the total voting power of the Voting Stock of the Issuer; *provided* that for the purposes of this clause, (x) no Change of Control shall be deemed to occur by reason of the Issuer becoming a Subsidiary of a Successor Parent and (y) any Voting Stock of which any Permitted Holder is the "beneficial owner" (as so defined) shall not be included in any Voting Stock of which any such person or group is the "beneficial owner" (as so defined), unless that person or group is not an affiliate of a Permitted Holder and has the sole voting power with respect to that Voting Stock; or

(b) the sale, lease, transfer, conveyance or other disposition (other than by way of merger, consolidation or other business combination transaction), in one or a series of related transactions, of all or substantially all of the assets of the Issuer and its Restricted Subsidiaries taken as a whole to a Person, other than or one or more Permitted Holders.

The provisions under the Indenture relating to the Issuer's obligation to make an offer to repurchase the Notes as a result of a Change of Control may be waived or modified with the consent of the holders of a majority in principal amount of the Notes if made prior to the occurrence of the Change of Control.

If and for so long as the Notes are listed on the Euro MTF and the rules of the Luxembourg Stock Exchange so require, the Issuer will publish notices relating to a Change of Control Offer on the official website of the Luxembourg Stock Exchange.

Although there is a limited body of case law interpreting the phrase "all or substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve "all or substantially all" of the property or assets of a Person.

## SELECTION AND NOTICE

Notices of redemption may be made subject to conditions precedent.

If fewer than all the Notes are to be redeemed at any time, the Trustee or the Registrar will select the Notes for redemption by a method that complies with the requirements, as certified to the Trustee and the Registrar by the Issuer, of the principal securities exchange, if any, on which the Notes are listed at such time or, if the Notes are not listed on a securities exchange, *pro rata*, by lot or by such other method as the Trustee or the Registrar in its sole discretion shall deem fair and appropriate unless otherwise required by law; *provided, however,* that no such partial redemption shall reduce the portion of the principal amount of a Note not redeemed to less than €100,000. Neither the Trustee nor the Registrar shall be liable for any selections made by it in accordance with this paragraph.

No Notes of €100,000 or less can be redeemed in part. Notices of redemption will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each holder of Notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the Notes or a satisfaction and discharge of the Indenture.

If any Note is to be redeemed in part only, the notice of redemption that relates to that Note will state the portion of the principal amount of that Note that is to be redeemed. While the Notes are held in certificated form, a new Note in principal amount equal to the unredeemed portion of the original Note will be issued in the name of the holder of Notes upon cancellation of the original Note. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on Notes or portions of Notes redeemed.

For Notes which are represented by global certificates held on behalf of Euroclear or Clearstream, notices may be given by delivery of the relevant notices to Euroclear or Clearstream for communication to entitled account holders in substitution for the aforesaid mailing. So long as any Notes are listed on the Euro MTF and the rules of the Luxembourg Stock Exchange so require, any such notice to the holders of the relevant Notes shall also be published in a newspaper having a general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, posted on the official website of the Luxembourg Stock Exchange and, in connection with any redemption, the Issuer will notify the Luxembourg Stock Exchange of any change in the principal amount of Notes outstanding.

## SUSPENSION OF CERTAIN COVENANTS WHEN NOTES RATED INVESTMENT GRADE

If on any date following the Issue Date, the Notes attain an Investment Grade Rating from both of the Rating Agencies and no Default or Event of Default has occurred and is continuing under the Indenture (a "Suspension Event"), beginning on the day of the Suspension Event and continuing until such time (the "Suspension Period"), if any, at which the such Notes cease to have an Investment Grade Rating from each Rating Agency (the "Reversion Date"), the provisions of the Indenture summarized under the following captions, and, in each case, any related default provision of the Indenture, will not apply to the Notes:

(1) "—Certain covenants—Limitation on Debt;"

(2) "—Certain covenants—Limitation on Restricted Payments;"

(3) "—Certain covenants—Limitation on transactions with Affiliates;"

(4) "—Certain covenants—Limitation on sale of certain assets;"

(5) "—Certain covenants—Limitation on Guarantees of Debt by Restricted Subsidiaries;"

(6) "—Certain covenants—Limitation on dividend and other payment restrictions affecting Restricted Subsidiaries;"

(7) "—Certain covenants—Designation of Unrestricted and Restricted Subsidiaries;" and

(8) "—Certain covenants—Consolidation, merger and sale of assets" (but only clause (c) of the first paragraph of such covenant).

Such covenants and any related default provisions will again apply according to their terms on and after the Reversion Date. Such covenants will not, however, be of any effect with regard to actions of the Issuer or the Restricted Subsidiaries properly taken during the Suspension Period, and the "—Certain covenants—Limitation on Restricted Payments" covenant will be interpreted as if it had been in effect since the Issue Date except that no default will be deemed to have occurred solely by reason of a Restricted Payment made during the Suspension Period. On the Reversion Date, all Debt incurred during the continuance of the Suspension Period will be classified as having been incurred pursuant to clause (2)(d) of the covenant described under "—Certain covenants—Limitation on Debt." Any transactions prohibited by the covenant described under "—Certain covenants—Limitation on transactions with Affiliates" entered into after such reinstatement pursuant to an agreement entered into during any Suspension Period shall be deemed to be permitted pursuant to clause (iv) of the second paragraph of the covenant described under "—Certain covenants—Limitation on transactions with Affiliates." Any encumbrance or restriction on the ability of any Restricted Subsidiary that is not a Guarantor to take any action described in clauses (a) through (d) of the first paragraph of the covenant described under "—Certain covenants—Limitation on dividend and other payment restrictions affecting Restricted Subsidiaries" that becomes effective during any Suspension Period shall be deemed to be permitted pursuant to clause (a) of the second paragraph of the covenant described under "—Certain covenants—Limitation on dividend and other payment restrictions affecting Restricted Subsidiaries." No Subsidiary of the Issuer shall be required to comply with the covenant described under "—Certain covenants—Limitation on Guarantees of Debt by Restricted Subsidiaries" after such reinstatement with respect to any guarantee entered into by such Subsidiary during any Suspension Period. Upon the occurrence of a Suspension Period, the amount of Excess Proceeds shall be reset at zero.

Upon the occurrence of a Suspension Event, the Issuer will notify the Trustee.

## CERTAIN COVENANTS

The Indenture will contain, among others, the following covenants:

### Limitation on Debt

(1) The Issuer will not, and will not permit any Restricted Subsidiary to, create, issue, incur, assume, guarantee or in any manner become directly or indirectly liable with respect to or otherwise become responsible for, contingently or otherwise, the payment of (individually and collectively, to "incur" or, as appropriate, an "incurrence"), any Debt (including any Acquired Debt); *provided* that the Issuer and any Guarantor will be permitted to incur Debt (including Acquired Debt) if, after giving effect to the incurrence of such Debt and the application of the proceeds thereof, on a *pro forma* basis, the Consolidated Fixed Charge Coverage Ratio for the four full fiscal quarters for which financial statements are available immediately preceding the incurrence of such Debt, taken as one period, would be greater than 2.0 to 1.0.

(2) This covenant will not, however, prohibit the following (collectively, "Permitted Debt"):

(a) the incurrence by the Issuer and the Guarantors of Debt represented by the Notes issued on the Issue Date and the related Guarantees;

(b) the incurrence by the Issuer or any Restricted Subsidiary of Debt under Credit Facilities in an aggregate principal amount at any time outstanding and any Permitted Refinancing Debt incurred to renew, refund, replace, refinance, defease or discharge any Debt incurred pursuant to this clause (b) not to exceed €50.0 million;

(c) the incurrence by the Issuer or any Restricted Subsidiary of intercompany Debt between the Issuer and any Restricted Subsidiary or between or among Restricted Subsidiaries; *provided* that:

(i) if the Issuer or any Guarantor is the obligor on any such Debt and the payee is not the Issuer or a Guarantor, such Debt ((i) except in respect of the intercompany current liabilities incurred in connection with cash management positions of the Issuer and the Restricted Subsidiaries and (ii) only to the extent legally permitted (the Issuer and the Restricted Subsidiaries having completed all procedures required in the reasonable judgment of directors or officers of the obligee or obligor to protect such Persons from any penalty or civil or criminal liability in connection with the subordination of such Debt)) is subordinated in right of payment to the Notes or the related Guarantees, as applicable; and

(ii) (x) any disposition, pledge or transfer of any such Debt to a Person (other than a disposition, pledge or transfer to the Issuer or a Restricted Subsidiary) and (y) any transaction pursuant to which any Restricted Subsidiary that has Debt owing by the Issuer or another Restricted Subsidiary ceases to be a Restricted Subsidiary, will, in each case, be deemed to be an incurrence of such Debt not permitted by this clause (c);

(d) any Debt of the Issuer or any Restricted Subsidiary (other than Debt described in clauses (a) and (b) of this paragraph) outstanding on the Issue Date after giving effect to the Transactions on the Issue Date;

(e) guarantees of the Issuer's Debt or Debt of any Restricted Subsidiary by the Issuer or any Restricted Subsidiary; *provided* that (i) the incurrence of the Debt being guaranteed was permitted by another provision of this covenant and (ii) if the Debt being guaranteed is subordinated to the Notes or the Guarantees then such guarantee must be subordinated to the same extent as the Debt being guaranteed;

(f) the incurrence by the Issuer or any Restricted Subsidiary of Debt arising from customary agreements providing for guarantees, indemnities or obligations in respect of earnouts or other purchase price adjustments or, in each case, similar obligations, in connection with the acquisition or disposition of any business or assets or Person or any shares of Capital Stock of a Subsidiary, other than guarantees or similar credit support given by the Issuer or any Restricted Subsidiary of Debt incurred by any Person acquiring all or any portion of such assets for the purpose of financing such acquisition; *provided* that the maximum aggregate liability in respect of all such Debt permitted pursuant to this clause (f) will at no time exceed the net proceeds, including the Fair Market Value of non-cash proceeds (the Fair Market Value of such non-cash proceeds being measured at the time received and without giving effect to any subsequent changes in value) actually received from such disposition;

(g) the incurrence by the Issuer or any Restricted Subsidiary of Debt under Currency Agreements, Interest Rate Agreements or Commodity Hedging Agreements, in each case entered into not for speculative purposes (as determined in good faith by the board of directors or a member of senior management of the Issuer) (collectively, "Hedging Obligations");

(h) the incurrence by the Issuer or any Restricted Subsidiary of Debt represented by Capitalized Lease Obligations, Purchase Money Obligations, mortgage financings or other Debt, in each case, incurred in connection with the financing of all or any part of the purchase price, lease expense, rental payments or cost of design, construction, installation or improvement of property, (real or personal) plant or equipment used in a Permitted Business of the Issuer and the Restricted Subsidiaries, whether through the direct purchase of assets or the Capital Stock of any Person owning such assets, and any Debt incurred to renew, refund, replace, refinance, defease or discharge any Debt incurred pursuant to this clause (h) in an aggregate principal amount not to exceed the greater of €15.0 million and 2.3% of Total Assets at any time outstanding;

(i) the incurrence by the Issuer or any of the Restricted Subsidiaries of Debt in the form of customer deposits and advance payments received in the ordinary course of business from customers for services purchased in the ordinary course of business;

(j) the incurrence by any Restricted Subsidiary of Debt in any Qualified Securitization Financing;

(k) the incurrence by the Issuer or any Restricted Subsidiary of Debt in respect of workers' compensation and claims arising under similar legislation, captive insurance companies, or pursuant to self-insurance obligations and not in connection with the borrowing of money or the obtaining of advances or credit;

(l) the incurrence by the Issuer or any Restricted Subsidiary of Debt arising from (i) the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently drawn against insufficient funds in the ordinary course of business; *provided* that such Debt is extinguished within 30 days of incurrence, (ii) bankers' acceptances, performance, surety, judgment, appeal or similar bonds, instruments or obligations, (iii) completion guarantees or performance or appeal bonds provided or letters of credit obtained by the Issuer or any Restricted Subsidiary or guarantees given in respect to the solvent liquidation of dormant subsidiaries in the ordinary course of business, (iv) VAT or other tax guarantees in the ordinary course of business, (v) self-insurance obligations or captive insurance company obligations or the financing of insurance premiums in the ordinary course of business and (vi) any customary cash management, cash pooling or netting or setting off arrangements;

(m) (i) Debt of any Person incurred and outstanding on the date on which such Person becomes a Restricted Subsidiary of the Issuer or is merged, consolidated, amalgamated or otherwise combined with (including pursuant to any acquisition of assets and assumption of related liabilities) the Issuer or any Restricted Subsidiary (other than Debt incurred (A) to provide all or any portion of the funds used to consummate the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary or was otherwise acquired by the Issuer or a Restricted Subsidiary or (B) otherwise in connection with or contemplation of such acquisition); *provided*, *however*, that at the time of such acquisition or other transaction pursuant to which such Debt is deemed to be incurred, (X) the Issuer could incur at least €1.00 of additional Debt under paragraph (1) of this covenant after giving *pro forma* effect to such acquisition or other transaction or (Y) the Consolidated Fixed Charge Coverage Ratio would not be less than it was immediately prior to giving effect to such acquisition or other transaction; and (ii) the incurrence by the Issuer or any Restricted Subsidiary of Debt to finance all or any portion of the funds used to consummate the transaction or series of transactions pursuant to which any Person becomes a Restricted Subsidiary or was otherwise acquired by the Issuer or a Restricted Subsidiary or otherwise in connection with or contemplation of such acquisition; *provided*, *however*, that at the time of such acquisition or other transaction pursuant to which such Debt is deemed to be incurred, the Issuer could incur at least €1.00 of additional Debt under paragraph (1) of this covenant and, if the Debt incurred increases Consolidated Secured Leverage, also under the Consolidated Secured Leverage Ratio, in each case after giving *pro forma* effect to such acquisition or other transaction;

(n) the incurrence by the Issuer or any Restricted Subsidiary of Permitted Refinancing Debt incurred to renew, refund, replace, refinance, defease or discharge Debt incurred by it pursuant to, or described in, paragraph (1) and clauses (2)(a), (2)(d), (2)(m) and this (2)(n) of this covenant, as the case may be;

(o) Contribution Debt;

(p) the incurrence by the Issuer or any Restricted Subsidiary of Debt represented by guarantees of any Management Advances;

(q) take-or-pay obligations and customer deposits and advance payments received in the ordinary course of business from customers for goods purchased in the ordinary course of business; and

(r) the incurrence by the Issuer or any Restricted Subsidiary of Debt (other than and in addition to Debt permitted under clauses (a) through (q) above) in an aggregate principal amount at any one time outstanding, including all Permitted Refinancing Debt incurred to renew, refund, replace, refinance, defease or discharge any Debt incurred pursuant to this clause (r), not to exceed the greater of €40.0 million and 6.1% of Total Assets.

Accrual of interest, accrual of dividends, the accretion of accreted value, the accretion or amortization of original issue discount, the payment of interest in the form of additional Debt, the payment of dividends on Preferred Stock or Redeemable Capital Stock in the form of additional shares of Preferred Stock or Redeemable Capital Stock or the reclassification of commitments or obligations not treated as Debt due to a change in IFRS will not be deemed to be an incurrence of Debt for purposes of this covenant.

(1) For purposes of determining compliance with any restriction on the incurrence of Debt in euros where Debt is denominated in a different currency, the amount of such Debt will be the Euro Equivalent determined on the date of such determination; *provided* that if any such Debt denominated in a different currency is subject to a Currency Agreement (with respect to euros) covering principal amounts payable on such Debt, the amount of such Debt expressed in euros will be adjusted to take into account the effect of such Currency Agreement. The principal amount of any Permitted Refinancing Debt incurred in the same currency as the Debt being refinanced will be the Euro Equivalent of the Debt refinanced determined on the date such Debt being refinanced was initially incurred, except to the extent that such Euro Equivalent was determined based on a Currency Agreement (with respect to euros), in which case, the amount of such Permitted Refinancing Debt will be adjusted to take into account the effect of such Currency Agreement. Notwithstanding any other provision of this covenant, for purposes of determining compliance with this "—Limitation on Debt" covenant, increases in Debt solely due to fluctuations in the exchange rates of currencies or currency values will not be deemed to exceed the maximum amount that the Issuer or a Restricted Subsidiary may incur under the "—Limitation on Debt" covenant.

(2) For purposes of determining any particular amount of Debt under this "—Limitation on Debt" covenant:

(a) obligations with respect to letters of credit, guarantees or Liens, in each case supporting Debt otherwise included in the determination of such particular amount will not be included; and

(b) any Liens granted pursuant to the equal and ratable provisions referred to in the "—Limitation on Liens" covenant will not be treated as Debt.

(3) The amount of any Debt outstanding as of any date will be:

(a) in the case of any Debt issued with original issue discount, the accreted value of such Debt;

(b) the principal amount of the Debt or the liquidation preference thereof, as applicable, in the case of any other Debt determined in accordance with IFRS; and

(c) in respect of Debt of another Person secured by a Lien on the assets of the specified Person, the lesser of:

(i) the Fair Market Value of such assets at the date of determination; and

(ii) the amount of the Debt of the other Person.

(4) If at any time an Unrestricted Subsidiary becomes a Restricted Subsidiary, any Debt of such Subsidiary shall be deemed to be incurred by a Restricted Subsidiary as of such date (and, if such Debt is not permitted to be incurred as of such date under this "—Limitation on Debt" covenant, the Restricted Subsidiary shall be in Default of this covenant).

(5) In the event that an item of Debt meets the criteria of more than one of the types of Debt described in this "—Limitation on Debt" covenant, the Issuer, in its sole discretion, will classify items of Debt and will only be required to include the amount and type of such Debt in one of such clauses and the Issuer will be entitled to divide and classify an item of Debt in more than one of the types of Debt described in this "—Limitation on Debt" covenant, and may change the classification of an item of Debt (or any portion thereof) to any other type of Debt described in this "—Limitation on Debt" covenant at any time.

### Limitation on Restricted Payments

(1) The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, take any of the following actions (each of which is a "Restricted Payment" and which are collectively referred to as "Restricted Payments"):

(a) declare or pay any dividend on or make any distribution (whether made in cash, securities or other property) with respect to any of the Issuer's or any Restricted Subsidiary's Capital Stock (including, without limitation, any payment in connection with any merger or consolidation involving the Issuer or any Restricted

Subsidiary) (other than (i) to the Issuer or any Restricted Subsidiary or (ii) to all holders of Capital Stock of such Restricted Subsidiary on a *pro rata* basis or on a basis that results in the receipt by the Issuer or a Restricted Subsidiary of dividends or distributions of greater value than the Issuer or such Restricted Subsidiary would receive on a *pro rata* basis); except for dividends or distributions payable solely in shares of the Issuer's Qualified Capital Stock or in options, warrants or other rights to acquire such shares of Qualified Capital Stock or in Deeply Subordinated Funding;

(b) purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger or consolidation), directly or indirectly, any shares of the Issuer's Capital Stock or any Capital Stock of any direct or indirect parent company of the Issuer held by persons other than the Issuer or a Restricted Subsidiary or any options, warrants or other rights to acquire such shares of Capital Stock;

(c) make any principal payment on, or repurchase, redeem, defease or otherwise acquire or retire for value any Subordinated Debt (excluding any intercompany debt between or among the Issuer or any Restricted Subsidiary) except (i) a payment of interest or principal at the Stated Maturity thereof or (ii) the purchase, repurchase or other acquisition of Debt purchased in anticipation of satisfying a scheduled sinking fund obligation, principal installment or scheduled maturity, in each case, due within one year of the date of such purchase, repurchase or other acquisition;

(d) make any cash interest payment or principal payment on, or repurchase, redeem, defease or otherwise acquire or retire for value, any Deeply Subordinated Funding; or

(e) make any Investment (other than any Permitted Investment) in any Person.

If any Restricted Payment described above is not made in cash, the amount of the proposed Restricted Payment will be the Fair Market Value of the asset to be transferred as of the date of transfer.

(2) Notwithstanding paragraph (1) above, the Issuer or any Restricted Subsidiary may make a Restricted Payment if, at the time of and after giving *pro forma* effect to such proposed Restricted Payment:

(a) no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Payment;

(b) the Issuer could incur at least €1.00 of additional Debt under paragraph (1) of the "—Limitation on Debt" covenant; and

(c) the aggregate amount of all Restricted Payments declared or made after the Issue Date (including Restricted Payments permitted by clauses (3)(a), (h) and (r) below, but excluding all other Restricted Payments described in paragraph (3) below) does not exceed the sum of (without duplication):

(i) 50% of aggregate Consolidated Adjusted Net Income on a cumulative basis during the period beginning on March 31, 2013 and ending on the last day of the Issuer's most recently ended fiscal quarter for which financial statements are available at the date of such proposed Restricted Payment (or, if such aggregate cumulative Consolidated Adjusted Net Income shall be a negative number, minus 100% of such negative amount); *plus*

(ii) the aggregate net cash proceeds and the Fair Market Value of marketable securities received by the Issuer after the Issue Date as capital contributions or from the issuance or sale (other than to any Subsidiary) of shares of the Issuer's Qualified Capital Stock or Deeply Subordinated Funding (including upon the exercise of options, warrants or rights) or warrants, options or rights to purchase shares of the Issuer's Qualified Capital Stock or Deeply Subordinated Funding (except, in each case to the extent such proceeds are used to purchase, redeem or otherwise retire Capital Stock or Deeply Subordinated Funding as set forth in clause (b) or (c) of paragraph (3) below) (excluding the net cash proceeds from the issuance of the Issuer's Qualified Capital Stock or Deeply Subordinated Funding financed, directly or indirectly, using funds borrowed from the Issuer or any Subsidiary until and to the extent such borrowing is repaid); *plus*

(iii) (x) the amount by which the Issuer's Debt or Debt of any Restricted Subsidiary is reduced on the Issuer's consolidated balance sheet after the Issue Date upon the conversion or exchange (other than by the Issuer or its Restricted Subsidiary) of such Debt into the Issuer's Qualified Capital Stock or Deeply Subordinated Funding, and (y) the aggregate net cash proceeds and the Fair Market Value of marketable securities received after the Issue Date by the Issuer from the issuance or sale (other than to any Restricted Subsidiary) of Redeemable Capital Stock that has been converted into or exchanged for the Issuer's Qualified Capital Stock or Deeply Subordinated Funding, to the extent such Redeemable Capital Stock was originally sold for cash or Cash Equivalents, together with, in the case of both clauses (x) and (y), the aggregate net cash proceeds and the Fair Market Value of property or assets or marketable securities received by the Issuer at the time of such conversion or exchange (excluding Excluded Contributions and the net cash proceeds from the issuance of the Issuer's Qualified Capital Stock or Deeply Subordinated Funding financed, directly or indirectly, using funds borrowed from the Issuer or any Restricted Subsidiary until and to the extent such borrowing is repaid); *plus*

(iv) (x) in the case of any Investment that is sold, disposed of or otherwise cancelled, liquidated or repaid, constituting a Restricted Payment made after the Issue Date, an amount equal to 100% of the aggregate amount received in cash and the Fair Market Value of the marketable securities received by the Issuer or any Restricted Subsidiary and (y) in the case of the designation of an Unrestricted Subsidiary as a Restricted Subsidiary or if an Unrestricted Subsidiary is merged or consolidated into the Issuer or a Restricted Subsidiary or the assets of an Unrestricted Subsidiary are transferred to the Issuer or a Restricted Subsidiary (as long as the designation of such Subsidiary as an Unrestricted Subsidiary was deemed a Restricted Payment), the Fair Market Value of the Issuer's interest in such Subsidiary as of the date of such designation or at the time of such merger, consolidation or transfer of assets; *plus*

(v) to the extent that any Investment constituting a Restricted Payment that was made after the Issue Date is made in an entity that subsequently becomes a Restricted Subsidiary, the Fair Market Value of such Investment of the Issuer and the Restricted Subsidiaries as of the date such entity becomes a Restricted Subsidiary; *plus*

(vi) 100% of any dividends or distributions received by the Issuer or a Restricted Subsidiary after the Issue Date from an Unrestricted Subsidiary, to the extent that such dividends or distributions were not otherwise included in the Consolidated Adjusted Net Income of the Issuer for such period.

(3) Notwithstanding paragraphs (1) and (2) above, the Issuer and any Restricted Subsidiary may take the following actions (so long as with respect to clauses (h) and (q) below no Default or Event of Default has occurred and is continuing):

(a) the payment of any dividend within 60 days after the date of its declaration if at such date of its declaration such payment would have been permitted by the provisions of this covenant;

(b) the making of any Restricted Payment in exchange for, or out of or with the net cash proceeds of a substantially concurrent issuance and sale (other than to a Subsidiary) of, shares of the Issuer's Capital Stock or Deeply Subordinated Funding, or from the substantially concurrent contribution of common equity capital to the Issuer; *provided* that the amount of any such net cash proceeds that are utilized for any such Restricted Payment will be excluded from clause (2)(c)(ii) above;

(c) the purchase, redemption, defeasance or other acquisition or retirement for value of any Subordinated Debt in exchange for, or out of the net cash proceeds of an incurrence (other than to a Subsidiary) of, Permitted Refinancing Debt;

(d) the purchase, redemption, defeasance or other acquisition or retirement for value of any Subordinated Debt (other than any Subordinated Debt held by Affiliates of the Issuer) upon a Change of Control or Asset Sale to the extent required by the agreements governing such Debt; *provided* that the Issuer shall have complied with the "Change of Control" or "Limitation on sale of certain assets" covenant, as the case may be, and the Issuer repurchased all Notes tendered pursuant to the offer required by such covenants prior to offering to purchase, purchasing or repaying such Debt;

(e) payments made or expected to be made by the Issuer or any Restricted Subsidiary in respect of withholding or similar taxes payable by any future, present or former employee, director, officer, manager or consultant (or their respective Related Parties) and the repurchase of Capital Stock deemed to occur upon the exercise of stock options to the extent such Capital Stock represents a portion of the exercise price of those stock options;

(f) payments of cash, dividends, distributions, advances or other Restricted Payments by the Issuer or any Restricted Subsidiary to allow the payment of cash in lieu of issuing fractional shares upon (i) the exercise of options or warrants or (ii) the exchange or conversion of Capital Stock of any such Person;

(g) cash payments, advances, loans or expense reimbursements made to any direct or indirect parent company of the Issuer to permit any such company to pay: (i) general operating expenses, customary directors' fees, accounting, legal, corporate reporting and administrative expenses incurred in the ordinary course of business to the extent such costs and expenses are attributable to the ownership or operation of the Issuer and the Restricted Subsidiaries; (ii) any taxes, duties or similar governmental fees of any such parent company to the extent such tax obligations are directly attributable to its ownership of the Issuer and the Restricted Subsidiaries or its funding or holding Deeply Subordinated Funding; (iii) costs (including all professional fees and expenses) incurred by any direct or indirect parent company of the Issuer in connection with reporting obligations under or otherwise incurred in connection with compliance with applicable laws, rules or regulations of any governmental, regulatory or self-regulatory body or stock exchange, the Indenture or any other agreement or instrument relating to Debt of the Issuer or any Restricted Subsidiary; and (iv) fees and expenses of any direct or indirect parent company of the Issuer incurred in relation to any public offering or other sale of Capital Stock or Debt (x) where the net proceeds of such offering or sale are received by or contributed to the Issuer or any Restricted Subsidiary or (y) in a prorated amount of such expenses in proportion to the amount of such net proceeds received or contributed;

(h) following a Public Offering of the Issuer or any direct or indirect parent company of the Issuer, the declaration or payment of dividends or distributions, or the making of any cash payments, advances, loans or expense reimbursements on the Qualified Capital Stock, common stock or common equity interests of the Issuer or any direct or indirect parent company of the Issuer; *provided* that the aggregate amount of all such dividends or distributions under this clause (h) shall not exceed in any fiscal year the greater of: (i) 6% of the net cash proceeds received from such Public Offering or subsequent Equity Offering by the Issuer or contributed to the capital of the Issuer by any direct or indirect parent company of the Issuer in any form other than Debt or Excluded Contributions; and (ii) following the initial Public Offering, an amount equal to 6% of the Market Capitalization; *provided* that after giving *pro forma* effect to the payment of any such dividend or making of any such distribution, the Consolidated Leverage Ratio of the Issuer would not exceed 3.0 to 1.0;

(i) the payment of any Securitization Fees and purchases of Securitization Assets and related assets pursuant to a Securitization Repurchase Obligation in connection with a Qualified Securitization Financing;

(j) Restricted Payments that are made with Excluded Contributions;

(k) advances or loans to (i) any future, present or former officer, director, employee or consultant of the Issuer or a Restricted Subsidiary to pay for the purchase or other acquisition for value of Capital Stock of the Issuer or a Restricted Subsidiary, or any obligation under a forward sale agreement, deferred purchase agreement or deferred payment arrangement pursuant to any management equity plan or stock option plan or any other management or employee benefit or incentive plan or other agreement or arrangement or (ii) any management equity plan or stock option plan or any other management or employee benefit or incentive plan or unit trust or the trustees of any such plan or trust to pay for the purchase or other acquisition for value of Capital Stock of the Issuer or a Restricted Subsidiary; *provided* that the total aggregate amount of Restricted Payments made under this clause (k) and clause (l) does not exceed €10.0 million in any calendar year (with any unused amounts in any calendar year carried over to the next two succeeding calendar years);

(l) the repurchase, redemption or other acquisition or retirement for value of any Qualified Capital Stock of the Issuer held by any current or former officer, director, employee or consultant of the Issuer or any of its Restricted Subsidiaries pursuant to any equity subscription agreement, stock option agreement, restricted stock grant, shareholders' agreement or similar agreement; *provided* that the aggregate price paid for all such repurchased, redeemed, acquired or retired Qualified Capital Stock when aggregated with any Restricted Payment made under clause (k) does not exceed €5.0 million in any calendar years (with unused amounts in any calendar year being carried over to the next two succeeding calendar years); and *provided, further*, that such amount in any calendar year may be increased by an amount not to exceed the cash proceeds from the sale of Qualified Capital Stock of the Issuer or a Restricted Subsidiary received by the Issuer or a Restricted Subsidiary during such calendar year, in each case to members of management, directors or consultants of the Issuer or any of its Restricted Subsidiaries or any direct or indirect parent company of the Issuer to the extent the cash proceeds from the sale of Qualified Capital Stock have not otherwise been applied to the making of Restricted Payments pursuant to clause (c)(ii) of the preceding paragraph or clauses (b), or (c) or (i) of this paragraph;

(m) the declaration and payment of dividends to holders of any class or series of Redeemable Capital Stock, or of any Preferred Stock of a Restricted Subsidiary, incurred in accordance with the terms of the "Limitation on Debt" covenant;

(n) without duplication of any payment made pursuant to clause (g) above, payments or other transactions pursuant to any tax sharing agreement or arrangement among the Issuer or any Restricted Subsidiary and any other Person with which the Issuer or any Restricted Subsidiary files or filed a consolidated tax return or with which the Issuer or any Restricted Subsidiary is or was part of a consolidated group for tax purposes; *provided, however,* that such payments, and the value of such transactions, shall not exceed the amount of tax that the Issuer or such Restricted Subsidiaries would owe without taking into account such other Person;

(o) the making of any Restricted Payment in connection with the Transactions;

(p) cash dividends or other distributions on the Issuer's Capital Stock used to, or the making of loans to any direct or indirect parent company of the Issuer to, fund the payment of fees and expenses owed by the Issuer or the Restricted Subsidiaries to Affiliates, to the extent permitted by clauses (vii), (ix), (xii), (xiii), (xiv) or (xv) of the "—Limitation on transactions with Affiliates" covenant;

(q) any other Restricted Payment; *provided* that the total aggregate amount of Restricted Payments made under this clause (q) since the Issue Date does not exceed €25.0 million;

(r) (i) the declaration and payment of dividends to holders of any class or series of Designated Preferred Stock (other than Redeemable Capital Stock) issued by the Issuer or any of its Restricted Subsidiaries after the Issue Date; or

(ii) the declaration and payment of dividends to any direct or indirect parent company of the Issuer, the proceeds of which will be used to fund the payment of dividends to holders of any class or series of Designated Preferred Stock (other than Redeemable Capital Stock) issued by such parent company after the Issue Date; *provided* that the amount of dividends paid pursuant to this clause (r) shall not exceed the aggregate amount of cash actually contributed to the Issuer from the sale of such Designated Preferred Stock;

*provided*, in the case of each of (i) and (ii) of this clause (r), that for the most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date of issuance of such Designated Preferred Stock after giving effect to such issuance or declaration on a *pro forma* basis, the Issuer would have had a Consolidated Fixed Charge Coverage Ratio of at least 2.0 to 1.0; and

(s) Restricted Payments to finance investments otherwise permitted to be made pursuant to this covenant; *provided* that (A) such Restricted Payment shall be made substantially concurrently with the closing of such Investment, (B) such direct or indirect parent company shall, immediately following the closing thereof, cause (1) all property acquired (whether assets or Equity Interests) to be contributed to the capital of the Issuer or one of its Restricted Subsidiaries or (2) the merger of the Person formed or acquired into the Issuer or one of its Restricted Subsidiaries (to the extent not prohibited by the covenants "—Consolidation, merger and sale of assets" below) in order to consummate such Investments, (C) such direct or indirect parent company and its Affiliates (other than the Issuer or a Restricted Subsidiary) receives no consideration or other payment in connection with such transaction except to the extent the Issuer or a Restricted Subsidiary could have given such consideration or made such payment in compliance with the Indenture, (D) any property received by the Issuer shall not increase amounts available for Restricted Payments pursuant to clause 2(c) of the preceding paragraph and (E) such investment shall be deemed to be made by the Issuer or such Restricted Subsidiary pursuant to another provision of this covenant (other than pursuant to clause (j) hereof) or pursuant to the definition of "Permitted Investments" (other than clause (l) thereof).

### Limitation on transactions with Affiliates

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into or suffer to exist any transaction or series of related transactions (including, without limitation, the sale, purchase, exchange or lease of assets or property or the rendering of any service) for the benefit of any Affiliate of the Issuer or any Restricted Subsidiary's Affiliate involving aggregate payments or consideration in excess of €5.0 million unless:

(a) such transaction or series of transactions is on terms that, taken as a whole, are not materially less favorable to the Issuer or such Restricted Subsidiary, as the case may be, than those that could have been obtained in a comparable arm's length transaction with third parties that are not Affiliates (as determined in good faith by the board of directors or a member of senior management of the Issuer);

(b) with respect to any transaction or series of related transactions involving aggregate payments or the transfer of assets or provision of services, in each case having a value greater than €10.0 million, the Issuer will deliver a resolution of its board of directors (set out in an Officer's Certificate to the Trustee) certifying that such transaction complies with clause (a) above; and

(c) with respect to any transaction or series of related transactions involving aggregate payments or the transfer of assets or the provision of services, in each case having a value greater than €25.0 million, the Issuer will obtain a written opinion of an accounting, appraisal, investment banking or advisory firm of international standing, or other recognized independent expert of international standing with experience appraising the terms and conditions of the type of transaction or series of related transactions for which an opinion is required, stating that the transaction or series of transactions is (i) fair to the Issuer or such Restricted Subsidiary from a financial point of view taking into account all relevant circumstances or (ii) on terms not less favorable than might have been obtained in a comparable transaction at such time on an arm's length basis from a Person who is not an Affiliate.

Notwithstanding the foregoing, the restrictions set forth in this description will not apply to:

(i) customary directors' fees, indemnification and similar arrangements (including the payment of directors' and officers' insurance premiums), consulting fees, employee salaries, bonuses, employment agreements and arrangements, compensation or employee benefit arrangements, including stock options or legal fees (as determined in good faith by the board of directors or a member of senior management of the Issuer);

(ii) any employment agreement, collective bargaining agreement, consultant, employee benefit arrangements with any employee, consultant, officer or director of the Issuer or any Restricted Subsidiary, including under any stock option, stock appreciation rights, stock incentive or similar plans, entered into in the ordinary course of business;

(iii) any Restricted Payments not prohibited by the "—Limitation on Restricted Payments" covenant and Permitted Investments; *provided* that, in the case of a Permitted Investment described in clause (c)(iii) of the definition thereof, such Permitted Investment shall be in accordance with clause (a) of the first paragraph of this covenant;

(iv) transactions pursuant to, or contemplated by any agreement or arrangement in effect on the Issue Date and transactions pursuant to any amendment, modification, supplement or extension thereto; *provided* that any such amendment, modification, supplement or extension to the terms thereof is not more materially more disadvantageous to the holders of the Notes than the original agreement or arrangement as in effect on the Issue Date;

(v) transactions with a Person (other than an Unrestricted Subsidiary) that is an Affiliate of the Issuer solely because the Issuer owns, directly or through a Restricted Subsidiary, Capital Stock in, or controls, such Person;

(vi) transactions between or among the Issuer and the Restricted Subsidiaries or between or among Restricted Subsidiaries and any guarantees issued by the Issuer or a Restricted Subsidiary for the benefit of the Issuer or a Restricted Subsidiary, as the case may be, in accordance with the "—Limitation on Debt" covenant;

(vii) payments or other transactions pursuant to any tax sharing agreement or arrangement among the Issuer or any Restricted Subsidiary and any other Person with which the Issuer or any Restricted Subsidiary files or filed a consolidated tax return or with which the Issuer or any Restricted Subsidiary is or was part of a consolidated group for tax purposes; *provided, however,* that such payments, and the value of such transactions, shall not exceed the amount of tax that the Issuer or such Restricted Subsidiaries would owe without taking into account such other Person;

(viii) transactions with customers, clients, suppliers, or purchasers or sellers of goods or services, in each case in the ordinary course of business and otherwise in compliance with the terms of the Indenture that are fair to the Issuer or the Restricted Subsidiaries or are on terms at least as favorable as might reasonably have been obtained at such time from an unaffiliated Person, in each case, as determined in good faith by the board of directors or a member of senior management of the Issuer;

(ix) the payment of reasonable fees and indemnities to employees, officers, consultants and directors of the Issuer and the Restricted Subsidiaries in the ordinary course of business;

(x) any issuance of Redeemable Capital Stock of the Issuer to Affiliates of the Issuer which is permitted under the "—Limitation on Debt" covenant;

(xi) (A) issuances or sales of Qualified Capital Stock of the Issuer (or any options, warrants or other rights to acquire Qualified Capital Stock of the Issuer) or Deeply Subordinated Funding and (B) any amendment, waiver or other transaction with respect to any Deeply Subordinated Funding in compliance with the other provisions of the Indenture;

(xii) any transaction effected as part of or in connection with a Qualified Securitization Financing;

(xiii) Management Advances;

(xiv) (a) the entering into any agreement to pay, and the payment of, customary annual management, consulting, monitoring and advisory fees to Permitted Holders or their Affiliates in an amount not to exceed €5 million in any consecutive four-quarter period and (b) customary payments by the Issuer or any Restricted Subsidiary to any Permitted Holder (whether directly or indirectly, including through any direct or indirect parent company of the Issuer) for financial advisory, financing, underwriting or placement services or in respect of other investment banking activities, including in connection with acquisitions or divestitures, which payments pursuant to this clause (b) are approved by the board of directors or a member of senior management of the Issuer;

(xv) any of the Transactions, including the use of proceeds from the Offering as contemplated in the section entitled "Use of Proceeds" in this Offering Memorandum; and

(xvi) transactions in which the Issuer or any of its Restricted Subsidiaries, as the case may be, delivers to the Trustee a letter from an Independent Financial Advisor stating that such transaction is fair to the Issuer or such Restricted Subsidiary from a financial point of view or stating that the terms are not materially less favorable to the Issuer or its relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Issuer or such Restricted Subsidiary with an unrelated person on an arm's length basis.

### Limitation on Liens

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create, incur, assume or suffer to exist any Lien of any kind securing Debt upon any of their property or assets constituting Collateral, whether owned at or acquired after the Issue Date, other than Permitted Collateral Liens.

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create, incur, assume or suffer to exist any Lien of any kind (except for Permitted Liens) securing Debt upon any of their property or assets not constituting Collateral, whether owned at or acquired after the Issue Date, unless:

(a) in the case of any Lien securing Subordinated Debt, the Issuer's obligations in respect of the Notes (or the Guarantees in the case of Liens securing Subordinated Debt of the Guarantors) are directly secured by a Lien on such property, assets or proceeds that is senior in priority to the Lien securing the Subordinated Debt until such time as the Subordinated Debt is no longer secured by a Lien; and

(b) in the case of any other Lien, the Issuer's obligations in respect of the Notes (or the Guarantees in the case of Liens securing Debt of the Guarantors), and all other amounts due under the Indenture are equally and ratably secured with the obligation or liability secured by such Lien until such time as such obligations are no longer secured by a Lien.

Any such Lien created in favor of the Notes will be automatically and unconditionally released and discharged (i) upon the release and discharge of the initial Lien to which it relates under clause (a) or (b) of the second paragraph above and (ii) otherwise as set forth under "—Release of Liens."

### Limitation on sale of certain assets

(1) The Issuer will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale unless:

(a) the consideration the Issuer or such Restricted Subsidiary receives for such Asset Sale is not less than the Fair Market Value of the assets sold or Capital Stock issued or sold or otherwise disposed of; and

(b) at least 75% of the consideration the Issuer or such Restricted Subsidiary receives in respect of such Asset Sale consists of: (i) cash; (ii) Cash Equivalents; (iii) any securities, notes or other obligations received by the Issuer or any such Restricted Subsidiary from such transferee that are converted by the Issuer or such Restricted Subsidiary into cash or Cash Equivalents within 180 days following the closing of the Asset Sale, to the extent of the cash or Cash Equivalents received in that conversion; (iv) the assumption by the purchaser of any liabilities, as recorded on the balance sheet of the Issuer or any Restricted Subsidiary (other than liabilities that are by their terms subordinated to the Notes or the Guarantees), that are assumed by the transferee of any such assets and as a result of which the Issuer and the Restricted Subsidiaries are no longer obligated with respect to such liabilities or are indemnified against further liabilities; (v) Debt of the Issuer or any Restricted Subsidiary that is no longer a Restricted Subsidiary as a result of such Asset Sale, to the extent that the Issuer and each Restricted Subsidiary are released from any Guarantee of such Debt in connection with such Asset Sale; (vi) any Capital Stock or assets of the kind referred to in clauses (2)(e), (f) or (g) of this covenant; (vii) consideration consisting of Debt (or the cancellation of Debt) of the Issuer or any Restricted Subsidiary received by the Issuer or any Guarantor from Persons who are not the Issuer or any Restricted Subsidiary; *provided* such Debt is repaid in full, cancelled or subordinated to the Notes and the Guarantees; (viii) any Designated Non-cash Consideration received by the Issuer or any Restricted Subsidiary in such Asset Sale; *provided* that the aggregate Fair Market Value of such Designated Non-cash Consideration, taken together with the Fair Market Value at the time of receipt of all other Designated Non-cash Consideration received and designated as such pursuant to this clause (viii), is less than (with the Fair Market Value of each item of Designated Non-cash Consideration being measured at the time received and without giving effect to subsequent changes in value) the greater of €25.0 million and 3.8% of Total Assets; or (ix) a combination of the consideration specified in clauses (i) to (viii).

(2) If the Issuer or any Restricted Subsidiary consummates an Asset Sale, the Net Cash Proceeds from such Asset Sale, within 365 days after the consummation of such Asset Sale, may be used or committed in a binding commitment to be used (*provided* that such Net Cash Proceeds are actually used within the later of 365 days from the consummation of the Asset Sale or 180 days from the date of such binding commitment) at the option of the Issuer or such Restricted Subsidiary:

(a) to purchase the Notes pursuant to an offer to all holders of Notes at a purchase price equal to at least 100% of the principal amount of the Notes, plus accrued and unpaid interest thereon and Additional Amounts, if any, to (but not including) the date of purchase (a "Notes Offer");

(b) to purchase or permanently prepay or redeem or repay any Debt under Credit Facilities (*provided* that in connection with any revolving credit borrowings under Credit Facilities, the related commitment will be cancelled) that is secured by a Lien on assets or property which constitute Collateral;

(c) to purchase or permanently prepay or redeem or repay (i) any Debt (*provided* that in connection with any revolving credit borrowings under Credit Facilities, the related commitment will not be required to be reduced) that is secured by a Lien on assets or property which do not constitute Collateral or (ii) any Debt of a Restricted Subsidiary that is not a Guarantor;

(d) unless included in clause (2)(b) above, to purchase, or prepay or redeem or repay, any *Pari Passu* Debt to the extent secured, in whole or in part, by a Lien on the Collateral so long as the Issuer or such Restricted Subsidiary makes an offer on a *pro rata* basis to all holders of Notes at a purchase price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest thereon and Additional Amounts, if any, to (but not including) the date of purchase;

(e) to acquire all or substantially all of the assets of, or any Capital Stock of, another Permitted Business, if, after giving effect to any such acquisition of Capital Stock, the Permitted Business is or becomes a Restricted Subsidiary;

(f) to make a capital expenditure;

(g) to acquire other assets (other than Capital Stock) not classified as current assets under IFRS that are used or useful in a Permitted Business; or

(h) any combination of the foregoing.

(3) Pending the final application of any Net Cash Proceeds (including cash or Cash Equivalents received from the conversion of any securities, notes or other obligations), the Issuer (or the applicable Restricted Subsidiary) may temporarily reduce revolving credit borrowings or otherwise invest such Net Cash Proceeds in any manner that is not prohibited by the Indenture.

(4) Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clause (2) of this covenant will constitute "Excess Proceeds." The Issuer may also at any time, and the Issuer will within ten Business Days after the aggregate amount of Excess Proceeds exceeds €20.0 million, make an offer to purchase (an "Excess Proceeds Offer") from all holders of Notes and from the holders of any *Pari Passu* Debt, to the extent required by the terms thereof, on a *pro rata* basis, in accordance with the procedures set forth in the Indenture or the agreements governing any such *Pari Passu* Debt, the maximum principal amount (expressed as a multiple of €1,000) of the Notes and any such *Pari Passu* Debt that may be purchased with the amount of the Excess Proceeds (plus in each case all accrued interest on the Debt and the amount of all fees and expenses, including premiums, incurred in connection therewith). The offer price as to each Note and any such *Pari Passu* Debt will be payable in cash in an amount equal to (solely in the case of the Notes) 100% of the principal amount of such Note and (solely in the case of *Pari Passu* Debt) no greater than 100% of the principal amount (or accreted value, as applicable) of such *Pari Passu* Debt, plus in each case accrued and unpaid interest, if any, to the date of purchase and Additional Amounts, if any, to the date of purchase, prepayment or redemption.

To the extent that the aggregate principal amount of Notes and any such *Pari Passu* Debt tendered pursuant to an Excess Proceeds Offer is less than the aggregate amount of Excess Proceeds, the Issuer (or applicable Restricted Subsidiary) may use the amount of such Excess Proceeds not used to purchase Notes and *Pari Passu* Debt for general corporate purposes that are not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes and any such *Pari Passu* Debt validly tendered and not withdrawn by holders thereof exceeds the aggregate amount of Excess Proceeds, the Notes and any such *Pari Passu* Debt to be purchased will be selected by the Trustee on a *pro rata* basis (based upon the principal amount of Notes and the principal amount or accreted value of such *Pari Passu* Debt tendered by each holder) or in the manner described under "—Selection and notice." Upon completion of each such Excess Proceeds Offer, the amount of Excess Proceeds will be reset to zero.

(5) If the Issuer is obligated to make an Excess Proceeds Offer, the Issuer will purchase the Notes and *Pari Passu* Debt, at the option of the holders thereof, in whole or in part in integral multiples of €1,000, on a date that is not earlier than 30 days and not later than 60 days from the date the notice of the Excess Proceeds Offer is given to such holders, or such later date as may be required under the Exchange Act; *provided* that no Note of less than €100,000 remains outstanding thereafter.

(6) If the Issuer is required to make an Excess Proceeds Offer, the Issuer will comply with the applicable tender offer rules, including Rule 14e-1 under the Exchange Act, and any other applicable securities laws and regulations. To the extent that the provisions of any securities laws or regulations conflict with the provisions of this covenant, the Issuer will comply with such securities laws and regulations and will not be deemed to have breached our obligations described in this covenant by virtue thereof.

### Limitation on Guarantees of Debt by Restricted Subsidiaries

The Issuer will not permit any Restricted Subsidiary that is not a Guarantor, directly or indirectly, to guarantee, assume or in any other manner become liable for the payment of (i) any Debt of the Issuer or any Guarantor under any Credit Facilities incurred pursuant to clause (2)(b) of the covenant "—Limitation on Debt" or (ii) any Public Debt of the Issuer or any Guarantor (other than the Notes), unless:

(a) such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture providing for a Guarantee of payment of the Notes by such Restricted Subsidiary on the same terms as the guarantee of such Debt; and

(b) with respect to any guarantee of Subordinated Debt by such Restricted Subsidiary, any such guarantee shall be subordinated to such Restricted Subsidiary's Guarantee with respect to the Notes at least to the same extent as such Subordinated Debt is subordinated to the Notes.

The immediately preceding paragraph will not be applicable to any guarantees of any Restricted Subsidiary:

(i) existing on the date of the Indenture;

(ii) arising solely due to the granting of a Permitted Lien; or

(iii) given to a bank or trust company having combined capital and surplus and undivided profits of not less than €500 million, whose debt has a rating, at the time such guarantee was given, of at least A or the equivalent thereof by S&P and at least A2 or the equivalent thereof by Moody's, in connection with the operation of cash management programs established for the Issuer's benefit or that of any Restricted Subsidiary.

In addition, notwithstanding anything to the contrary herein:

(i) no Guarantee shall be required if such Guarantee could reasonably be expected to give rise to or result in (A) personal liability for the officers, directors or shareholders of such Restricted Subsidiary, (B) any violation of applicable law that cannot be avoided or otherwise prevented through measures reasonably available to the Issuer or such Restricted Subsidiary (including, on the Issue Date, Allia International S.A., Boulogne-Billancourt (France)) or (C) any significant cost, expense, liability or obligation (including with respect of any Taxes) other than reasonable out of pocket expenses and other than reasonable expenses incurred in connection with any governmental or regulatory filings required as a result of, or any measures pursuant to clause (B) undertaken in connection with, such Guarantee, which cannot be avoided through measures reasonably available to the Issuer or the Restricted Subsidiary; and

(ii) each such Guarantee will be limited as necessary to recognize certain defenses generally available to guarantors (including those that relate to fraudulent conveyance or transfer, voidable preference, financial assistance, corporate purpose, capital maintenance or similar laws, regulations or defenses affecting the rights of creditors generally) or other considerations under applicable law.

### Limitation on dividend and other payment restrictions affecting Restricted Subsidiaries

(1) The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

(a) pay dividends, in cash or otherwise, or make any other distributions on or in respect of its Capital Stock or any other interest or participation in, or measured by, its profits;

(b) pay any Debt owed to the Issuer or any other Restricted Subsidiary;

(c) make loans or advances to the Issuer or any other Restricted Subsidiary; or

(d) transfer any of its properties or assets to the Issuer or any other Restricted Subsidiary;

*provided* that (x) the priority of any Preferred Stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on common stock and (y) the subordination of (including the application of any standstill period to) loans or advances made to the Issuer or any Restricted Subsidiary to other Debt incurred by the Issuer or any Restricted Subsidiary, shall not be deemed to constitute such an encumbrance or restriction.

(2) The provisions of the covenant described in paragraph (1) above will not apply to encumbrances or restrictions existing under or by reason of:

(a) the Notes (including Additional Notes), the Indenture, the Revolving Facility Agreement and the security documents related thereto or by other indentures or agreements governing other Debt incurred by the Issuer or a Restricted Subsidiary ranking equally with the Notes; *provided* that the encumbrances or restrictions imposed by such other indentures or agreements are not materially more restrictive, taken as a whole, than the encumbrances or restrictions imposed by the Indenture;

(b) any agreements with respect to Debt of the Issuer or any Restricted Subsidiary permitted to be incurred subsequent to the Issue Date pursuant to the provisions of "—Limitation on Debt," and any amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings of those agreements; *provided* that such encumbrances or restrictions are not materially less favorable, taken as a whole, to the holders of the Notes than is customary in comparable financings (as determined in good faith by the board of directors or a member of senior management of the Issuer);

(c) any agreement in effect on the Issue Date and any amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings of those agreements; *provided* that the amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings are not materially more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in those agreements on the Issue Date (as determined in good faith by the board of directors or a member of senior management of the Issuer);

(d) customary non-assignment and similar provisions in contracts, leases and licenses entered into in the ordinary course of business;

(e) any agreement or other instrument of a Person (including its Subsidiaries), acquired by the Issuer or any Restricted Subsidiary in effect at the time of such acquisition (but not created in contemplation thereof), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired (including its Subsidiaries);

(f) any agreement for the sale or other disposition of the Capital Stock or all or substantially all of the property and assets of a Restricted Subsidiary that restricts distributions by that Restricted Subsidiary pending its sale or other disposition;

(g) Liens permitted to be incurred under the provisions of the covenant described above under the caption "—Limitation on Liens" that limit the right of the debtor to dispose of the assets subject to such Liens;

(h) applicable law, rule, regulation or order or the terms of any governmental licenses, authorizations, concessions, franchises or permits;

(i) encumbrances or restrictions on cash or other deposits or net worth imposed by customers or suppliers or required by insurance, surety or bonding companies, in each case, under contracts entered into the ordinary course of business;

(j) customary limitations on the distribution or disposition of assets or property in joint venture agreements, asset sale agreements, sale-leaseback agreements, stock sale agreements and other similar agreements (including agreements entered into in connection with a Restricted Investment), which limitations are applicable only to the assets that are the subject of such agreements;

(k) Purchase Money Obligations and mortgage financings for property acquired in the ordinary course of business and Capitalized Lease Obligations that impose restrictions on the property purchased or leased of the nature described in clause (1)(d) of the preceding paragraph;

(l) any Qualified Securitization Financing; and

(m) any agreement that extends, renews, amends, modifies, restates, supplements, refunds, refinances or replaces the agreements containing the encumbrances or restrictions in the foregoing clauses (2)(a) through (l), or in this clause (2)(m); *provided* that the terms and conditions of any such encumbrances or restrictions are not materially less favorable, taken as a whole, to the holders of the Notes than those under or pursuant to the agreement so extended, renewed, amended, modified, restated, supplemented, refunded, refinanced or replaced (as determined in good faith by the board of directors or a member of senior management of the Issuer).

### Designation of Unrestricted and Restricted Subsidiaries

(1) The board of directors of the Issuer may designate any Restricted Subsidiary to be an Unrestricted Subsidiary if that designation would not cause a Default. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate Fair Market Value of all outstanding Investments owned by the Issuer and the Restricted Subsidiaries in the Subsidiary designated as Unrestricted will be deemed to be an Investment made as of the time of the designation and will reduce the amount available for Restricted Payments under the covenant described above under the caption "—Limitation on Restricted Payments" or under one or more clauses of the definition of Permitted Investments, as determined by the Issuer. That designation will only be permitted if the Investment would be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary. The board of directors of the Issuer may redesignate any Unrestricted Subsidiary to be a Restricted Subsidiary if that redesignation would not cause a Default.

(2) Any designation of a Subsidiary of the Issuer as an Unrestricted Subsidiary will be evidenced to the Trustee by filing with the Trustee a certified copy of a resolution of the board of directors giving effect to such designation and an Officer's Certificate certifying that such designation complied with the preceding conditions and was permitted by the covenant described above under the caption "—Limitation on Restricted Payments." If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of the Indenture and any Debt of such Subsidiary will be deemed to be incurred by a Restricted Subsidiary of the Issuer as of such date and, if such Debt is not permitted to be incurred as of such date under the covenant described under the caption "—Limitation on Debt," the Issuer will be in default of such covenant. The board of directors of the Issuer may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that such designation will be deemed to be an incurrence of Debt by a Restricted Subsidiary of any outstanding Debt of such Unrestricted Subsidiary, and such designation will only be permitted if (1) such Debt is permitted under the covenant described under the caption "—Limitation on Debt," calculated on a *pro forma* basis as if such designation had occurred at the beginning of the applicable reference period; and (2) no Default or Event of Default would be in existence following such designation.

### Provision of information

So long as any Notes are outstanding, the Issuer will furnish to the Trustee:

(a) within 120 days after the end of the Issuer's fiscal year beginning with the fiscal year ended December 31, 2013, annual reports containing the following information with a level of detail that is substantially comparable in all material respects to this Offering Memorandum (with appropriate revisions, as reasonably determined by the Issuer to reflect any changes in segment reporting): (i) audited consolidated balance sheets of the Issuer as of the end of the two most recent fiscal years and audited consolidated income statements and statements of cash flow of the Issuer for the two most recent fiscal years, including complete footnotes to such financial statements and the report of its independent auditors on the financial statements; (ii) *pro forma* income statement and balance sheet information of the Issuer, together with explanatory footnotes, for any material acquisitions, dispositions or recapitalizations that have occurred since the beginning of the most recently completed fiscal year unless *pro forma* information has been

provided in a previous report pursuant to clause (b)(ii) or (b)(iii) below (*provided* that such *pro forma* financial information need be provided only to the extent available without unreasonable expense); (iii) an operating and financial review of the audited financial statements, including a discussion of the results of operations, financial condition and liquidity and capital resources, and a discussion of material commitments and contingencies, capital expenditures and critical accounting policies; (iv) a description of the business, management and shareholders of the Issuer, material affiliate transactions and material debt instruments; and (v) material risk factors and material recent developments;

(b) within 60 days (90 days in the case of the fiscal quarter ending March 31, 2013) following the end of the first three fiscal quarters in each fiscal year of the Issuer beginning with the quarter ending March 31, 2013, all quarterly financial statements of the Issuer containing the following information: (i) an unaudited condensed combined balance sheet as of the end of such quarter and unaudited condensed statements of income and cash flow for the most recent year-to-date period ending on the unaudited condensed balance sheet date, and the comparable prior year period (which may be presented on a *pro forma* basis), together with condensed footnote disclosure; (ii) *pro forma* income statement and balance sheet information of the Issuer, together with explanatory footnotes, for any material acquisitions, dispositions or recapitalizations that have occurred since the beginning of the most recently completed fiscal year unless *pro forma* information has been provided in a previous report pursuant to clause (b)(i) or (b)(iii) (*provided* that such *pro forma* financial information need be provided only to the extent available without unreasonable expense); (iii) an operating and financial review (containing information with a level of detail that is substantially comparable in all material respects to the interim period in this Offering Memorandum (with appropriate revisions, as reasonably determined by the Issuer to reflect any changes in segment reporting)) of the unaudited financial statements, including a discussion of the consolidated financial condition and results of operations, and material changes in liquidity and capital resources of the Issuer and any material change between the current year-to-date period and the corresponding period of the prior year; and (iv) material recent developments and any material changes to the risk factors disclosed in the most recent annual report; and

(c) promptly after the occurrence of any material acquisition, disposition or restructuring of the Issuer and the Restricted Subsidiaries, taken as a whole, or any senior executive officer changes at the Issuer or change in auditors of the Issuer or any other material event that the Issuer announces publicly, a report containing a description of such event.

All historical financial statements shall be prepared in accordance with IFRS on a consistent basis for the periods presented. Except as provided for above, no report need include separate financial statements for the Issuer or any Subsidiaries of the Issuer or any disclosure with respect to the results of operations or any other financial or statistical disclosure not of a type included in this Offering Memorandum and in no event shall U.S. GAAP information or reconciliation to U.S. GAAP be required.

Contemporaneously with the furnishing of each such report discussed above, the Issuer will also: (i) file a press release with the appropriate internationally recognized wire services (including, without limitation, through the newswire service of Bloomberg, or if Bloomberg does not then operate, any similar agency) in connection with such report; or (ii) post each such report on such website as may be then maintained by the Issuer.

The Indenture will also provide that, so long as any of the Notes remain outstanding, the Issuer will make available to any prospective purchaser of Notes or beneficial owner of Notes in connection with any sale thereof the information required by Rule 144A(d)(4) under the Securities Act.

At any time that any of the Issuer's Subsidiaries are Unrestricted Subsidiaries, then the quarterly and annual financial information required by the first paragraph of this "Provision of information" covenant will include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, of the financial condition and results of operations of the Issuer and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of the Issuer.

In the event that (i) the Issuer becomes subject to the reporting requirements of Section 13(a) or 15(d) of the Exchange Act, or elects to comply with such provisions, for so long as it continues to file the reports required by Section 13(a) with the SEC or (ii) the Issuer elects to provide to the Trustee reports which, if filed with the SEC, would satisfy (in the good faith judgment of the Issuer) the reporting requirements of Section 13(a) or 15(d) of the Exchange Act (other than the provision of U.S. GAAP information, certifications, exhibits or information as to internal controls and procedures), for so long as it elects, the Issuer will make available to the Trustee such annual reports, information, documents and other reports that the Issuer is, or would be, required to file with the SEC pursuant to such Section 13(a) or 15(d). Upon complying with the foregoing requirement, the Issuer will be deemed to have complied with the provisions contained in the preceding paragraphs of this covenant.

### Consolidation, merger and sale of assets

The Issuer will not, directly or indirectly: (i) consolidate or merge with or into another Person (whether or not the Issuer is the surviving corporation), or (ii) sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of the properties or assets of the Issuer and the Restricted Subsidiaries, taken as a whole, in one or more related transactions, to another Person, unless:

(a) at the time of, and immediately after giving effect to, any such transaction or series of transactions, either (i) the Issuer will be the surviving corporation or (ii) the Person (if other than the Issuer) formed by or surviving any such consolidation or merger or to which such sale, assignment, conveyance, transfer, lease or disposition of all or substantially all the properties and assets of the Issuer and the Restricted Subsidiaries on a consolidated basis has been made (the "Surviving Entity"):

    (i) will be a corporation duly incorporated and validly existing under the laws of any member state of the European Union as in effect on December 31, 2003, Switzerland, Canada, the United States of America, any state thereof or the District of Columbia; and

    (ii) will expressly assume, by a supplemental indenture in form satisfactory to the Trustee, the Issuer's obligations under the Notes, the Indenture and the Security Documents;

(b) immediately after giving effect to such transaction or series of transactions on a *pro forma* basis, no Default or Event of Default will have occurred and be continuing;

(c) the Issuer or the Surviving Entity would, on the date of such transaction after giving *pro forma* effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period (i) be permitted to incur at least €1.00 of additional Debt pursuant to the Consolidated Fixed Charge Coverage Ratio test set forth in the first paragraph of the "—Limitation on Debt" covenant or (ii) have a Consolidated Fixed Charge Coverage Ratio not less than it was immediately prior to giving effect to such transaction;

(d) Except to the extent any Liens are amended, extended, renewed, restated, supplemented, modified or otherwise released and retaken in accordance with the second paragraph of the "Impairment of Security Interests" covenant, the Liens on the Collateral will remain in full force and effect securing the Notes and the Guarantees, as applicable; and

(e) the Issuer or the Surviving Entity will have delivered to the Trustee, in form and substance satisfactory to the Trustee, an Officer's Certificate and an opinion of counsel, each stating that such consolidation, merger, sale, assignment, conveyance, transfer, lease or other disposition, and if a supplemental indenture is required in connection with such transaction, such supplemental indenture, comply with this covenant.

A Guarantor (other than a Guarantor whose Guarantee is to be released in accordance with the terms of the Guarantee and the Indenture as described under "—The Guarantees") will not, directly or indirectly (other than in connection with a transaction that does not constitute an Asset Sale or a transaction that is permitted by the covenant described under the caption "—Limitation on the sale of certain assets"): (1) consolidate or merge with or into another Person (whether or not such Guarantor is the surviving corporation), or (2) sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of the properties or assets of such Guarantor and its Subsidiaries which are Restricted Subsidiaries taken as a whole, in one or more related transactions, to another Person, unless:

(a) immediately after giving effect to that transaction, no Default or Event of Default exists; and

(b) either:

    (i) the Person acquiring the property in any such sale or disposition or the Person formed by or surviving any such consolidation or merger assumes all the obligations of such Guarantor under its Guarantee, the Indenture and the Security Documents to which such Guarantor is a party pursuant to a supplemental indenture reasonably satisfactory to the Trustee and to the Security Agent; or

    (ii) the Net Cash Proceeds of such sale or other disposition are applied in accordance with the applicable provisions of the Indenture.

Nothing in the Indenture will prevent and this covenant will not apply to (i) any Restricted Subsidiary from consolidating with, merging into or transferring all or substantially all of its properties and assets to the Issuer or any Restricted Subsidiary or (iii) the Issuer from consolidating with, merging into or transferring all or substantially all of its properties and assets to any Guarantor. In addition, clause (c) above will not apply to any sale or other disposition of all or substantially all of the assets or merger or consolidation of the Issuer with or into an Affiliate solely for the purpose of reincorporating the Issuer in another jurisdiction for tax reasons.

Although there is a limited body of case law interpreting the phrase "all or substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve "all or substantially all" of the property or assets of a Person.

### Impairment of Security Interests

The Issuer shall not, and shall not permit any Restricted Subsidiary to, take or omit to take any action that would have the result of materially impairing the Liens with respect to the Collateral in favor of the Security Agent and the holders of the Notes (the "Security Interest") (it being understood that, subject to the paragraph below, the incurrence of Permitted Collateral Liens shall not be deemed to materially impair the Security Interests with respect to the Collateral) and the Issuer shall not, and shall not permit any Restricted Subsidiary to, grant to any Person other than the Security Agent, for the benefit of the Trustee and the holders of the Notes and the other beneficiaries described in the Security Documents and the Intercreditor Agreement or any Additional Intercreditor Agreement (as defined below), any interest whatsoever in any of the Collateral (except Permitted Collateral Liens).

Notwithstanding the foregoing (a) nothing in this covenant shall restrict the discharge and release of any Security Interest in accordance with the Indenture and the Intercreditor Agreement or the Additional Intercreditor Agreement and (b) the Security Interest and the related Security Documents may be amended, extended, renewed, restated, supplemented or otherwise modified or released (followed by an immediate retaking of a Lien of at least equivalent ranking over the same assets) if, contemporaneously with any such action, the Issuer delivers to the Trustee and the Security Agent, either: (1) a solvency opinion in form and substance reasonably satisfactory to the Trustee from an independent financial advisor, accounting firm, appraiser or investment bank of international standing which confirms the solvency of the Issuer and its Subsidiaries, taken as a whole, after giving effect to any transactions related to such amendment, extension, renewal, restatement, replacement, supplement, modification or release (followed by an immediate retaking of a Lien of at least equivalent ranking over the same assets); (2) a certificate from the board of directors or officer of the relevant Person which confirms the solvency of the Person granting such Security Interest after giving effect to any transactions related to such amendment, extension, renewal, restatement, replacement, supplement, modification or release; or (3) an opinion of counsel, in form and substance satisfactory to the Trustee, confirming that, after giving effect to any transactions related to such amendment, extension, renewal, restatement, replacement, supplement, modification or release (followed by an immediate retaking of a Lien of at least equivalent ranking over the same assets), the Lien or Liens created under the Security Documents, so amended, extended, renewed, restated, supplemented, modified or released and replaced are valid Liens not otherwise subject to any limitation, imperfection or new hardening period, in equity or at law, that such Lien or Liens were not otherwise subject to immediately prior to such amendment, extension, renewal, restatement, supplement, modification or replacement.

In the event that the Issuer complies with the requirements of this covenant, the Trustee and the Security Agent shall (subject to customary protections and indemnifications) consent to such amendment, extension, renewal, restatement, supplement, modification or release and replacement without the need for instructions from the holders of the Notes.

### Additional Intercreditor Agreements

The Indenture will provide that, at the written request of the Issuer and without the consent of the holders of the Notes, in connection with the incurrence by the Issuer or its Restricted Subsidiaries of (1) any Debt permitted pursuant to paragraph (1) of the "—Limitation on Debt" covenant or clause (a), (b), (d), (g), (h), (l), (m), (o) or (r) of paragraph (2) of the "—Limitation on Debt" covenant (including in connection with the incurrence of Liens relating thereto as otherwise permitted under the Indenture) and (2) any Permitted Refinancing Debt in respect of Debt referred to in the foregoing clause (1), the Issuer, the relevant Restricted Subsidiaries, the Trustee and the Security Agent shall enter into with the holders of such Debt (or their duly authorized Representatives) an intercreditor agreement (an "Additional Intercreditor Agreement") or a restatement, amendment or other modification of the existing Intercreditor Agreement, in each case on substantially the same terms as the Intercreditor Agreement (or terms not materially less favorable to the holders of the Notes), including containing substantially the same terms with respect to release of Guarantees and priority and release of the Security Interests; *provided* that such Additional Intercreditor Agreement will not impose any personal obligations on the Trustee or Security Agent or, in the opinion of the Trustee or Security Agent, as applicable, adversely affect the rights, duties, liabilities or immunities of the Trustee or Security Agent under the Indenture or the Intercreditor Agreement.

The Indenture also will provide that, at the written direction of the Issuer and without the consent of the holders of the Notes, the Trustee and the Security Agent shall from time to time enter into one or more amendments to any Intercreditor Agreement to: (1) cure any ambiguity, omission, defect or inconsistency of any such agreement; (2) increase the amount or types of Debt covered by any such agreement that may be incurred by the Issuer or a Guarantor that is subject to any such agreement (including with respect to any Intercreditor Agreement or Additional Intercreditor Agreement, the addition of provisions relating to new Debt ranking junior or *pari passu* in right of payment to the Notes); (3) add Restricted Subsidiaries to the Intercreditor Agreement or an Additional Intercreditor Agreement; (4) further secure the Notes (including Additional Notes); (5) make provision for equal and ratable pledges of the Collateral to secure Additional Notes; (6) implement any Permitted Collateral Liens (including junior liens, *pari passu* liens, and liens benefiting from priority rights of turnover in respect of proceeds of enforcement); (7) amend the Intercreditor Agreement or any Additional Intercreditor Agreement in accordance with the terms thereof; or (8) make any other change to any such agreement that does not adversely affect the holders of Notes in any material respect. The Issuer shall not otherwise direct the Trustee or the Security Agent to enter into any amendment to any Intercreditor Agreement without the consent of the holders of the majority in aggregate principal amount of the Notes then outstanding, except as otherwise permitted below under "Amendments and waivers" and as permitted under the Intercreditor Agreement and the Issuer may only direct the Trustee and the Security Agent to enter into any amendment to the extent such amendment does not impose any personal obligations on the Trustee or Security Agent or, in the opinion of the Trustee or Security Agent, adversely affect their respective rights, duties, liabilities or immunities under the Indenture or the Intercreditor Agreement or any Additional Intercreditor Agreement.

The Indenture shall also provide that, in relation to any Intercreditor Agreement or Additional Intercreditor Agreement, the Trustee (and Security Agent, if applicable) shall consent on behalf of the holders of the Notes to the payment, repayment, purchase, repurchase, defeasance, acquisition, retirement or redemption of any obligations subordinated to the Notes or Guarantees thereby; *provided*, *however*, that such transaction would comply with the covenant described under "—Limitation on Restricted Payments."

The Indenture also will provide that each holder of the Notes, by accepting a Note, shall be deemed to have agreed to and accepted the terms and conditions of the Intercreditor Agreement or any Additional Intercreditor Agreement (whether then entered into or entered into in the future pursuant to the provisions described herein) and to have directed the Trustee or Security Agent, as applicable, to enter into any such Additional Intercreditor Agreement.

## EVENTS OF DEFAULT

(1) Each of the following will be an "Event of Default" under the Indenture:

(a) default for 30 days in the payment when due of any interest or any Additional Amounts on any Note;

(b) default in the payment of the principal of or premium, if any, on any Note at its Maturity (upon redemption or otherwise);

(c) failure by the Issuer for 60 days after the written notice specified in paragraph (2) below to comply with any covenant or agreement that is contained in the Indenture or the Notes (other than a covenant or agreement which is specifically dealt with in clauses (a) or (b));

(d) default under the terms of any instrument evidencing or securing the Debt of the Issuer or any Restricted Subsidiary, if that default: (x) results in the acceleration of the payment of such Debt or (y) is caused by a failure to pay principal of such Debt at final maturity thereof after giving effect to any applicable grace periods, and such failure to make any payment has not been waived or the maturity of such Debt has not been extended (a "Payment Default"), and in either case the total amount of such Debt unpaid or accelerated exceeds €30.0 million;

(e) any Guarantee ceases to be, or shall be asserted in writing by any Guarantor, or any Person acting on behalf of any Guarantor, not to be in full force and effect or enforceable in accordance with its terms (other than as provided for in the Indenture or any Guarantee);

(f) failure by the Issuer or any Significant Subsidiary or group of Restricted Subsidiaries that taken as a whole would constitute a Significant Subsidiary to pay final judgments, orders or decrees (not subject to appeal) entered by a court or courts of competent jurisdiction aggregating in excess of €30.0 million (exclusive of any amounts covered by insurance policies issued by reputable and creditworthy insurance companies), which judgments shall not have been discharged or waived and there shall have been a period of 60 consecutive days or more during which a stay of enforcement of such judgment, order or decree (by reason of pending appeal, waiver or otherwise) shall not have been in effect;

(g) the Security Interests purported to be created under any Security Document (other than in accordance with the terms of the relevant Security Document, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Indenture) with respect to Collateral having a Fair Market Value in excess of €5.0 million will, at any time, cease to be in full force and effect and constitute a valid and perfected Lien with the priority required by the applicable Security Document and/or the Intercreditor Agreement or Additional Intercreditor Agreement for any reason other than the satisfaction in full of all obligations under the Notes Indenture and discharge of the Notes Indenture or in accordance with the terms of the Intercreditor Agreement, any Additional Intercreditor Agreement or the Security Documents or any Security Interest purported to be created under any Security Document is declared invalid or unenforceable or the Issuer or any Guarantor granting Collateral the subject of any such Security Interest asserts, in any pleading in any court of competent jurisdiction, that any such Security Interest is invalid or unenforceable and such failure to be in full force and effect or such assertion has continued uncured for a period of 15 days; and

(h) the occurrence of certain events of bankruptcy or insolvency described in the Indenture with respect to the Issuer or any Significant Subsidiary or group of Restricted Subsidiaries that taken as a whole would constitute a Significant Subsidiary.

(2) If an Event of Default (other than as specified in clause (1)(h) above) occurs and is continuing, the Trustee or the holders of not less than 25% in aggregate principal amount of the Notes then outstanding by written notice to the Issuer (and to the Trustee if such notice is given by the holders) may, and the Trustee, upon the written request of such holders, shall, declare the principal of, premium, if any, and any Additional Amounts and accrued interest on all the outstanding Notes immediately due and payable, and upon any such declaration all such amounts payable in respect of the Notes will become immediately due and payable.

(3) If an Event of Default specified in clause (1)(h) above occurs and is continuing, then the principal of, premium, if any, and Additional Amounts and accrued and unpaid interest on all the outstanding Notes shall become and be immediately due and payable without any declaration or other act on the part of the Trustee or any holder of Notes.

(4) The Indenture will provide that the holders of a majority in aggregate principal amount of the then outstanding Notes by notice to the Trustee may on behalf of the holders of all of the Notes waive any existing Default and its consequences under the Indenture (except a continuing Default in the payment of interests on, premium, if any, of the principal of any Notes held by a non-consenting holder) and rescind any acceleration with respect to the Notes and its consequences (except if such rescission would conflict with any judgment of a court of competent jurisdiction). In the event of any Event of Default specified in clause (d) above, such Event of Default and all consequences thereof (excluding any resulting payment default, other than as a result of acceleration of the Notes) shall be annulled, waived or rescinded, automatically and without any action by the Trustee or the holders, if within 20 days after such Event of Default arose:

  (i) the indebtedness or guarantee that is the basis for such Event of Default has been discharged;

  (ii) holders thereof have rescinded or waived the acceleration, notice or action (as the case may be) giving rise to such Event of Default; or

  (iii) the default that is the basis for such Event of Default has been cured.

(5) At any time after a declaration of acceleration under the Indenture, but before a judgment or decree for payment of the money due has been obtained by the Trustee, the holders of a majority in aggregate principal amount of the outstanding Notes, by written notice to the Issuer and the Trustee, may rescind such declaration and its consequences if:

  (a) the Issuer has paid or deposited with the Trustee (or another party designated by the Trustee for this purpose) a sum sufficient to pay:

    (i) all overdue interest and Additional Amounts on all Notes then outstanding;

    (ii) all unpaid principal of and premium, if any, on any outstanding Notes that has become due otherwise than by such declaration of acceleration and interest thereon at the rate borne by the Notes;

    (iii) to the extent that payment of such interest is lawful, interest upon overdue interest and overdue principal at the rate borne by the Notes; and

    (iv) all sums paid or advanced by the Trustee under the Indenture and the properly incurred compensation, expenses, disbursements and advances of the Trustee, its agents and counsel;

  (b) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction; and

  (c) all Events of Default, other than the non-payment of amounts of principal of, premium, if any, and any Additional Amounts and interest on the Notes that has become due solely by such declaration of acceleration, have been cured or waived.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

(6) The holders of not less than a majority in aggregate principal amount of the outstanding Notes may, on behalf of the holders of all the Notes, waive any past defaults under the Indenture, except a continuing default in the payment of the principal of, premium, if any, and Additional Amounts or interest on any Note held by a non-consenting holder (which may only be waived with the consent of holders of Notes holding 90% of the aggregate principal amount of the Notes outstanding under the Indenture). Subject to certain limitations, holders of a majority in aggregate principal amount of the then outstanding Notes may direct the Trustee or Security Agent in its exercise of any trust or power.

(7) Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any holders of Notes unless such holders have made written request and offered to the Trustee indemnity and/or security satisfactory in the sole opinion of the Trustee against any loss, liability or expense. Except (subject to the provisions described under "—Amendment, supplement and waiver") to enforce the right to receive payment of principal, premium, if any, or interest or Additional Amounts when due, no holder of any of the Notes has any right to institute any proceedings with respect to the Indenture or any remedy thereunder, unless the holders of at least 25% in aggregate principal amount of the outstanding Notes have made a written request to, and offered indemnity and/or security satisfactory to, in the sole opinion of the Trustee, institute such proceeding as trustee under the Notes and the Indenture, the Trustee has failed to institute such proceeding within 30 days after receipt of such notice and indemnity and/or security and the Trustee within such 30-day period has not received directions inconsistent with such written request by holders of a majority in aggregate principal amount of the outstanding Notes. Such limitations do not, however, apply to a suit instituted by a holder of a Note for the enforcement of the payment of the principal of, premium, if any, and Additional Amounts or interest on such Note on or after the respective due dates expressed in such Note.

(8) If a Default or an Event of Default occurs and is continuing and is known to the Trustee, the Trustee will mail to each holder of the Notes notice of the Default or Event of Default within 90 Business Days after its occurrence. Except in the case of a Default or an Event of Default in payment of principal of, premium, if any, Additional Amounts or interest on any Notes, the Trustee may withhold the notice to the holders of such Notes if a committee of its trust officers in good faith determines that withholding the notice is in the interests of the holders of the Notes.

(9) the Issuer is required to furnish to the Trustee annual statements regarding compliance with the Indenture. Upon becoming aware of any Default or Event of Default, the Issuer is required to promptly deliver to the Trustee a statement specifying such Default or Event of Default. The Trustee is under no obligation to monitor the occurrence of any Default or Event of Default and shall rely conclusively on instructions from the Issuer as to whether any Default or Event of Default has occurred.

## LEGAL DEFEASANCE OR COVENANT DEFEASANCE OF THE INDENTURE

The Indenture will provide that the Issuer may, at the option of its Board of Directors as evidenced by a resolution set forth in an Officer's Certificate, elect to have the obligations of the Issuer and the Guarantors discharged with respect to the outstanding Notes and Guarantees ("Legal Defeasance"). Legal Defeasance means that the Issuer will be deemed to have paid and discharged the entire Debt represented by the outstanding Notes and Guarantees except as to:

(a) the rights of holders of outstanding Notes to receive payments in respect of the principal of, premium, if any, and interest on such Notes when such payments are due from the trust referred to below;

(b) the Issuer's obligations to issue temporary Notes, register, transfer or exchange any Notes, replace mutilated, destroyed, lost or stolen Notes, maintain an office or agency for payments in respect of the Notes and segregate and hold such payments in trust;

(c) the rights, powers, trusts, duties and immunities of the Trustee and the obligations of the Issuer and the Guarantors in connection therewith; and

(d) the Legal Defeasance and Covenant Defeasance provisions of the Indenture.

In addition, the Issuer may, at its option and at any time, elect to have the obligations of the Issuer and the Guarantors released with respect to certain covenants set forth in the Indenture ("Covenant Defeasance"), and thereafter any omission to comply with such covenants will not constitute a Default or an Event of Default with respect to the Notes. In the event Covenant Defeasance occurs, certain events described under "—Events of Default" will no longer constitute an Event of Default with respect to the Notes. These events do not include events relating to non-payment or, solely with respect to the Issuer, bankruptcy, insolvency, receivership and reorganization. The Issuer may exercise its Legal Defeasance option regardless of whether they previously exercised Covenant Defeasance.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(a) the Issuer must irrevocably deposit or cause to be deposited in trust with the Trustee, for the benefit of the holders of the Notes, cash in euros, non-callable European Government Obligations or a combination thereof, in each case in such amounts as will be sufficient, in the opinion of internationally recognized investment bank, appraisal firm or firm of independent public accountants, to pay and discharge the principal of, premium, if any, and interest, on the outstanding Notes on the Stated Maturity or on the applicable redemption date, as the case may be, and the Issuer must (x) specify whether the Notes are being defeased to such Stated Maturity or to a particular redemption date; and (y) if applicable, have delivered to the Trustee an irrevocable notice to redeem all the outstanding Notes of such principal, premium, if any, or interest;

(b) in the case of Legal Defeasance, the Issuer must have delivered to the Trustee an opinion of counsel reasonably acceptable to the Trustee stating that (i) the Issuer has received from, or there has been published by, the U.S. Internal Revenue Service a ruling, or (ii) since the Issue Date, there has been a change in applicable U.S. federal income tax law, in either case to the effect that, and based thereon such opinion shall confirm that, the beneficial owners of the outstanding Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Legal Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(c) in the case of Covenant Defeasance, the Issuer must have delivered to the Trustee an opinion of counsel reasonably acceptable to the Trustee to the effect that the beneficial owners of the outstanding Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(d) the Issuer must have delivered to the Trustee an Officer's Certificate stating that the deposit was not made by the Issuer with the intent of preferring the holders of the Notes over the other creditors of the Issuer with the intent of defeating, hindering, delaying or defrauding creditors of the Issuer or others; and

(e) the Issuer must have delivered to the Trustee an Officer's Certificate and an opinion of counsel, reasonably acceptable to the Trustee, subject to customary assumptions and qualifications, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance, as the case may be, have been complied with.

## SATISFACTION AND DISCHARGE

The Indenture, the Notes and the Guarantees will be discharged and will cease to be of further effect when:

(a) either:

(i) all the Notes that have been authenticated and delivered (other than destroyed, lost or stolen Notes that have been replaced or paid and Notes for whose payment money has been deposited in trust or segregated and held in trust and thereafter repaid to the Issuer or discharged from such trust as provided for in the Indenture) have been delivered to the Trustee for cancellation; or

(ii) all Notes that have not been delivered to the Trustee for cancellation (x) have become due and payable (by reason of the mailing of a notice of redemption or otherwise) or (y) will become due and payable within one year and the Issuer or any Guarantor has irrevocably deposited or caused to be deposited with the Trustee as trust funds in trust solely for the benefit of the holders of the Notes, cash in euros, non-callable European Government Obligations or a combination thereof, in each case in such amounts as will be sufficient, without consideration of any reinvestment of interest, to pay and discharge the entire Debt on the Notes not delivered to the Trustee for cancellation for principal, premium, if any, and accrued interest to the date of maturity or redemption; and

(b) the Issuer has paid or caused to be paid all sums payable by the Issuer under the Indenture, the Notes and the Guarantees; and

(c) the Issuer has delivered irrevocable instructions to the Trustee under the Indenture to apply the deposited money toward the payment of the Notes at maturity or on the redemption date, as the case may be.

In addition, the Issuer must deliver to the Trustee an Officer's Certificate and an opinion of counsel, subject to customary assumptions and qualifications, each stating that all conditions precedent provided in the Indenture relating to the satisfaction and discharge of the Indenture have been satisfied; *provided* that any such counsel may rely on any Officer's Certificate as to matters of fact (including as to compliance with the foregoing clauses (a), (b) and (c)).

## AMENDMENTS AND WAIVERS

Except as provided otherwise in the succeeding paragraphs, the Indenture, any Security Document, the Intercreditor Agreement, the Notes or any Guarantee, may be amended or supplemented with the consent of the holders of at least a majority in aggregate principal amount of the Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes), and any existing Default or Event of Default or compliance with any provision of the Indenture, the Security Documents, the Intercreditor Agreement, the Notes or the Guarantees may be waived with the consent of the holders of a majority in aggregate principal amount of the then outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes).

Unless (i) consented to by the holders of at least 90% of the aggregate principal amount of then outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes) or (ii) consented to by each holder of Notes adversely affected thereby, no amendment, supplement or waiver may:

(a) change the Stated Maturity of the principal of, or any installment of or Additional Amounts or interest on, any Note;

(b) reduce the principal amount of any Note (or Additional Amounts or premium, if any) or the rate of or change the time for payment of interest on any Note;

(c) change the coin or currency in which the principal of any Note or any premium or any Additional Amounts or the interest thereon is payable;

(d) impair the right of any holder of Notes to institute suit for the enforcement of any payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the redemption date);

(e) reduce the principal amount of Notes whose holders must consent to any amendment, supplement or waiver of provisions of the Indenture (except a rescission of acceleration of the Notes by the holders of at least a majority in aggregate principal amount of the then outstanding Notes and a waiver of the Payment Default that resulted from such acceleration);

(f) release any Guarantee other than in accordance with the terms of the Indenture;

(g) modify any of the provisions relating to supplemental indentures requiring the consent of holders of the Notes or relating to the waiver of past defaults or relating to the waiver of certain covenants, except to increase the percentage of outstanding Notes required for such actions or to provide that certain other provisions of the Indenture cannot be modified or waived without the consent of the holder of each Note affected thereby; or

(h) make any change in the preceding amendment and waiver provisions.

Any amendment, supplement or waiver consented to by at least 90% of the aggregate principal amount of the then outstanding Notes will be binding against any non-consenting holders.

Notwithstanding the foregoing, without the consent of any holder of the Notes, the Guarantors, the Issuer, the Security Agent and the Trustee (as applicable) may modify, amend or supplement the Indenture, any Security Document, the Intercreditor Agreement, or any Guarantee:

(a) to cure any ambiguity, defect or inconsistency;

(b) to provide for the assumption of the Issuer's or a Guarantor's obligations to holders of Notes and Guarantees by a successor to the Issuer or any Guarantor in the case of a merger or consolidation or sale of all or substantially all of the Issuer's or such Guarantor's assets, as applicable;

(c) to make any change that would provide any additional rights or benefits to the holders of Notes or that does not adversely affect the legal rights under the Indenture of any such holder in any material respect;

(d) to conform the text of the Indenture, the Guarantees or the Notes to any provision of this "Description of the Notes" to the extent that such provision in this "Description of the Notes" was intended to be a verbatim recitation of a provision of the Indenture, the Notes or the Guarantees;

(e) to release any Guarantee in accordance with the terms of the Indenture;

(f) to allow any Guarantor to execute a supplemental indenture and/or a Guarantee with respect to the Notes;

(g) provide for uncertificated Notes in addition to or in place of certificated Notes (*provided* that the uncertificated Notes are issued in registered form for purposes of Section 163(f) of the Code, or in a manner such that the uncertificated Notes are described in Section 163(f)(2)(B) of the Code);

(h) to evidence and provide the acceptance of the appointment of a successor Trustee under the terms of the Indenture or to otherwise comply with any requirement of the Indenture;

(i) to the extent necessary to grant a security interest in any Collateral for the benefit of any Person; *provided* that the granting of such security interest is not prohibited by the Indenture or the Intercreditor Deed and the covenant described under "—Certain covenants—Impairment of Security Interests" is complied with;

(j) make any change to the extent permitted by the covenant described under "—Additional Intercreditor Amendments;" or

(k) to provide for the issuance of Additional Notes in accordance with and if permitted by the terms of and limitations set forth in the Indenture.

In formulating its opinion on such matters, the Trustee shall be entitled to request and rely absolutely on such evidence as it deems appropriate, including an opinion of counsel and an Officer's Certificate on which the Trustee may solely rely.

The consent of the holders of Notes is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

For the avoidance of doubt, the provisions of articles 86 to 94-8 of the Luxembourg act dated August 10, 1915 on commercial companies, as amended shall not apply in respect of the Notes.

## CONCERNING THE TRUSTEE

If the Trustee becomes a creditor of the Issuer or any Guarantor the Indenture limits the right of the Trustee to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions; *however*, if it acquires any conflicting interest it must eliminate such conflict within 90 days or resign as Trustee.

The holders of a majority in aggregate principal amount of the then outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. The Indenture will provide that in case an Event of Default occurs and is continuing, the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any holder of Notes, unless such holder has offered to the Trustee security and indemnity satisfactory, in the sole opinion of the Trustee, against any loss, liability or expense.

The Guarantors and the Issuer jointly and severally will indemnify the Trustee for all claims, liabilities and expenses incurred without gross negligence, willful misconduct or fraud on its part, arising out of or in connection with its duties. The Trustee shall bear no responsibility for special damages, punitive damages, lost profits or consequential losses.

## LISTING

Application has been made to list the Notes on the Euro MTF. There can be no guarantee that the application to list the Notes on the Euro MTF will be approved as of the Issue Date or at any time thereafter, and settlement of the Notes is not conditioned on obtaining this listing. The Issuer has initially designated Deutsche Bank Luxembourg S.A. as its listing agent (the "Listing Agent"). The address of the Listing Agent is 2, Boulevard Konrad Adenauer, L-1115 Luxembourg, Grand Duchy of Luxembourg.

## LISTING AND GENERAL INFORMATION

So long as the Notes are listed on the Euro MTF and the rules of Luxembourg Stock Exchange shall so require, copies, current and future, of all of our annual audited consolidated and unconsolidated financial statements, our unaudited consolidated interim quarterly financial statements and this Offering Memorandum may be obtained, free of charge, during normal business hours at the registered office of the Issuer.

## NO PERSONAL LIABILITY OF DIRECTORS, OFFICERS, EMPLOYEES AND SHAREHOLDERS

No director, officer, employee, incorporator, member or shareholder of the Issuer or any Guarantor will have any liability for any obligations of the Issuer or the Guarantors under the Notes, the Guarantees, the Security Documents or the Indenture or for any claim based on, in respect of, or by reason of such obligations or their creation. Each holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. Such waiver and release may not be effective to waive liabilities under the U.S. federal securities laws.

## PRESCRIPTION

Claims against the Issuer or the Guarantors for the payment of principal or premium, if any, on the Notes will be prescribed ten years after the applicable due date for payment thereof. Claims against the Issuer or the Guarantors for the payment of interest on the Notes will be prescribed five years after the applicable due date for payment of interest.

## GOVERNING LAW

The Indenture, the Notes and the related Guarantees will be governed by and construed in accordance with the laws of the State of New York, and will provide for the submission of the parties to the jurisdiction of the courts in the State of New York.

The Intercreditor Agreement will be governed by and construed in accordance with the laws of England and Wales, and will provide for the submission of the parties to the jurisdiction of the courts in England and Wales.

## CONSENT TO JURISDICTION AND SERVICE

The Indenture will provide that the Issuer and each Guarantor will appoint an agent for service of process in any suit, action or proceeding with respect to the Indenture, the Notes and the Guarantees and for actions brought under U.S. federal or state securities laws brought in any Federal or state court located in the City of New York and will submit to such jurisdiction.

## ENFORCEABILITY OF JUDGMENTS

Since substantially all of the assets of the Issuer and the Guarantors are outside the United States, any judgment obtained in the United States against the Issuer or certain Guarantors, including judgments with respect to the payment of principal, premium, if any, interest, Additional Amounts, redemption price and any purchase price with respect to the Notes, may not be collectable within the United States.

## CERTAIN DEFINITIONS

Set forth below are certain defined terms used in the Indenture. Reference is made to the Indenture for a full disclosure of all such terms, as well as any other capitalized terms used herein for which no definition is provided.

"Acquired Debt" means Debt of a Person:

(a) existing at the time such Person becomes a Subsidiary or is merged into or consolidated with such specified Person whether or not such Debt is incurred in connection with, or in contemplation of, such other Person merging with or into, or becoming a Restricted Subsidiary; or

(b) assumed in connection with the acquisition of assets from any such Person.

Acquired Debt will be deemed to be incurred on the date the acquired Person becomes a Restricted Subsidiary or the date of the related acquisition of assets from any Person.

"Affiliate" means, with respect to any specified Person any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control," when used with respect to any specified Person, means the power to direct or cause the direction of the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling," "controlled" have meanings correlative to the foregoing.

"Applicable Redemption Premium" means

with respect to a Note on any redemption date prior to May 15, 2014 the greater of:

(i) one percent of the principal amount of such Note and

(ii) the excess of:

  (x) the present value at such redemption date of the redemption price of such Note at May 15, 2014 plus all required interest payments that would otherwise be due to be paid on such Note during the period between the redemption date and May 15, 2014 excluding accrued but unpaid interest, computed using a discount rate equal to the Bund Rate at such redemption date plus 50 basis points, over

  (y) the principal amount of such Note on such redemption date.

For the avoidance of doubt, calculation of the Applicable Redemption Premium shall not be a duty or obligation of the Trustee, the Registrar or any Paying Agent.

"Asset Sale" means any sale, issuance, conveyance, transfer, lease (other than an operating lease entered into in the ordinary course of business) or other disposition (including, without limitation, by way of merger, consolidation or sale-and-leaseback transaction) (collectively, a "transfer"), directly or indirectly, in one or a series of related transactions, of:

(a) any Capital Stock of any Restricted Subsidiary (other than directors' qualifying shares or shares required by applicable law to be held by a Person other than the Issuer or a Restricted Subsidiary);

(b) all or substantially all the properties and assets of any division or line of business of the Issuer or any Restricted Subsidiary; or

(c) any other of the Issuer's or any Restricted Subsidiary's properties or assets.

Notwithstanding the preceding, none of the following items will be deemed to be an Asset Sale:

(i) any transfer or disposition of assets that is governed by the provisions of the Indenture described under "—Certain covenants—Consolidation, merger and sale of assets" and "—Purchase of Notes upon a Change of Control;"

(ii) any transfer or disposition of assets or Capital Stock between or among the Issuer and any Restricted Subsidiary; and any issuance of Capital Stock by a Restricted Subsidiary to the Issuer or to another Restricted Subsidiary, *provided*, to the extent such transfer or disposition involves the transfer or disposition of an asset constituting Collateral, such Collateral may be released in connection with such transfer or disposition if the Fair Market Value of such Collateral (along with any other Collateral so released during the twelve-month period immediately preceding such disposal) does not exceed €5.0 million and *provided further* that if such Collateral is pledged as collateral in respect of Debt under any Credit Facilities pursuant to clause (2)(b) of the covenant "—Limitation on Debt", such Collateral shall also be pledged as collateral in respect of the Notes and any Additional Notes;

(iii) any transfer or disposition of obsolete, worn-out or surplus equipment or facilities or other assets or rights of the Issuer or any Restricted Subsidiary that are no longer used or useful in the ordinary course of the Issuer's or any Restricted Subsidiary's business;

(iv) any single transaction or series of related transactions that involves assets or Capital Stock having a Fair Market Value of less than €7.5 million;

(v) for the purposes of "—Certain covenants—Limitation on sale of certain assets" only, a disposition of all or substantially all the assets of the Issuer in accordance with the covenant described under "—Certain covenants—Consolidation, merger and sale of assets" or any disposition that constitutes a Change of Control;

(vi) the disposition of receivables in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings and exclusive of factoring or similar arrangements;

(vii) a disposition that is made in connection with the establishment of a joint venture which is a Permitted Investment or sales, transfers and other dispositions of Investments in joint ventures to the extent required by or made pursuant to, customary buy/sell arrangements between the joint venture parties set forth in joint venture agreements and similar binding agreements;

(viii) the sale, lease or other disposition of equipment, inventory, property, stock-in-trade, goods, accounts receivable or other assets in the ordinary course of business;

(ix) the lease, assignment, sublease, license or sublicense of any real or personal property in the ordinary course of business;

(x) a Permitted Investment or a Restricted Payment (or a transaction that would constitute a Restricted Payment but for the exclusions from the definition thereof) that is not prohibited by the "—Limitation on Restricted Payments" covenant;

(xi) foreclosure, condemnation or similar action with respect to property or other assets;

(xii) any disposition of Capital Stock, Debt or other securities of any Unrestricted Subsidiary;

(xiii) any disposition of Securitization Assets and related assets in connection with any Qualified Securitization Financing and any factoring transaction in the ordinary course of business;

(xiv) sales of assets received by the Issuer or any Restricted Subsidiary upon the foreclosure on a Lien granted in favor of the Issuer or any Restricted Subsidiary;

(xv) the sale or other disposition of cash or Cash Equivalents;

(xvi) any exchange of assets for assets (including a combination of assets and Cash Equivalents) related to a Permitted Business; *provided* that the Fair Market Value of the assets received by the Issuer and its Restricted Subsidiaries is at least equal to the Fair Market Value of the assets exchanged by the Issuer and its Restricted Subsidiaries;

(xvii) the grant of licenses to intellectual property rights to third parties on an arms' length basis in the ordinary course of business;

(xviii) the disposition of assets to a Person who is providing services (the provision of which have been or are to be outsourced by the Issuer or any Restricted Subsidiary to such Person) related to such assets;

(xix) the granting of Liens not otherwise prohibited by the Indenture;

(xx) the surrender, or waiver of contract rights or settlement, release or surrender of contract, tort or other claims;

(xxi) the issuance of director's qualifying shares and shares of Capital Stock issued to foreign nationals as required by applicable law;

(xxii) the unwinding of any Hedging Obligation;

(xxiii) the sale or discount of inventory, accounts receivable or note receivable in the ordinary course of business or the conversion of accounts receivable to notes receivable; or

(xxiv) any financing transaction with respect to property built or acquired by the Issuer or any Restricted Subsidiary after the Issue Date, including sale-and-leaseback and asset securitizations permitted by the Indenture.

"Average Life" means, as of the date of determination with respect to any Debt, the quotient obtained by dividing:

(a) the sum of the products of:

(i) the numbers of years from the date of determination to the date or dates of each successive scheduled principal payment of such Debt; multiplied by

(ii) the amount of each such principal payment;

by

(b) the sum of all such principal payments.

"Bund Rate" means, as of any redemption date, the rate *per annum* equal to the equivalent yield to maturity as of such redemption date of the Comparable German Bund Issue, assuming a price for the Comparable German Bund Issue (expressed as a percentage of its principal amount) equal to the Comparable German Bund Price for such relevant date, where:

(a) "Comparable German Bund Issue" means the German *Bundesanleihe* security selected by any Reference German Bund Dealer as having a fixed maturity most nearly equal to the period from such redemption date to May 15, 2014 and that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of euro denominated corporate debt securities in a principal amount approximately equal to the then outstanding principal amount of the Notes and of a maturity most nearly equal to May 15, 2014 *provided*, *however*, that, if the period from such redemption date to May 15, 2014 is less than one year, a fixed maturity of one year shall be used;

(b) "Comparable German Bund Price" means, with respect to any relevant date, the average of all Reference German Bund Dealer Quotations for such date (which, in any event, must include at least two such quotations), after excluding the highest and lowest such Reference German Bund Dealer Quotations, or if the Issuer obtains fewer than four such Reference German Bund Dealer Quotations, the average of all such quotations;

(c) "Reference German Bund Dealer" means any dealer of German *Bundesanleihe* securities appointed by the Issuer in good faith; and

(d) "Reference German Bund Dealer Quotations" means, with respect to each Reference German Bund Dealer and any relevant date, the average as determined by the Issuer of the bid and offered prices for the Comparable German Bund Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Issuer by such Reference German Bund Dealer at 3:30 p.m. Frankfurt am Main, Germany time on the third Business Day preceding the relevant date.

"Business Day" means a day of the year on which banks are not required or authorized by law to close in Luxembourg, Grand Duchy of Luxembourg, New York City, United States or London, United Kingdom.

"Capital Stock" means, with respect to any Person, any and all shares, interests, partnership interests (whether general or limited), participations, rights in or other equivalents (however designated) of such Person's equity, any other interest or participation that confers the right to receive a share of the profits and losses, or distributions of assets of, such Person and any rights (other than debt securities convertible into or exchangeable for Capital Stock), warrants or options exchangeable for or convertible into or to acquire such Capital Stock, whether now outstanding or issued after the Issue Date.

"Capitalized Lease Obligation" means, with respect to any Person, any obligation of such Person under a lease of (or other agreement conveying the right to use) any property (whether real, personal or mixed), which obligation is required to be classified and accounted for as a capital lease obligation under IFRS, and, for purposes of the Indenture, the amount of such obligation at any date will be the capitalized amount thereof at such date, determined in accordance with IFRS and the Stated Maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date such lease may be terminated without penalty.

"Cash Contributions" means the aggregate amount of cash contributions made to the equity capital of the Issuer or any Restricted Subsidiary described in the definition of "Contribution Debt" or cash payments to the Issuer or any Restricted Subsidiary in the form of Deeply Subordinated Funding.

"Cash Equivalents" means any of the following:

(a) direct obligations (or certificates representing an interest in such obligations) issued by, or unconditionally guaranteed by, the government of a member state of the European Union, the United States of America, Switzerland or Canada (including, in each case, any agency or instrumentality thereof), as the case may be, the payment of which is backed by the full faith and credit of the relevant member state of the European Union or the United States of America, Switzerland or Canada, as the case may be, and which are not callable or redeemable at the Issuer's option;

(b) overnight bank deposits, time deposit accounts, certificates of deposit, banker's acceptances and money market deposits with maturities (and similar instruments) of 12 months or less from the date of acquisition issued by any lender party to a Credit Facility or by a bank or trust company which is organized under, or authorized to operate as a bank or trust company under, the laws of a member state of the European Union or of the United States of America or any state thereof, Switzerland or Canada; *provided* that such bank or trust company has capital, surplus and undivided profits aggregating in excess of €250 million (or the foreign currency equivalent thereof as of the date of such investment) and whose long-term debt is rated "P-2" or higher by Moody's or "A-2" or higher by S&P or the equivalent rating category of another internationally recognized rating agency;

(c) commercial paper having either (x) one of the two highest ratings obtainable from Moody's or S&P or the equivalent rating category of another internationally recognized rating agency or (y) companies listed on the Helsinki Stock Exchange with a market capitalization of no less than €500.0 million and, in each case, maturing within one year after the date of acquisition;

(d) repurchase obligations of any lender party to a Credit Facility or of any commercial bank satisfying the requirements of clause (b) of this definition having a term of not more than 90 days with respect to securities issued or fully guaranteed by the United States of America, the United Kingdom or an agency thereof or any member state of the European Union from time to time; and

(e) investments in money market mutual funds at least 95% of the assets of which constitute Cash Equivalents of the kind described in clauses (a) through (d) above.

"Commission" means the U.S. Securities and Exchange Commission.

"Commodity Hedging Agreements" means, in respect of a Person, any spot, forward, swap, option or other similar agreements or arrangements designed to protect such Person against or manage exposure to fluctuations in commodity prices.

"Consolidated Adjusted Net Income" means, with respect to any specified Person for any period, the aggregate of the net income (or loss) of such Person for such period, on a consolidated basis (excluding the net income (loss) of any Unrestricted Subsidiary), as determined in accordance with IFRS and without any reduction in respect of preferred stock dividends; *provided* that:

(a) any goodwill or other intangible asset impairment charges will be excluded;

(b) the net income (loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting will be included only to the extent of the amount of dividends or similar distributions paid in cash to the specified Person or a Restricted Subsidiary which is a Subsidiary of the Person;

(c) solely for the purpose of determining the amount available for Restricted Payments under clause (2)(c)(i) of the "—Limitation on Restricted Payments" covenant, any net income (loss) of any Restricted Subsidiary (other than any Guarantor) will be excluded if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to the Issuer by operation of the terms of such Restricted Subsidiary's charter or any agreement, instrument, judgment, decree, order, statute or governmental rule or regulation applicable to such Restricted Subsidiary or its shareholders (other than (i) restrictions that have been waived or otherwise released, (ii) restrictions pursuant to the Notes or the Indenture, (iii) contractual restrictions in effect on the Issue Date with respect to the Restricted Subsidiary and other restrictions with respect to such Restricted Subsidiary that, taken as a whole, are not materially less favorable to the holders of the Notes than such restrictions in effect on the Issue Date and (iv) any restriction listed under clauses (2)(a), (b) and (h) of the "Certain covenants—Limitation on dividend and other payment restrictions affecting Restricted Subsidiaries" covenant), except that the Issuer's equity in the net income of any such Restricted Subsidiary for such period will be included in such Consolidated Adjusted Net Income up to the aggregate amount of cash or Cash Equivalents actually distributed or that could have been distributed by such Restricted Subsidiary during such period to the Issuer or any Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend to another Restricted Subsidiary, to the limitation contained in this clause);

(d) any net gain (or loss) realized upon the sale or other disposition of any asset or disposed operations of the Issuer or any Restricted Subsidiaries (including pursuant to any sale leaseback transaction) which is not sold or otherwise disposed of in the ordinary course of business (as determined in good faith by the board of directors or a member of senior management of the Issuer) or in connection with the sale or disposition of securities will be excluded;

(e) (i) any extraordinary, exceptional or unusual gain, loss or charge, (ii) any asset impairments charges, the financial impacts of natural disasters (including fire, flood and storm and related events), (iii) any charges or reserves in respect of any restructuring, redundancy, integration or severance or (iv) any expenses, charges, reserves or other costs related to the Transactions, in each case, will be excluded;

(f) any non-cash compensation charge or expense arising from any grant of stock, stock options or other equity-based awards will be excluded;

(g) all deferred financing costs written off and premium paid or other expenses incurred directly in connection with any early extinguishment of Debt and any net gain (loss) from any write-off or forgiveness of Debt will be excluded;

(h) any one time non-cash charges or any increases in amortization or depreciation resulting from purchase accounting, in each case, in relation to any acquisition of another Person or business or resulting from any reorganization or restructuring involving the Issuer or its Subsidiaries will be excluded;

(i) any unrealized gains or losses in respect of Hedging Obligations or any ineffectiveness recognized in earnings related to qualifying hedge transactions or the fair value or changes therein recognized in earnings for derivatives that do not qualify as hedge transactions, in each case, in respect of Hedging Obligations will be excluded;

(j) any unrealized foreign currency transaction gains or losses in respect of Debt of any Person denominated in a currency other than the functional currency of such Person and any unrealized foreign exchange gains or losses relating to translation of assets and liabilities denominated in foreign currencies will be excluded;

(k) any expenses, charges or losses that are covered by indemnification or other reimbursement provisions in connection with any investment, acquisition or any sale, conveyance, transfer or other disposition of assets permitted under the Indenture, to the extent actually reimbursed, or, so long as the Issuer has made a determination that a reasonable basis exists for indemnification or reimbursement and only to the extent that such amount is (i) not denied by the applicable carrier (without any right of appeal thereof) within 180 days and (ii) in fact indemnified or reimbursed within 365 days of such determination (with a deduction in the applicable future period for any amount so added back to the extent not so indemnified or reimbursed within such 365 days), will be excluded;

(l) to the extent covered by insurance and actually reimbursed, or, so long as the Issuer has made a determination that there exists reasonable evidence that such amount will in fact be reimbursed by the insurer and only to the extent that such amount is in fact reimbursed within 365 days of the date of such determination (with a deduction in the applicable future period for any amount so added back to the extent not so reimbursed within such 365 day period), expenses, charges or losses with respect to liability or casualty events or business interruption will be excluded;

(m) any unrealized foreign currency translation or transaction gains or losses in respect of Debt or other obligations of the Issuer or any Restricted Subsidiary owing to the Issuer or any Restricted Subsidiary will be excluded; and

(n) the cumulative effect of a change in accounting principles will be excluded.

"Consolidated EBITDA" means, with respect to any specified Person for any period without duplication, the sum of Consolidated Adjusted Net Income, plus in each case to the extent deducted in computing Consolidated Adjusted Net Income for such period:

(a) provision for taxes based on income, profits or capital of such Person and its Restricted Subsidiaries for such period, to the extent that such provision for taxes was deducted in computing such Consolidated Adjusted Net Income; *plus*

(b) the Consolidated Net Interest Expense of such Person and its Restricted Subsidiaries for such period; *plus*

(c) any expenses, charges or other costs related to any equity offering, acquisition (including amounts paid in connection with the acquisition or retention of one or more individuals comprising part of a management team retained to manage the acquired business; *provided* that such payments are made at the time of such acquisition and are consistent with the customary practice in the industry at the time of such acquisition), joint venture, disposition, recapitalization, Debt permitted to be incurred by the Indenture, or the refinancing of any other Debt of such Person or any of its Restricted Subsidiaries (whether or not successful) (including such fees, expenses or charges related to the Transactions) and, in each case, deducted in such period in computing Consolidated Adjusted Net Income; *plus*

(d) depreciation, amortization (including, without limitation, amortization of intangibles and deferred financing fees), and other non-cash expenses (including without limitation write-downs and impairment of property, plant, equipment and intangibles and other long-lived assets and the impact of purchase accounting on such Person and its Restricted Subsidiaries for such period), but excluding any non-cash items for which a future cash payment will be required and for which an accrual or reserve is required by IFRS to be made, to the extent that such depreciation, amortization and other non-cash expenses were deducted in computing such Consolidated Adjusted Net Income; *plus*

(e) the amount of any restructuring charges, accruals or reserves, integration and facilities opening costs or other business optimization expenses, including any one-time costs incurred in connection with acquisitions after the issue date; *plus*

(f) the minority interest expense consisting of subsidiary income attributable to minority equity interests of third parties in any non-wholly owned Subsidiary in such period or any prior period, except to the extent of dividends declared or paid on Capital Stock held by third parties; *plus*

(g) to the extent actually paid during such period, the amount of management, monitoring, consulting and advisory fees and related expenses paid in such period to the Permitted Holders to the extent permitted by the "—Limitation on transactions with Affiliates" covenant; *plus*

(h) loss on sale of receivables, Securitization Assets and related assets in connection with a Qualified Securitization Facility; *plus*

(i) any foreign currency translation losses (including losses related to currency remeasurements of Indebtedness (including currency exchange rate Hedging Obligations and intercompany Indebtedness)) of the Issuer and its Restricted Subsidiaries and any losses due to any adjustment resulting from the application of Statement of Financial Accounting Standards No. 133 and International Accounting Standards No. 39 and their respective pronouncements and interpretations; *plus*

(j) costs or expense incurred pursuant to any management equity plan or stock option plan or any other management or employee benefit plan, agreement or any stock subscription or shareholder agreement, to the extent that such cost or expenses are funded with cash proceeds contributed to the capital of the Issuer or net cash proceeds of an issuance of Equity Interest of the Issuer (other than Redeemable Capital Stock) solely to the extent that such net cash proceeds are excluded from the calculation set forth in clause (2)(c) under "Certain covenants—Limitation on Restricted Payments;" *plus*

(k) any charge (or minus any income) attributable to a post-employment benefit scheme other than the current service costs attributable to the scheme; *minus*

(l) any foreign currency translation gains (including gains related to currency remeasurements of Indebtedness (including currency exchange rate Hedging Obligations and intercompany Indebtedness)) of the Issuer and its Restricted Subsidiaries and any gains due to any adjustment resulting from the application of Statement of Financial Accounting Standards No. 133 and International Accounting Standards No. 39 and their respective pronouncements and interpretations; *minus*

(m) (other than any non-cash items reducing such Consolidated Adjusted Net Income pursuant to clauses (a)–(n) of the definition thereof) non-cash items increasing such Consolidated Adjusted Net Income for such period, other than (i) any items which represent the reversal in such period of any accrual of, or cash reserve for, anticipated charges in any prior period where such accrual or reserve is no longer required; or (ii) items related to percentage of completion accounting,

in each case, on a consolidated basis and determined in accordance with IFRS.

"Consolidated Fixed Charge Coverage Ratio" of the Issuer means, for any period, the ratio of:

(a) Consolidated EBITDA

(b) to the sum of:

(i) Consolidated Net Interest Expense; and

(ii) cash and non-cash dividends due (whether or not declared) on the Redeemable Capital Stock of the Issuer and any Restricted Subsidiaries and on the Preferred Stock of any Restricted Subsidiary (to any Person other than the Issuer and any Restricted Subsidiary), in each case for such period,

*provided* that in calculating the Consolidated Fixed Charge Coverage Ratio or any element thereof for any period, *pro forma* calculations will be made in good faith by a responsible financial or accounting officer of the Issuer (including any anticipated expenses and cost savings and cost reduction synergies), including, without limitation, as a result of, or that would result from any actions taken by the Issuer or any Restricted Subsidiary including, without limitation, in connection with any cost reduction or cost savings plan or program or in connection with any transaction, investment, acquisition, disposition, restructuring, corporate reorganization or otherwise, in the good faith judgment of the chief executive officer, chief financial officer or any person performing a similarly senior accounting role of the Issuer (regardless of whether these cost savings and cost reduction synergies could then be reflected in *pro forma* financial statements to the extent prepared)); *provided further*, without limiting the application of the previous proviso, that:

(a) if the Issuer or any Restricted Subsidiary has incurred any Debt since the beginning of such period that remains outstanding or if the transaction giving rise to the need to calculate the Consolidated Fixed Charge Coverage Ratio is an incurrence of Debt or both, Consolidated EBITDA and Consolidated Net Interest Expense for such period shall be calculated after giving effect on a *pro forma* basis to such Debt as if such Debt had been incurred on the first day of such period and the discharge of any other Debt repaid, repurchased, defeased or otherwise discharged with the proceeds of such new Debt as if such discharge had occurred on the first day of such period; *provided however,* that the *pro forma* calculation of the Consolidated Fixed Charge Coverage Ratio shall not give effect to (i) any Debt incurred on the date of determination pursuant to the provisions described in clause (2) under the caption "—Certain covenants—Limitation on Debt" or (ii) the discharge on the date of determination of any Debt to the extent that such discharge results from the proceeds incurred pursuant to the provisions described in clause (2) under the caption "—Certain covenants—Limitation on Debt;"

(b) if, since the beginning of such period, the Issuer or any Restricted Subsidiary shall have made any Asset Sale, Consolidated EBITDA for such period shall be reduced by an amount equal to the Consolidated EBITDA (if positive) directly attributable to the assets which are the subject of such Asset Sale for such period, or increased by an amount equal to the Consolidated EBITDA (if negative) directly attributable thereto, for such period and the Consolidated Net Interest Expense for such period shall be reduced by an amount equal to the Consolidated Net Interest Expense directly attributable to any Debt of the Issuer or of any Restricted Subsidiary repaid, repurchased, defeased or otherwise discharged with respect to the Issuer and the continuing Restricted Subsidiaries in connection with such Asset Sale for such period (or, if the Capital Stock of any Restricted Subsidiary is sold, the Consolidated Net Interest Expense for such period directly attributable to the Debt of such Restricted Subsidiary to the extent the Issuer and the continuing Restricted Subsidiaries are no longer liable for such Debt after such sale);

(c) if, since the beginning of such period, the Issuer or any Restricted Subsidiary (by merger or otherwise) shall have made an Investment in any Restricted Subsidiary (or any Person which becomes a Restricted Subsidiary) or an acquisition of assets, including any acquisition of an asset occurring in connection with a transaction causing a calculation to be made hereunder, which constitutes all or substantially all of an operating unit of a business, Consolidated EBITDA and Consolidated Net Interest Expense for such period shall be calculated after giving pro forma effect thereto (including the incurrence of any Debt) as if such Investment or acquisition occurred on the first day of such period; and

(d) if, since the beginning of such period, any Person (that subsequently became a Restricted Subsidiary or was merged with or into the Issuer or any Restricted Subsidiary since the beginning of such period) shall have made any Asset Sale or any Investment or acquisition of assets that would have required an adjustment pursuant to clause (b) or (c) above if made by the Issuer or a Restricted Subsidiary during such period, Consolidated EBITDA and Consolidated Net Interest Expense for such period shall be calculated after giving pro forma effect thereto as if such Asset Sale or Investment or acquisition occurred on the first day of such period.

If any Debt bears a floating rate of interest and is being given pro forma effect, the interest expense on such Debt shall be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any Interest Rate Agreement applicable to such Debt for a period equal to the remaining term of such Interest Rate Agreement).

For the purposes of this definition and the definitions of Consolidated EBITDA, Consolidated Income Taxes, Consolidated Net Interest Expense and Consolidated Adjusted Net Income, calculations will be as determined in good faith by a responsible financial or accounting officer of the Issuer.

"Consolidated Leverage" means, with respect to any Person, the sum of the aggregate outstanding Debt of that Person and its Restricted Subsidiaries and the aggregate liquidation preference of any preferred equity issued by a Restricted Subsidiary, in each case, as of the relevant date of calculation.

"Consolidated Leverage Ratio" of the Issuer means, as of the date of determination, the ratio of (a) the Consolidated Leverage of the Issuer to (b) the aggregate Consolidated EBITDA of the Issuer for the period of the most recent four consecutive quarters for which financial statements are available; *provided* that the *pro forma* calculation of Consolidated Leverage shall not give effect to

(i) any Debt incurred on the date of determination pursuant to the provisions described in clause (2) under the caption "—Certain covenants—Limitation on Debt" or (ii) the discharge on the date of determination of any Debt to the extent that such discharge results from the proceeds incurred pursuant to the provisions described in clause (2) under the caption "—Certain covenants—Limitation on Debt;" *provided further,* that in calculating the Consolidated Leverage Ratio or any element thereof for any period, *pro forma* calculations will be made in good faith by a responsible financial or accounting officer of the Issuer (including any *pro forma* anticipated expenses and cost savings and cost reduction synergies) including, without limitation, as a result of, or that would result from any actions taken by the Issuer or any Restricted Subsidiary including, without limitation, in connection with any cost reduction or cost savings plan or program or in connection with any transaction, investment, acquisition, disposition, restructuring, corporate reorganization or otherwise, in the good faith judgment of the chief executive officer, chief financial officer or any person performing a similarly senior accounting role of the Issuer (regardless of whether these cost savings and cost reduction synergies could then be reflected in *pro forma* financial statements to the extent prepared)); *provided, further*, that for purposes of calculating the Consolidated EBITDA for such period, if, as of such determination:

(a) since the beginning of such period such Person or any Restricted Subsidiary thereof will have disposed of any company, any business, or any group of assets constituting an operating unit of a business (any such disposition, a "Sale") or if the transaction giving rise to the need to calculate the Consolidated Leverage Ratio is such a Sale, Consolidated EBITDA for such period will be reduced by an amount equal to the Consolidated EBITDA (if positive) attributable to the assets which are the subject of such Sale for such period or increased by an amount equal to the Consolidated EBITDA (if negative) attributable thereto for such period;

(b) since the beginning of such period such Person or any Restricted Subsidiary thereof (by merger or otherwise) will have made an Investment in any Person that thereby becomes a Restricted Subsidiary, or otherwise acquires any company, any business, or any group of assets constituting an operating unit of a business (any such Investment or acquisition, a "Purchase") including any such Purchase occurring in connection with a transaction causing a calculation to be made hereunder, Consolidated EBITDA for such period will be calculated after giving *pro forma* effect thereto as if such Purchase occurred on the first day of such period; and

(c) since the beginning of such period any other Person (that became a Restricted Subsidiary or was merged with or into the first Person or any Restricted Subsidiary thereof since the beginning of such period) will have made any Sale or any Purchase that would have required an adjustment pursuant to clause (a) or (b) above if made by the first Person or a Restricted Subsidiary thereof since the beginning of such period, Consolidated EBITDA for such period will be calculated after giving *pro forma* effect thereto as if such Sale or Purchase occurred on the first day of such period.

"Consolidated Net Interest Expense" means, with respect to any specified Person for any period, without duplication and in each case determined on a consolidated basis in accordance with IFRS, the sum of:

(a) the Issuer's and the Restricted Subsidiaries' total interest expense for such period, including, without limitation:

    (i) amortization of debt discount, but excluding amortization of debt issuance costs, fees and expenses and the expensing of any bridge or other financing fees;

    (ii) the net payments (if any) of Interest Rate Agreements and Currency Agreements (excluding amortization of fees and discounts and unrealized gains and losses); and

    (iii) the interest portion of any deferred payment obligation (classified as Debt under the Indenture); *plus*

(b) the interest component of the Issuer's and the Restricted Subsidiaries' Capitalized Lease Obligations accrued or scheduled to be paid or accrued during such period other than the interest component of Capitalized Lease Obligations between or among the Issuer and any Restricted Subsidiary or between or among Restricted Subsidiaries; *plus*

(c) the Issuer's and the Restricted Subsidiaries non-cash interest expenses (but excluding any non-cash interest expense attributable to the movement in the mark to market valuation of Hedging Obligations or other derivative instruments) and interest that was capitalized during such period; *plus*

(d) the interest expense on Debt of another Person to the extent such Debt is guaranteed by the Issuer or any Restricted Subsidiary or secured by a Lien on the Issuer's or any Restricted Subsidiary's assets, but only to the extent that such interest is actually paid by the Issuer or such Restricted Subsidiary; *minus*

(e) the interest income of the Issuer and the Restricted Subsidiaries during such period.

Notwithstanding any of the foregoing, Consolidated Net Interest Expense shall not include (i) any interest accrued, capitalized or paid in respect of Deeply Subordinated Funding, (ii) any commissions, discounts, yield and other fees and charges related to Qualified Securitization Financing and (iii) any payments on any operating leases.

"Consolidated Secured Leverage" means, with respect to any Person, the sum of the aggregate outstanding Debt (other than (i) Capitalized Lease Obligations or Purchase Money Obligations, (ii) Debt of the type specified in clauses (2)(c), (f), (g), (i), (j) and (l) of the "—Limitation on Debt" covenant), and (iii) any Subordinated Debt secured by a junior Lien) of that Person and its Restricted Subsidiaries that is secured by Lien.

"Consolidated Secured Leverage Ratio" of the Issuer means, as of the date of determination, the ratio of (a) the Consolidated Secured Leverage of the Issuer to (b) the aggregate Consolidated EBITDA of the Issuer for the period of the most recent four consecutive quarters for which financial statements are available, in each case, with such pro forma adjustments to Consolidated Secured Leverage and Consolidated EBITDA as are appropriate and consistent with the pro forma provisions set forth in the definition of Consolidated Leverage Ratio (it being understood that the pro forma adjustments applicable to Consolidated Leverage in such definition shall be applicable to Consolidated Secured Leverage for purposes of this definition).

"continuing" means, with respect to any Default or Event of Default, that such Default or Event of Default has not been cured or waived.

"Contribution Debt" means Debt of the Issuer or any Restricted Subsidiary in an aggregate principal amount, together with any Debt refinancing such Indebtedness, not greater than the aggregate amount of Cash Contributions (other than Excluded Contributions) made to the equity capital of the Issuer or such Restricted Subsidiary (other than by a Subsidiary of the Issuer) after the Issue Date, to the extent such net cash proceeds or cash have not been applied to make Restricted Payments pursuant to paragraph (2) or clause (3)(b) of the "—Limitation on Restricted Payments" covenant; *provided* that such Contribution Debt:

(a) is incurred within 180 days after the making of such Cash Contributions; and

(b) is designated as Contribution Debt pursuant to an officer's certificate signed by an officer or director of the Issuer no later than the date incurred.

"Credit Facility" or "Credit Facilities" means one or more debt facilities (including, without limitation, under the Revolving Facility Agreement), capital markets indentures, instruments or arrangements or commercial paper facilities, in each case with banks or other financial institutions or investors providing for revolving credit loans, term loans, receivables financings (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables), letters of credit or other forms of guarantees and assurances, or other Debt, including overdrafts, in each case, as amended, restated, modified, renewed, refunded, replaced (whether upon or after termination or otherwise), restructured, repaid or refinanced (whether by means of sales of debt securities to institutional investors and whether in whole or in part and whether or not with the original administrative agent or lenders or another administrative agent or agents or other bank or institutions and whether provided under the Revolving Facility Agreement and one or more other credit or other agreements) and, for the avoidance of doubt, includes any agreement extending the maturity thereof or otherwise restructuring all or any portion of the indebtedness thereunder or increasing the amount loaned or issued thereunder or altering the maturity thereof.

"Currency Agreements" means, in respect of a Person, any spot or forward foreign exchange agreements and currency swap, currency option or other similar financial agreements or arrangements designed to protect such Person against or manage exposure to fluctuations in foreign currency exchange rates.

"Debt" means, with respect to any Person, without duplication:

(a) the principal and premium amounts of any indebtedness of such Person in respect of borrowed money (including overdrafts) or for the deferred purchase price of property or services due more than one year after such property is acquired or such services are completed, excluding any trade payables and other accrued current liabilities incurred in the ordinary course of business;

(b) any indebtedness of such Person evidenced by bonds, notes, debentures or other similar instruments;

(c) all obligations, contingent or otherwise of such Person representing reimbursement obligations in respect of any letters of credit, bankers' acceptances or other similar instruments (except to the extent such obligation relates to trade payables in the ordinary course of business); *provided* that any counter-indemnity or reimbursement obligation under a letter of credit shall be considered Debt only to the extent that the underlying obligation in respect of which the letter of credit has been issued would also be Debt;

(d) any indebtedness representing Capitalized Lease Obligations of such Person;

(e) all obligations of such Person in respect of Interest Rate Agreements, Currency Agreements and Commodity Hedging Agreements (the amount of any such Debt to be equal at any time to either (a) zero if such Hedging Obligation is incurred pursuant to clause (2)(h) of the covenant described under "—Certain covenants—Limitation on Debt" or (b) the mark-to-market value of such Hedging Obligation if not incurred pursuant to such clause or, if the mark-to-market value is not available at such time, the close-out amount that would be payable by such specified Person (or if no amount would be payable, zero) pursuant to such Hedging Obligation as a result of early liquidation or termination);

(f) all Debt referred to in (but not excluded from) the preceding clauses (a) through (e) of other Persons and all dividends of other Persons, the payment of which is secured by (or for which the holder of such Debt has an existing right, contingent or otherwise, to be secured by) any Lien upon or with respect to property (including, without limitation, accounts and contract rights) owned by such specified Person, even though such specified Person has not assumed or become liable for the payment of such Debt (the amount of such obligation being deemed to be the lesser of the fair market value of such property or asset and the amount of the obligation so secured);

(g) all guarantees by such specified Person of Debt referred to in this definition of any other Person (other than by endorsement of negotiable instruments for collection in the ordinary course of business);

(h) all Redeemable Capital Stock of such Person valued at the greater of its voluntary maximum fixed repurchase price and involuntary maximum fixed repurchase price plus accrued and unpaid dividends; and

(i) Preferred Stock of any Restricted Subsidiary (but excluding any accrued dividends),

if and to the extent any of the preceding items (other than obligations under clauses (c) and (e) through (i)) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with IFRS; *provided* that the term "Debt" shall not include: (i) non-interest bearing installment obligations and accrued liabilities incurred in the ordinary course of business that are not more than 90 days past due; (ii) Debt in respect of the incurrence by the Issuer or any Restricted Subsidiary of Debt in respect of standby letters of credit, performance bonds or surety bonds provided by the Issuer or any Restricted Subsidiary in the ordinary course of business to the extent such letters of credit or bonds are not drawn upon or, if and to the extent drawn upon are honored in accordance with their terms and if, to be reimbursed, are reimbursed no later than 30 days following receipt by such Person of a demand for reimbursement following payment on the letter of credit or bond; (iii) any pension obligations of the Issuer or a Restricted Subsidiary; (iv) Debt incurred by the Issuer or a Restricted Subsidiary in connection with a transaction where (x) such Debt is borrowed from a bank or trust company, having a combined capital and surplus and undivided profits of not less than €250 million, whose debt has a rating immediately prior to the time such transaction is entered into, of at least A or the equivalent thereof by S&P and A2 or the equivalent thereof by Moody's and (y) a substantially concurrent Investment is made by the Issuer or a Restricted Subsidiary in the form of cash deposited with the lender of such Debt, or a Subsidiary or Affiliate thereof, in amount equal to such Debt; (v) obligations under or in respect of Qualified Securitization Financings; (vi) contingent obligations incurred in the ordinary course of business; (vii) Deeply Subordinated Funding; and (viii) any lease of property which would be considered an operating lease under IFRS (as in effect of the Issue Date) and any guarantee given by the Issuer or a Restricted Subsidiary in the ordinary course of business solely in connection with, and in respect of, the obligations of the Issuer or a Restricted Subsidiary under any operating lease.

For purposes of this definition, the "maximum fixed repurchase price" of any Redeemable Capital Stock that does not have a fixed redemption, repayment or repurchase price will be calculated in accordance with the terms of such Redeemable Capital Stock as if such Redeemable Capital Stock were purchased on any date on which Debt will be required to be determined pursuant to the Indenture, and if such price is based upon, or measured by, the fair market value of such Redeemable Capital Stock, such fair market value will be determined in good faith by the board of directors or a member of senior management of the Issuer of such Redeemable Capital Stock; *provided*, that if such Redeemable Capital Stock is not then permitted to be redeemed, repaid or repurchased, the redemption, repayment or repurchase price shall be the book value of such Redeemable Capital Stock as reflected in the most recent financial statements of such Person.

"Deeply Subordinated Funding" means any funds provided to the Issuer pursuant to an agreement, note, security or other instrument, other than Capital Stock, that pursuant to its terms, (i) is subordinated in right of payment to the Notes, (ii)(A) does not mature or require any amortization, redemption or other repayment of principal (other than through conversion or exchange of such funding into Qualified Capital Stock of the Issuer or any funding meeting the requirements of this definition), (B) does not require payment of any cash interest or any similar cash amounts and (C) contains no change of control or similar provisions and (D) does not accelerate and has no right to declare a default or event of default or take any enforcement action or otherwise require any cash payment (other than as a result of insolvency proceedings of the Issuer), in each case, prior to the 90th day following the Stated Maturity of the Notes and all other amounts due under the Indenture, (iii) does not provide for or require any security interest or encumbrance over any asset of the Issuer or any Restricted Subsidiary and (iv) does not (including upon the happening of any event) restrict the payment of amounts due in respect of the Notes or compliance by the Issuer with its obligations under the Notes and the Indenture.

"Default" means any event that is, or after notice or passage of time or both would be, an Event of Default.

"Designated Non-cash Consideration" means the Fair Market Value of non-cash consideration received by the Issuer or any Restricted Subsidiary in connection with an Asset Sale that is so designated as "Designated Non-cash Consideration" pursuant to an Officer's Certificate, less the amount of cash or Cash Equivalents received in connection with a subsequent sale of such Designated Non-cash Consideration.

"Designated Preferred Stock" means, with respect to the Issuer or any parent company, Preferred Stock (other than Redeemable Capital Stock) (a) that is issued for cash (other than to the Issuer or a Subsidiary of the Issuer or an employee stock ownership plan or trust established by the Issuer or any such Subsidiary for the benefit of their employees to the extent funded by the Issuer or such Subsidiary) and (b) that is designated as "Designated Preferred Stock" pursuant to an Officer's Certificate of the Issuer at or prior to the issuance thereof, the Net Cash Proceeds of which are excluded from the calculation set forth in clause (c)(ii) of paragraph (2) of the covenant described under "Certain covenants—Limitation on Restricted Payments."

"Equity Offering" means a public or private sale of Qualified Capital Stock of the Issuer (other than a public offering on Form S-8) or any similar offering in other jurisdictions or the public or private sale of Capital Stock or other securities of any direct or indirect parent company of the Issuer, the proceeds of which are contributed as Deeply Subordinated Funding or to the equity (other than through an Excluded Contribution) of the Issuer or any of its Restricted Subsidiaries.

"Euro Equivalent" means, with respect to any monetary amount in a currency other than euros, at any time for the determination thereof, the amount of euros obtained by converting such foreign currency involved in such computation into euros at the spot rate for the purchase of euro with the applicable foreign currency as published under "Currency Rates" in the section of the *Financial Times* entitled "Currencies, Bonds & Interest Rates" on the date that is two Business Days prior to such determination.

"European Government Obligations" means direct obligations of, or obligations guaranteed by, a member state of the European Union as in effect on December 31, 2003, and the payment for which such member state of the European Union pledges its full faith and credit.

"Exchange Act" means the U.S. Securities Exchange Act of 1934, as amended, or any successor statute, and the rules and regulations promulgated by the Commission thereunder.

"Excluded Contributions" means the net cash proceeds received by the Issuer after the Issue Date from (i) contributions to its common equity capital, and (ii) the sale (other than to a Subsidiary) of Capital Stock (other than Redeemable Capital Stock), in each case designated as "Excluded Contributions" pursuant to an Officer's Certificate (which shall be designated no later than the date on which such Excluded Contribution has been received), the net cash proceeds of which are excluded from the calculation set forth in the clause (2)(c)(ii) of the covenant described under "—Certain covenants—Limitation on Restricted Payments."

"Fair Market Value" means, with respect to any asset or property, the sale value that would be obtained in an arm's length free market transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the board of directors or a member of senior management of the Issuer.

"Guarantee" means any guarantee of the Issuer's obligations under the Indenture and the Notes by the Guarantors, any Restricted Subsidiary or any other Person in accordance with the provisions of the Indenture, including the Guarantees dated as of the Issue Date. When used as a verb, "Guarantee" shall have a corresponding meaning.

"guarantees" means, as applied to any obligation:

(a) a guarantee (other than by endorsement of negotiable instruments for collection or deposit in the ordinary course of business), direct or indirect, in any manner, of any part or all of such obligation; and

(b) an agreement, direct or indirect, contingent or otherwise, the practical effect of which is to assure in any way the payment or performance (or payment of damages in the event of non-performance) of all or any part of such obligation, including, without limiting the foregoing, by the pledge of assets and the payment of amounts drawn down under letters of credit.

"IFRS" means the International Financial Reporting standards promulgated by the International Accounting Standards Board or any successor board or agency as endorsed by the European Union and in effect on the date hereof, or, with respect to the covenant described under the heading "Provision of information" as in effect from time to time.

"Independent Financial Advisor" means an accounting, appraisal, investment banking firm or consultant to Persons engaged in a Similar Business of nationally recognized standing that is, in the good faith judgment of the Issuer, qualified to perform the task for which it has been engaged.

"Initial Investors" means:

(i) EQT IV Limited (the "GPCo") acting in its capacity as general partner of EQT IV (General Partner) LP (the "GPLP"), acting in its capacity as: (1) general partners of EQT IV (No.1) Limited Partnership (the "No.1 Partnership"); (2) general partner of EQT IV (No.2) Limited Partnership (the "No.2 Partnership"); (3) managing limited partner of the EQT IV GmbH & Co. KG (the "German Partnership"); and (4) manager of the EQT IV Co-Investment Scheme (the "Co-Investment Scheme") and together with the No.1 Partnership, the No.2 Partnership and the German Partnership, "EQT IV");

(ii) Affiliates of EQT IV;

(iii) any other fund whose general partner, managing limited partner or manager is an Affiliate of CBTJ Financial Services B.V., EQT Holdings AB or SEP Capital B.V.; and

(iv) any direct or indirect Subsidiaries of any of the Persons or funds referred to in paragraphs (i), (ii) and (iii) of this definition.

"Interest Rate Agreements" means, in respect of a Person, any interest rate protection agreements and other types of interest rate hedging agreements (including, without limitation, interest rate swaps, caps, floors, collars and similar agreements) designed to protect such Person against or manage exposure to fluctuations in interest rates.

"Intercreditor Agreement" means the intercreditor agreement to be dated as of the Issue Date, by and among, the Issuer, the Guarantors, the Agent for the Revolving Facility Agreement, the Trustee and the other parties named therein, as amended, restated or otherwise modified or varied from time to time.

"Investment" means, with respect to any Person, any direct or indirect advance, loan or other extension of credit (including guarantees but excluding bank deposits, accounts receivable, trade credit, advances to customers, commission, travel and similar advances to officers and employees, in each case, made in the ordinary course of business) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase, acquisition or ownership by such Person of any Capital Stock, bonds, notes, debentures or other securities or evidences of Debt issued or owned by, any other Person and all other items, in each case that are required by IFRS to be classified on the balance sheet (excluding the footnotes) of the relevant Person in the same manner as the other investments included in this definition to the extent such transactions involve the transfer of cash or other property. In addition, the portion (proportionate to the Issuer's equity interest in such Restricted Subsidiary) of the Fair Market Value of the net assets of any Restricted Subsidiary at the time that such Restricted Subsidiary is designated an Unrestricted Subsidiary will be deemed to be an "Investment" that the Issuer made in such Unrestricted Subsidiary at such time. The portion (proportionate to the Issuer's equity interest in such Restricted Subsidiary) of the Fair Market Value of the net assets of any Unrestricted Subsidiary at the time that such Unrestricted Subsidiary is designated a Restricted Subsidiary will be considered a reduction in outstanding Investments. "Investments" excludes extensions of trade credit on commercially reasonable terms in accordance with normal trade practices.

"Investment Grade Rating" shall occur when the Notes are rated Baa3 or better by Moody's and BBB- or better by S&P, as applicable (or, if either such entity ceases to rate the Notes, the equivalent investment grade credit rating from any other "nationally recognized statistical rating organization" within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act selected by the Issuer as a replacement agency).

"Issue Date" means May 10, 2013.

"Lien" means any mortgage or deed of trust, charge, pledge, lien (statutory or otherwise), privilege, security interest, hypothecation, assignment for security, standard security, assignation in security claim, or preference or priority or other encumbrance upon or with respect to any property of any kind, real or personal, movable or immovable, now owned or hereafter acquired. A Person will be deemed to own subject to a Lien any property which such Person has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement.

"Management Advances" means loans or advances made to, or guarantees with respect to loans or advances made to, directors, officers, employees or consultants of the Issuer or any Restricted Subsidiary:

(a) in respect of travel, entertainment or moving related expenses incurred in the ordinary course of business;

(b) in respect of moving related expenses incurred in connection with any closing or consolidation of any facility or office; or

(c) in the ordinary course of business and (in the case of this clause (c)) not exceeding €5.0 million in the aggregate outstanding at any time.

"Market Capitalization" means an amount equal to (i) the total number of issued and outstanding shares of Capital Stock of the Issuer or any direct or indirect parent company of the Issuer on the date of the declaration of the relevant dividend, multiplied by (ii) the arithmetic mean of the closing prices per share of such Capital Stock for the 30 consecutive trading days immediately preceding the date of the declaration of such dividend.

"Maturity" means, with respect to any indebtedness, the date on which any principal of such indebtedness becomes due and payable as therein or herein provided, whether at the Stated Maturity with respect to such principal or by declaration of acceleration, call for redemption or purchase or otherwise.

"Moody's" means Moody's Investors Service, Inc. and its successors.

"Net Cash Proceeds" means with respect to any Asset Sale, the proceeds thereof in the form of cash or Cash Equivalents including payments in respect of deferred payment obligations when received in the form of, or stock or other assets when disposed for, cash or Cash Equivalents (except to the extent that such obligations are financed or sold with recourse to the Issuer or any Restricted Subsidiary), net of:

(a) brokerage commissions and other fees and expenses (including, without limitation, fees and expenses of legal counsel, accountants, investment banks and other consultants) related to such Asset Sale;

(b) provisions for all taxes paid or payable, or required to be accrued as a liability under IFRS as a result of such Asset Sale;

(c) all distributions and other payments required to be made to any Person (other than the Issuer or any Restricted Subsidiary) owning a beneficial interest in the assets subject to the Asset Sale; and

(d) appropriate amounts required to be provided by the Issuer or any Restricted Subsidiary, as the case may be, as a reserve in accordance with IFRS against any liabilities associated with such Asset Sale and retained by the Issuer or any Restricted Subsidiary, as the case may be, after such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as reflected in an Officer's Certificate delivered to the Trustee.

"Officer's Certificate" means a certificate signed by an officer of the Issuer, a Guarantor or a Surviving Entity, as the case may be, and delivered to the Trustee.

"Pari Passu Debt" means (a) any Debt of the Issuer that ranks equally in right of payment with the Notes or (b) with respect to any Guarantee, any Debt that ranks equally in right of payment to such Guarantee.

"Permitted Business" means (a) any businesses, services or activities engaged in by the Issuer or any Restricted Subsidiary on the Issue Date and (b) any businesses, services and activities engaged in by the Issuer or any Restricted Subsidiary that are related, complementary, incidental, ancillary or similar to any of the foregoing or are extensions or developments of any thereof.

"Permitted Collateral Liens" means the following types of Liens:

(a) Liens securing the Notes issued on the Issue Date and any Permitted Refinancing Debt incurred to refinance such Notes incurred in compliance with clause (n) of paragraph (2) under the covenant described under "—Certain covenants—Limitation on Debt," and the related Guarantees or guarantees of such Permitted Refinancing Debt;

(b) Liens on the Collateral to secure Debt permitted under clauses (b), (e) (to the extent such guarantee is in respect of Debt otherwise permitted to be secured and is specified in this definition of "Permitted Collateral Liens") and (g) and (r) of paragraph (2) of the covenant described under "—Certain covenants—Limitation on Debt" and any Permitted Refinancing Debt in respect of any of the Debt referred to in this clause (b);

(c) Liens on Collateral to secure any Debt permitted under the covenant described under "—Certain covenants—Limitation on Debt;" following the incurrence of such Debt and after giving effect to the application of proceeds therefrom, on a pro forma basis, the Consolidated Secured Leverage Ratio for the period of the most recent four consecutive quarters for which financial statements are available would be less than 3.0 to 1.0; and

(d) Liens described in clauses (b), (d), (e), (f), (g), (h), (i), (j), (k), (l), (m), (n), (o), (r), (s), (t), (u), (v), (w), (x) and (cc) of the definition of "Permitted Liens",

*provided however*, that (x) only Debt incurred pursuant to clause (b) of the second paragraph of the covenant described under "—Certain covenants—Limitation on Debt" and Debt incurred pursuant to clause (g) of the second paragraph of the covenant described under "—Certain covenants—Limitation on Debt" in respect of such Debt and (y) and other Debt incurred pursuant to clause (g) of the second paragraph of the covenant described under "—Certain covenants—Limitation on Debt" not to exceed €25.0 million at any one time outstanding may benefit from priority rights of turnover in respect of the proceeds of enforcement from Liens securing the Notes pursuant to the Intercreditor Agreement or any Additional Intercreditor Agreement.

"Permitted Holders" means, collectively, (1) the Initial Investors, (2) any Related Parties, and (3) any Person who is acting as an underwriter in connection with a public or private offering of Capital Stock of the Issuer or any direct or indirect parent company of the Issuer, acting in such capacity. Any Person or group whose acquisition of beneficial ownership constitutes a Change of Control in respect of which a Change of Control Offer is made in accordance with the requirements of the Indenture will thereafter, together with its Affiliates, constitute an additional Permitted Holder.

"Permitted Investments" means any of the following:

(a) any Investment in the Issuer or in a Restricted Subsidiary of the Issuer;

(b) Investments in cash or Cash Equivalents;

(c) intercompany Debt to the extent permitted under clause (c) of the definition of "Permitted Debt;"

(d) any Investment by the Issuer or any Restricted Subsidiary of the Issuer in a Person (including the Capital Stock of such Person), if as a result of such Investment:

    (i) such Person becomes a Restricted Subsidiary of the Issuer; or

    (ii) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, the Issuer or a Restricted Subsidiary of the Issuer;

(e) Investments made by the Issuer or any Restricted Subsidiary as a result of or retained in connection with an Asset Sale permitted under or made in compliance with the covenant described under "—Certain covenants—Limitation on sale of certain assets" to the extent such Investments are non-cash proceeds permitted thereunder;

(f) expenses or advances to cover payroll, travel, entertainment, moving, other relocation and similar matters that are expected at the time of such advances to be treated as expenses in accordance with IFRS;

(g) Investments in the Notes and any other Debt of the Issuer or any Restricted Subsidiary;

(h) Investments existing on the Issue Date and any Investment consisting of an extension, modification or renewal of any Investment existing on, or made pursuant to a binding commitment existing on, the Issue Date; *provided* that the amount of any such Investment may be increased (a) as required by the terms of such Investment as in existence on the Issue Date or (b) as otherwise permitted under the Indenture;

(i) Investments in Hedging Obligations permitted under clause (2)(g) under "—Certain covenants—Limitation on Debt;"

(j) any Investments received in compromise or resolution of litigation, arbitration or other disputes;

(k) Investments in receivables owing to the Issuer or any Restricted Subsidiary created or acquired in the ordinary course of business;

(l) Investments in a Person to the extent that the consideration therefor consists of Capital Stock or the net proceeds of the issue and sale (other than to any Restricted Subsidiary) of shares of Capital Stock of the Issuer or Deeply Subordinated Funding; *provided* that the net proceeds of such sale have been excluded from, and shall not have been included in, the calculation of the amount determined under clause (2)(c)(ii) of "—Certain covenants—Limitation on Restricted Payments;"

(m) Investments of the Issuer or the Restricted Subsidiaries described under item (v) to the proviso to the definition of "Debt;"

(n) any guarantee of Debt permitted to be incurred by the covenant entitled "—Certain covenants—Limitation on Debt," performance guarantees and contingent obligations incurred in the ordinary course of business and the creation of Liens on the assets of the Issuer or any Restricted Subsidiary in compliance with the covenant described under "—Certain covenants—Liens;"

(o) Management Advances;

(p) any Investment in a Permitted Business taken together with all other Investments made pursuant to this clause (p) that are at any time outstanding, not to exceed the greater of (i) €25.0 million and (ii) 3.8% of Total Assets (with the fair market value of each Investment being measured at the time made and without given effect to subsequent changes in value);

(q) other Investments in any Person having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (q) that are at the time outstanding not to exceed the greater of €25.0 million and 3.8% of Total Assets; *provided*, that if an Investment is made pursuant to this clause in a Person that is not a Restricted Subsidiary and such Person subsequently becomes a Restricted Subsidiary or is subsequently designated a Restricted Subsidiary pursuant to "Certain covenants—Limitation on Restricted Payments," such Investment, if applicable, shall thereafter be deemed to have been made pursuant to clause (d) of the definition of "Permitted Investments" and not this clause;

(r) Investments resulting from the acquisition of a Person that at the time of such acquisition held instruments constituting Investments that were not acquired in contemplation of the acquisition of such Person;

(s) any Investment in connection with a Qualified Securitization Financing, including Investments of funds held in accounts permitted or required by the arrangements governing such Qualified Securitization Financing or any related Debt;

(t) (i) stock, obligations or securities received in satisfaction of judgments, foreclosure of Liens or settlement of debts and (ii) any Investments received in compromise of obligations of such persons incurred in the ordinary course of trade creditors or customers that were incurred in the ordinary course of business, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer;

(u) Investments made in the ordinary course of business in connection with obtaining, maintaining or renewing client contacts and loans or advances made to distributors in the ordinary course of business;

(v) any transaction to the extent it constitutes an Investment that is permitted by and made in accordance with the provisions of the second paragraph of the covenant described under "—Limitation on transactions with Affiliates" (except transactions described in clauses (iii), (viii) and (xvii) thereof);

(w) Investments consisting of purchases and acquisitions of inventory, supplies, material or equipment or the licensing or contribution of intellectual property pursuant to joint marketing arrangements with other Persons;

(x) advances, loans or extensions of trade credit in the ordinary course of business by the Issuer or any Restricted Subsidiary;

(y) Investments in prepaid expenses, negotiable instruments held for collection and lease, utility and workers compensation, performance and similar deposits entered into as a result of the operations of the business in the ordinary course of business;

(z) Investments consisting of purchases and acquisitions of services in the ordinary course of business; and

(aa) any Investment in any Subsidiary or any joint venture in connection with intercompany cash management arrangements or related activities arising in the ordinary course of business.

"Permitted Liens" means the following types of Liens:

(a) Liens existing on the Issue Date;

(b) Liens on any property or assets of a Restricted Subsidiary granted in favor of the Issuer or any Restricted Subsidiary;

(c) Liens on any of the Issuer's or any Restricted Subsidiary's property or assets securing the Notes or any Guarantees;

(d) Liens arising out of conditional sale, title retention, consignment or similar arrangements for the sale of goods entered into by the Issuer or any Restricted Subsidiary in the ordinary course of business;

(e) statutory Liens of landlords and carriers, warehousemen, mechanics, suppliers, materialmen, repairmen, employees, pension plan administrators or other like Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith or Liens arising solely by virtue of any statutory or common law provisions relating to attorney's liens or bankers' liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a creditor depositary institution;

(f) Liens for taxes, assessments, government charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with IFRS, shall have been made;

(g) Liens incurred or deposits made to secure the performance of tenders, bids or trade or government contracts, or to secure leases, statutory or regulatory obligations, surety or appeal bonds, performance bonds or other obligations of a like nature incurred in the ordinary course of business (other than obligations for the payment of money);

(h) zoning restrictions, easements, licenses, reservations, title defects, rights of others for rights-of-way, utilities, sewers, electrical lines, telephone lines, telegraph wires, restrictions, encroachments and other similar charges, encumbrances or title defects and incurred in the ordinary course of business that do not in the aggregate materially interfere with in any material respect the ordinary conduct of the business of the Issuer and the Restricted Subsidiaries on the properties subject thereto, taken as a whole;

(i) Liens arising by reason of any judgment, decree or order of any court so long as such Lien is adequately bonded and any appropriate legal proceedings that may have been duly initiated for the review of such judgment, decree or order shall not have been finally terminated or the period within which such proceedings may be initiated shall not have expired;

(j) Liens on property or assets of, or on shares of Capital Stock or on Debt of, any Person existing at the time such Person becomes a Restricted Subsidiary; *provided* that such Liens (i) do not extend to or cover any property or assets of the Issuer or any Restricted Subsidiary other than the property or assets of, or shares of Capital Stock or on Debt of, such acquired Person and (ii) were not created in connection with or in contemplation of such acquisition, merger or consolidation;

(k) Liens on property or assets existing at the time such property or assets are acquired, including any acquisition by means of a merger with or into or consolidation with, the Issuer or any Restricted Subsidiary; *provided* that such Liens (i) do not extend to or cover any property or assets of the Issuer or any Restricted Subsidiary other than (A) the property or assets acquired or (B) the property or assets of the Person merged with or into or consolidated with the Issuer or Restricted Subsidiary and (ii) were not in connection with or in contemplation of such acquisition, merger or consolidation;

(l) Liens securing the Issuer's or any Restricted Subsidiary's Hedging Obligations permitted under clause (2)(g) under "—Certain covenants—Limitation on Debt;"

(m) Liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security or other insurance (including unemployment insurance) or deposits to secure public or statutory obligations of such Person or deposits of cash or government bonds to secure performance, bid, surety or appeal bonds and completion bonds and guarantees to which such Person is a party, or deposits as security for contested taxes or import duties or for the payment of rent, in each case incurred in the ordinary course of business;

(n) Liens on insurance policies and proceeds thereof, or other deposits, to secure insurance premium financings;

(o) Liens incurred in connection with a cash management program established in the ordinary course of business;

(p) Liens on any property or assets of the Issuer or any of its Restricted Subsidiaries securing Debt permitted to be incurred pursuant to clauses (2)(b) and (2)(m) under "—Certain covenants—Limitation on Debt;"

(q) Liens on any property or assets of the Issuer or any Restricted Subsidiary for the purpose of securing Capitalized Lease Obligations, Purchase Money Obligations, mortgage financings or other Debt, in each case, incurred in connection with the financing of all or any part of the purchase price, lease expense, rental payment or cost of design, construction, installation or improvement of assets or property; *provided*, that any such Lien may not extend to any assets or property owned by the Issuer or any Restricted Subsidiary at the time the Lien is incurred other than the assets and property acquired, improved, constructed, leased or financed; *provided* that to the extent that any such Capitalized Lease Obligations, Purchase Money Obligations, mortgage financings or other Debt relate to multiple assets or properties, then all such assets or properties may secure any such Capitalized Lease Obligation, Purchase Money Obligations, mortgage financings or other Debt; *provided*, *further*, that the aggregate principal amount of Debt secured by such Liens is otherwise permitted to be incurred under the Indenture;

(r) Liens incurred to secure Permitted Refinancing Debt permitted to be incurred under the Indenture; *provided* that the new Lien shall be limited to all or part of the same property and assets that secured the original Lien (plus improvements and accessions to such property and assets and proceeds or distributions thereof);

(s) Liens on specific items of inventory or other goods (and the proceeds thereof) of any Person securing such Person's obligations in respect of bankers' acceptances issued or created in the ordinary course of business for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;

(t) leases, licenses, subleases and sublicenses of assets in the ordinary course of business;

(u) Liens on property or assets under construction (and related rights) in favor of a contractor or developer or arising from progress or partial payments by a third-party relating to such property or assets;

(v) Liens securing or arising by reason of any netting or set-off arrangement entered into in the ordinary course of banking or other trading activities;

(w) pledges of goods, the related documents of title and/or other related documents arising or created in the ordinary course of the Issuer's or any Restricted Subsidiary's business or operations as Liens only for Debt to a bank or financial institution directly relating to the goods or documents on or over which the pledge exists;

(x) Liens over cash paid into an escrow account pursuant to any purchase price retention arrangement as part of any permitted disposal by the Issuer or a Restricted Subsidiary on condition that the cash paid into such escrow account in relation to a disposal does not represent more than 15% of the net cash proceeds of such disposal;

(y) limited recourse Liens in respect of the ownership interests in, or assets owned by, any joint ventures which are not Restricted Subsidiaries securing obligations of such joint ventures;

(z) Liens on any Proceeds Loan made by the Issuer or any Restricted Subsidiary in connection with any future incurrence of Debt permitted under the Indenture and securing that Debt;

(aa) Liens over treasury stock of the Issuer or a Restricted Subsidiary purchased or otherwise acquired for value by the Issuer or such Restricted Subsidiary pursuant to a stock buy-back scheme or other similar plan or arrangement;

(bb) Liens on Securitization Assets and related assets incurred in connection with any Qualified Securitization Financing;

(cc) other Liens securing obligations in an aggregate amount at any one time outstanding not to exceed €20.0 million determined as of the date of incurrence;

(dd) Liens on the Capital Stock of an Unrestricted Subsidiary that secures Debt or other obligations of such Unrestricted Subsidiary;

(ee) any extension, renewal or replacement, in whole or in part, of any Lien described in the foregoing clauses (a) through (dd); *provided* that any such extension, renewal or replacement shall be no more restrictive in any material respect than the Lien so extended, renewed or replaced and shall not extend in any material respect to any additional property or assets; and

(ff) Permitted Collateral Liens.

"Permitted Refinancing Debt" means any renewals, extensions, substitutions, refinancings or replacements of any Debt of the Issuer or a Restricted Subsidiary or pursuant to this definition, including any successive refinancings, so long as:

(a) such Debt is in an aggregate principal amount (or if incurred with original issue discount, an aggregate issue price) not in excess of the sum of (i) the aggregate principal amount (or if incurred with original issue discount, the aggregate accreted value) then outstanding of the Debt being refinanced and (ii) an amount necessary to pay any fees and expenses, including premiums and defeasance costs, related to such refinancing;

(b) if the Debt being refinances constitutes Subordinated Debt, the Average Life of such Debt is equal to or greater than the Average Life of the Debt being refinanced or, if shorter, the Notes;

(c) if the Debt being refinanced constitutes Subordinated Debt, the Stated Maturity of such Debt is no earlier than the Stated Maturity of the Debt being refinanced or, if shorter, the Notes; and

(d) if the Debt being refinanced is expressly subordinated to the Notes, such Permitted Refinancing Debt is subordinated to the Notes on terms as least as favorable to the holders of the Notes as those contained in the documentation governing the Debt being refinanced;

*provided* that Permitted Refinancing Debt will not include (i) Debt of a Subsidiary of the Issuer (other than a Guarantor) that refinances the Debt of the Issuer or any Guarantor or (ii) Debt of any Restricted Subsidiary that refinances Debt of an Unrestricted Subsidiary.

"Person" means any individual, corporation, limited liability company, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Preferred Stock" means, with respect to any Person, Capital Stock of any class or classes (however designated) of such Person which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over the Capital Stock of any other class of such Person whether now outstanding, or issued after the Issue Date, and including, without limitation, all classes and series of preferred or preference stock of such Person; *provided* that accrued non-cash dividends with respect to any Preferred Stock shall not constitute Preferred Stock for the purposes of "Certain covenants—Limitation on Debt."

“Proceeds Loan” means an intercompany loan made by the Issuer or any Restricted Subsidiary out of the proceeds of an incurrence of Debt.

“Property” means, with respect to any Person, any interest of such Person in any kind of property or asset, whether real, personal or mixed, or tangible or intangible, including Capital Stock, and other securities of, any other Person. For purposes of any calculation required pursuant to the Indenture, the value of any Property shall be its Fair Market Value.

“Public Debt” means any Debt consisting of bonds, debentures, notes or other similar debt securities issued in (1) a public offering registered under the Securities Act or (2) a private placement to institutional investors that is underwritten for resale in accordance with Rule 144A under the Securities Act or Regulation S under the Securities Act, whether or not it includes registration rights entitling the holders of such securities to registration thereof with the Commission for public resale.

“Public Offering” means (1) any offering of Qualified Capital Stock that is listed on a national exchange or that is publicly offered (which shall include any offering pursuant to Rule 144A and/or Regulation S under the Securities Act) or (2) any offering of Qualified Capital Stock of any direct or indirect parent company of the Issuer that is listed on a national exchange or that is publicly offered (which shall include any offering pursuant to Rule 144A and/or Regulation S under the Securities Act), in the case of this clause (2), the proceeds of which are contributed as Deeply Subordinated Funding or to the equity (other than through an Excluded Contribution) of the Issuer or any Restricted Subsidiary.

“Purchase Money Obligations” means any Indebtedness incurred to finance or refinance the acquisition, leasing, construction or improvement of property (real or personal) or assets (including Capital Stock), and whether acquired through the direct acquisition of such property or assets or the acquisition of the Capital Stock of any Person owning such property or assets, or otherwise.

“Qualified Capital Stock” of any Person means any and all Capital Stock of such Person other than Redeemable Capital Stock.

“Qualified Securitization Financing” means any financing pursuant to which the Issuer or any Restricted Subsidiary may sell, convey or otherwise transfer to any other Person or grant a security interest in any accounts receivable (and related assets) in any aggregate principal amount equivalent to the Fair Market Value of such accounts receivable (and related assets) of the Issuer or any Restricted Subsidiary; *provided* that (a) the covenants, events of default and other provisions applicable to such financing shall be on market terms (as determined in good faith by the board of directors or a member of senior management of the Issuer) at the time such financing is entered into and (b) such financing shall be non-recourse to the Issuer and the Restricted Subsidiaries, except to a limited extent customary for such transactions.

“Redeemable Capital Stock” means any class or series of Capital Stock that, either by its terms, by the terms of any security into which it is convertible or exchangeable, or by contract or otherwise, is, or upon the happening of an event or passage of time would be, required to be redeemed prior to the final Stated Maturity of the Notes or is redeemable at the option of the holder thereof at any time prior to such final Stated Maturity (other than upon a change of control of the Issuer in circumstances in which the holders of the Notes would have similar rights), or is convertible into or exchangeable for debt securities at any time prior to such final Stated Maturity; *provided* that any Capital Stock that would constitute Qualified Capital Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of any “asset sale” or “change of control” occurring prior to the Stated Maturity of the Notes will not constitute Redeemable Capital Stock if the “asset sale” or “change of control” provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in “—Certain covenants—Limitation on sale of certain assets” and “—Purchase of Notes upon a Change of Control” described herein and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Issuer’s repurchase of such Notes as are required to be repurchased pursuant to “—Certain covenants—Limitation on sale of certain assets” and “—Purchase of Notes upon a Change of Control.”

“Related Parties” with respect to any Permitted Holder, means:

(a) any controlling equity holder or majority or wholly owned Subsidiary of such Person; or

(b) in the case of an individual, any spouse, family member or relative of such individual, any trust or partnership for the benefit of one or more of such individual and any such spouse, family member or relative, or the estate, executor, administrator, committee or beneficiaries of any thereof; or

(c) any trust, corporation, partnership or other Person for whom the beneficiaries, stockholders, partners or owners thereof, or Persons beneficially holding in the aggregate a 50.1% or more controlling interest therein, consist of such individuals and/or such other Persons referred to in the immediately preceding clauses (a) and (b); or

(d) any investment fund or vehicle managed, sponsored or advised by such Person or any successor thereto, or by any Affiliate of such Person or any such successor.

“Representative” means any trustee, agent or representative (if any) for an issue of Debt or the provider of Debt (if provided on a bilateral basis), as the case may be.

“Restricted Investment” means an Investment other than a Permitted Investment.

“Restricted Subsidiary” means any Subsidiary of the Issuer other than an Unrestricted Subsidiary.

“Revolving Facility Agreement” means the revolving credit facility agreement, dated on or about the Issuer Date by and among the Issuer, the lenders named therein, Wilmington Trust (London) Limited, as security agent and Danske Bank A/S as facility agent, including any related notes, guarantees, collateral documents, instruments and agreements executed in connection therewith, and, in each case, as amended, restated, modified, renewed, refunded, replaced in any manner (whether upon or after termination or otherwise) or refinanced (including by means of sales of debt securities to institutional investors) in whole or in part from time to time.

“S&P” means Standard and Poor’s Ratings Service, a division of The McGraw-Hill Companies, Inc. and its successors.

“Securities Act” means the U.S. Securities Act of 1933, as amended, or any successor statute, and the rules and regulations promulgated by the Commission thereunder.

“Securitization Assets” means any accounts receivable subject to a Qualified Securitization Financing.

“Securitization Fees” means distributions or payments made directly or by means of discounts with respect to any participation interest issued or sold in connection with, and other fees paid to a Person that is not the Issuer or a Restricted Subsidiary in connection with, any Qualified Securitization Financing.

“Securitization Repurchase Obligation” means any obligation of a seller of Securitization Assets in a Qualified Securitization Financing to repurchase Securitization Assets arising as a result of a breach of a representation, warranty or covenant or otherwise, including as a result of a receivable or a portion thereof becoming subject to any asserted defense, dispute, off-set or counterclaim of any kind as a result of any action taken by, any failure to take action by or any other event relating to the seller.

“Security Documents” means, collectively, all security agreements, mortgages, standard securities, deeds of trust, pledges, collateral assignments and other agreements or instruments evidencing or creating any security entered into by the Issuer or any of its Subsidiaries pursuant to the Indenture in favor of the Security Agent or any Holders in any or all of the Collateral and the Intercreditor Agreement, in each case, as amended from time to time in accordance with their terms and the terms of the Indenture.

“Significant Subsidiary” means, at the date of determination, any Restricted Subsidiary that together with its Subsidiaries which are Restricted Subsidiaries (i) for the most recent fiscal year, accounted for more than 10% of the consolidated revenues of the Issuer or (ii) as of the end of the most recent fiscal quarter, was the owner of more than 10% of the Total Assets.

“Similar Business” means (1) any business engaged in by the Issuer or any of its Restricted Subsidiaries on the Issue Date, and (2) any business or other activities that are reasonably similar, ancillary, complementary or related to, or a reasonable extension, development or expansion of, the businesses in which the Issuer and its Restricted Subsidiaries are engaged on the Issue Date.

“Stated Maturity” means, when used with respect to any note or any installment of interest thereon, the date specified in such note as the fixed date on which the principal of such note or such installment of interest, respectively, is due and payable, and, when used with respect to any other indebtedness, means the date specified in the instrument governing such indebtedness as the fixed date on which the principal of such indebtedness, or any installment of interest thereon, is due and payable.

“Subordinated Debt” means Debt of the Issuer or any Guarantor that is expressly subordinated in right of payment to the Notes or the Guarantees of such Guarantors, as the case may be; *provided*, that no Debt will be deemed to be subordinated in right of payment to any other Debt solely by virtue of being unsecured or by virtue of being secured on a junior Lien basis.

“Subsidiary” means, with respect to any Person:

(a) a corporation a majority of whose Voting Stock is at the time, directly or indirectly, owned by such Person, by one or more Subsidiaries of such Person or by such Person and one or more Subsidiaries thereof; and

(b) any other Person (other than a corporation), including, without limitation, a partnership, limited liability company, business trust or joint venture, in which such Person, one or more Subsidiaries thereof or such Person and one or more Subsidiaries thereof, directly or indirectly, at the date of determination thereof, has at least majority ownership interest entitled to vote in the election of directors, managers or trustees thereof (or other Person performing similar functions).

“Total Assets” means the consolidated total assets of the Issuer and the Restricted Subsidiaries as shown on the most recent consolidated balance sheet of the Issuer.

“Transactions” means (a) the offering of the Notes and the application of the proceeds therefrom as described under “Use of Proceeds” in the Offering Memorandum and (b) the entering into the Revolving Facility Agreement, and in each case all fees and expenses relating thereto.

“Trust Indenture Act” means the U.S. Trust Indenture Act of 1939, as amended, or any successor statute, and the rules and regulations promulgated by the Commission thereunder.

"Unrestricted Subsidiary" means:

(a) any Subsidiary of the Issuer that at the time of determination is an Unrestricted Subsidiary (as designated by the Issuer's board of directors pursuant to the "—Designation of Unrestricted and Restricted Subsidiaries" covenant); and

(b) any Subsidiary of an Unrestricted Subsidiary.

"Voting Stock" means any class or classes of Capital Stock pursuant to which the holders thereof have the general voting power under ordinary circumstances to elect at least a majority of the board of directors, managers or trustees (or Persons performing similar functions) of any Person (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency).

# Certain tax considerations

## FINNISH TAXATION

The following is a general description of certain Finnish tax considerations relating to the Notes. You should note that the description below only discusses non-residents of Finland. Holders of the Notes that are residents of Finland for tax purposes should consult their own tax advisor. It does not purport to be a complete analysis of all considerations relating to the Notes in Finland or elsewhere. Holders of the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to participating in the offer, holding and disposing of the Note and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. In particular, holders of the Notes should be aware that they may be liable to taxation under the laws of other jurisdictions even if they were exempt from all Finnish taxes. The summary below is based upon the law as in effect on the date of this Offering Memorandum and is subject to any change in law or practice that may take effect after such date.

Under present Finnish law, payment of the principal of and interest (if any) on the Notes by the Company will be exempt from all taxes, duties, fees and imports of whatever natures, imposed or levied by or within Finland or by any province, municipality or other political sub-division or taxing authority thereof and therein, except when the holder of the Notes to which any such payment relates is subject to such taxation thereon by reason of such holder being connected with Finland otherwise than solely by his holding of such Notes or the receipt of income therefrom.

Non-residents of Finland who do not engage in trade or business through a permanent establishment or a fixed place of business in Finland are not liable to pay Finnish capital gains tax in respect of payments made under the Notes that are not connected with a permanent or a fixed base in Finland.

Gift or inheritance taxes will arise in Finland with respect to a transfer of the Notes by way of gift by, or on the death of, a holder of such Notes, in case the donor/deceased person or the donee/beneficiary was a resident of Finland at the time of the gift/death. Limited foreign tax credit is available in case gift or inheritance tax has been paid for the same property outside Finland. For purposes of Finnish gift and inheritance taxes, a person who has his/her permanent home and dwelling in Finland, is deemed resident in Finland.

## U.S. FEDERAL INCOME TAXATION

The following is a description of certain U.S. federal income tax consequences of the acquisition, ownership, retirement or other disposition of Notes by a U.S. Holder (as defined below) thereof. This description only applies to Notes held as capital assets and does not address, except as set forth below, aspects of U.S. federal income taxation that may be applicable to holders that are subject to special tax rules, such as:

- banks, thrifts, and other financial institutions;
- insurance companies;
- real estate investment trusts;
- regulated investment companies;
- grantor trusts;
- tax-exempt organizations;
- persons that will own Notes through partnerships or other entities taxed as partnerships;
- S Corporations;
- dealers or traders in securities or currencies;
- U.S. expatriates or former long-term permanent residents;
- U.S. Holders that will hold a Note as part of a position in a straddle or as part of a hedging, conversion or integrated transaction for U.S. federal income tax purposes; or
- U.S. Holders that have a functional currency other than the U.S. dollar.

Moreover, this description does not address the effect of state, local or non-U.S. tax laws, or the U.S. federal estate and gift tax, Medicare tax or alternative minimum tax consequences of the acquisition, ownership, retirement or other disposition of Notes and does not address the U.S. federal income tax treatment of holders that do not acquire Notes as part of the initial distribution at their initial issue price. The "issue price" of a Note is generally equal to the first price at which a substantial amount of Notes are sold for money to investors (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). Each prospective purchaser should consult its tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, holding and disposing of Notes.

This description is based on the Internal Revenue Code of 1986, as amended, or the Code, existing and proposed U.S. Treasury Regulations, (the "**Regulations**"), administrative pronouncements and judicial decisions, each as available and in effect on the date hereof. All of the foregoing is subject to change, possibly with retroactive effect, or differing interpretations which could affect the tax consequences described herein.

For purposes of this description, a U.S. Holder is a beneficial owner of Notes who, for U.S. federal income tax purposes, is:

- an individual who is a citizen or resident of the United States;
- a corporation (or any other entity that is treated as a corporation for U.S. federal income tax purposes) organized in or under the laws of the United States, any State thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust (1)(a) the administration over which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more U.S. persons have the authority to control, or (2) that has a valid election in effect under applicable Regulations to be treated as a U.S. person for U.S. federal income tax purposes.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds Notes, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax advisor as to its consequences.

### CIRCULAR 230 DISCLOSURE

**Pursuant to Circular 230, we hereby inform you that the description set out herein with respect to U.S. federal tax issues was not intended or written to be used, and such description cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on the taxpayer under the Code. Such description was written in connection with the promotion or marketing of the Notes. Taxpayers should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.**

### CHARACTERIZATION OF THE NOTES

A U.S. Holder may require the Issuer to repurchase such holder's Notes in the event of a Change of Control (see "*Description of the Notes—Repurchase of Notes upon a Change of Control*"). Under the contingent payment debt instrument Regulations, or the "**CPDI Regulations**," the possibility of a contingent payment on a note may be disregarded if, as of the issue date, the likelihood of the contingent payment is remote. The Issuer believes that as of the expected issue date of the Notes, the likelihood of a Change of Control is for this purpose remote and, therefore, the Issuer does not intend to treat the Notes as CPDIs. The Issuer's determination, however, is not binding on the Internal Revenue Service (the "**IRS**"), and if the IRS were to challenge this determination, U.S. Holder may be required to accrue income on their Notes in excess of stated interest, and to treat as ordinary income rather than capital gain any income realized on the taxable disposition of such Notes before the resolution of the contingency. In the event that such contingency were to occur, it would affect the amount and timing of the income that U.S. Holders recognize. U.S. Holders are urged to consult their own tax advisors regarding the potential application to the Notes of the CPDI Regulations and the consequences thereof. The remainder of this discussion assumes that the Notes will not be treated as CPDIs.

### PAYMENTS OF STATED INTEREST

Payments of stated interest on the Notes, including any additional amounts with respect thereto as described under "*Description of the Notes—Additional Amounts*" and any tax withheld from such payments, will generally be includible in a U.S. Holder's gross income as ordinary interest income at the time it is accrued or received in accordance with the U.S. Holder's method of tax accounting for U.S. federal income tax purposes. Interest generally will be income from sources outside the United States.

Any interest paid in euros will be included in a U.S. Holder's gross income in an amount equal to the U.S. dollar value of the euro, including the amount of any withholding tax thereon, regardless of whether the euro are converted into U.S. dollars. Generally, a U.S. Holder that uses the cash method of tax accounting will determine such U.S. dollar value using the spot rate of exchange on the date of receipt. A cash method U.S. Holder generally will not realize foreign currency gain or loss on the receipt of the interest payment but may have foreign currency gain or loss attributable to the actual disposition of the euros received. Generally, a U.S. Holder that uses the accrual method of tax accounting will determine the U.S. dollar value of accrued interest income using the average rate of exchange for the accrual period (or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the U.S. Holder's taxable year). Alternatively, an accrual basis U.S. Holder may make an election (which must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS) to translate interest income at the spot rate of exchange on the last day of the accrual period (or, with respect to an accrual period that spans two taxable years, the last day of the taxable year) or the spot rate on the date of receipt, if that date is within five business days of the last day of the accrual period. A U.S. Holder that uses the accrual method of accounting for tax purposes will recognize foreign currency gain or loss on the receipt of an interest payment if the exchange rate in effect on the date a payment is received differs from the rate applicable to an accrual of that interest. The amount of foreign currency gain or loss to be recognized by the holder will be an amount equal to the difference between the U.S. dollar value of the euro interest payment

(determined on the basis of the spot rate on the date the interest income is received) in respect of the accrual period and the U.S. dollar value of the interest income that has accrued during the accrual period (as determined above). This foreign currency gain or loss will generally be ordinary income or loss from sources within the United States.

### FOREIGN TAX CREDIT

Stated interest income (including any additional amounts with respect thereto as described under "*Description of the Notes—Additional Amounts*") and OID, if any, on a Note generally will constitute foreign source income and generally will be considered "passive category income" or, in the case of certain U.S. Holders, "general category income," in computing the foreign tax credit allowable to U.S. Holders under U.S. federal income tax laws. There are significant complex limitations on a U.S. Holder's ability to claim foreign tax credits. U.S. Holders should consult their tax advisors regarding the creditability or deductibility of any withholding tax.

### SALE, EXCHANGE, RETIREMENT OR OTHER DISPOSITION

Upon the sale, exchange, retirement or other disposition of a Note, a U.S. Holder will generally recognize taxable gain or loss equal to the difference, if any, between the amount realized on the sale, exchange, retirement or other disposition, other than accrued but unpaid interest which will be taxable as interest, and such holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note generally will equal the price paid by such U.S. Holder for the Note in U.S. dollars, increased by an OID previously included in income, if any, and reduced by any payments other than payments of interest. If the Note was purchased in euros, a U.S. Holder's cost generally will be the U.S. dollar value of the purchase price on the date of such purchase. If the Note is sold, exchanged, retired or otherwise disposed of for an amount in euros, the amount realized generally will be the U.S. dollar value of such euro amount received on the date of sale, exchange, retirement or other disposition. If the Notes are treated as traded on an established securities market, however, a cash method U.S. Holder (or an electing accrual method U.S. Holder) will determine its adjusted tax basis or amount realized by using the spot rate in effect on the settlement date of the purchase or disposition, as the case may be.

Subject to foreign currency rules below, gain or loss recognized on the sale, exchange, retirement or other disposition of a Note will be capital gain or loss and will be long-term capital gain or loss if the holding period for such Note is more than one year. Long-term capital gains recognized by individuals and certain other non-corporate U.S. Holders generally are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations

Any gain or loss realized on the sale, exchange, retirement or other disposition of a Note generally will be treated as U.S. source gain or loss, as the case may be, for U.S. foreign tax credit purposes.

Gain or loss realized upon the sale, exchange, retirement or other disposition of a Note that is attributable to fluctuations in foreign currency exchange rates will constitute foreign currency gain or loss with respect to the principal amount to the extent provided under special rules. This foreign currency gain or loss will be taxable as U.S. source ordinary income or loss, but generally will not be treated as interest income or expense. The U.S. Holder will recognize foreign currency gain or loss with respect to the principal amount of the Note equal to the difference between (i) the U.S. dollar value of the U.S. Holder's purchase price for the Note determined at the spot rate on the date of sale, exchange, retirement or other disposition (or, in the case of a cash basis or electing accrual basis taxpayer, the settlement date of the sale, exchange, retirement or other disposition, if the Note is treated as traded on an established securities market for U.S. federal income tax purposes) and (ii) the U.S. dollar value of the U.S. Holder's purchase price for the Note determined at the spot rate on the date the U.S. Holder acquired the Note. (or, in the case of a cash basis or electing accrual basis taxpayer, the settlement date of the purchase, if the Note is treated as traded on an established securities market for U.S. federal income tax purposes). However, a U.S. Holder will recognize foreign currency gain or loss only to the extent of the total gain or loss realized on the sale, exchange, retirement or other disposition.

### EXCHANGE OF FOREIGN CURRENCIES

A U.S. Holder will have a tax basis in any euros received as stated interest or upon the sale, exchange, retirement or other disposition of a Note equal to the U.S. dollar value thereof at the spot rate of exchange in effect on the date of receipt of the euros. Any gain or loss realized by a U.S. Holder on a sale or other disposition of euros, including their exchange for U.S. dollars, will be ordinary income or loss and generally will be income or loss from sources within the United States for U.S. foreign tax credit purposes.

### TAX RETURN DISCLOSURE REQUIREMENTS

A U.S. Holder may be required to report a sale, exchange, retirement or other disposition of a Note (or, in the case of an accrual basis U.S. Holder, a payment of accrued interest) on IRS Form 8886 (Reportable Transaction Disclosure Statement) if it recognizes foreign currency exchange loss that exceeds US$50,000 in a single taxable year from a single transaction if such U.S. Holder is an individual or trust, or higher amounts for other non-individual U.S. Holders. U.S. Holders are urged to consult their tax advisors in this regard.

## U.S. BACKUP WITHHOLDING TAX AND INFORMATION REPORTING

Generally, information reporting and backup withholding of U.S. federal income tax may apply to payments of interest on and proceeds from the sale, exchange, retirement or other disposition of the Notes if the holder is not an "exempt recipient" and fails to provide certain identifying information (such as the owner's taxpayer identification number) in the required manner, or the IRS otherwise directs the paying agent to withhold. Generally individuals are not exempt recipients, but corporations and certain other entities generally are exempt recipients.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from payments to a U.S. Holder would be allowed as a refund or a credit against such holder's U.S. federal income tax provided the required information is furnished to the IRS in a timely manner.

### Foreign asset reporting

Certain U.S. Holders who are individuals are required to report information relating to an interest in the Notes, subject to certain exceptions (including an exception for Notes held in accounts maintained by certain financial institutions). U.S. Holders are urged to consult their tax advisors regarding their information reporting obligations, if any, with respect to their ownership and disposition of the Notes.

**The above description is not intended to constitute a complete analysis of all tax consequences relating to the ownership of Notes. Prospective purchasers of Notes should consult their own tax advisors concerning the tax consequences of their particular situations.**

## EUROPEAN UNION SAVINGS DIRECTIVE

Under the European Union Directive on the taxation of savings income (Council Directive 2003/48/EC, the "**EU Savings Directive**"), each European Union member state ("**Member State**") is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at a rate of 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-European Union countries to the exchange of information relating to such payments.

A number of non-European Union countries, and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information of transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into reciprocal provision of information arrangements or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident in one of those territories.

The European Commission has published proposals for amendments to the EU Savings Directive, which, if implemented, would amend and broaden the scope of the requirements above.

# Certain ERISA considerations

The U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**") imposes fiduciary standards and certain other requirements on "employee benefit plans" (as defined in ERISA) subject to Title I of ERISA, including, but not limited to, entities such as bank collective investment funds and insurance company separate accounts and other entities or accounts whose underlying assets include "plan assets" as defined in U.S. Department of Labor Regulation Section 2510.3-101, as modified by Section 3(42) of ERISA (collectively, "**ERISA Plans**") and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including, but not limited to, the requirement of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the plan. Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") also imposes certain requirements on plans described in Section 4975(e)(1) of the Code, including, but not limited to, plans not subject to Title I of ERISA such as individual retirement accounts (such plans together with ERISA Plans, "**Plans**").

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of a Plan and certain persons having certain relationships to Plans (referred to as "parties in interest" or "disqualified persons"), unless a statutory or administrative exemption is applicable to the transaction. The fiduciary of a Plan that proposes to purchase and hold any Notes should consider, among other things, whether such purchase and holding may involve (i) the direct or indirect extension of credit to a party in interest or a disqualified person, (ii) the sale or exchange of any property between a Plan and a party in interest or a disqualified person, or (iii) the transfer to, or use by or for the benefit of, a party in interest or disqualified person, of any Plan assets. Such parties in interest or disqualified persons could include, without limitation, the Issuer, the underwriters, the Guarantors, any lenders under the Revolving Credit Facility, the agents or any of their respective affiliates. Depending on the satisfaction of certain conditions which may include the identity of the Plan fiduciary making the decision to acquire or hold the Notes on behalf of a Plan, Section 408(b)(17) of ERISA or Prohibited Transaction Class Exemption ("**PTCE**") 84-14 (relating to transactions effected by a "qualified professional asset manager"), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 91-38 (relating to investments by bank collective investment funds), PTCE 95-60 (relating to investments by insurance company general accounts) or PTCE 96-23 (relating to transactions directed by an in-house asset manager) (collectively, the "**Class Exemptions**") could provide an exemption from the prohibited transaction provisions of ERISA and Section 4975 of the Code. However, there can be no assurance that any of these Class Exemptions or any other exemption will be available with respect to any particular transaction involving the Notes. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and/or Section 4975 of the Code.

Any Plan fiduciary which proposes to cause a Plan to purchase the Notes should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such purchase and holding will not constitute or result in a non-exempt prohibited transaction or any other violation of an applicable requirement of ERISA.

Non-U.S. plans, governmental plans and certain church plans, while not subject to the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of ERISA and Section 4975 of the Code, may nevertheless be subject to non-US, state, local or other federal laws or regulations that are substantially similar to the foregoing provisions of ERISA and the Code ("**Similar Laws**"). Fiduciaries of any such plans should consult with their counsel before purchasing the Notes to determine the need for, and the availability, if necessary, of any exemptive relief under any such law or regulations.

By its acceptance of any Note, each original and subsequent purchaser and transferee of any Note will be deemed to have represented and warranted that either: (a) no portion of the assets used to acquire or hold the Notes constitutes assets of any Plan or non-U.S., governmental or church plan subject to any Similar Laws or entity whose underlying assets are considered to include "plan assets" of any such Plan, account or arrangement or (b) the purchase and holding of the Notes will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation under any applicable Similar Laws. The sale of any Notes to a Plan or plan subject to Similar Laws is in no respect a representation by the Issuer or any of its affiliates or representatives that such an investment meets all relevant legal requirements with respect to investments by any such plan generally or any particular Plan or plan subject to Similar Laws, or that such investment is appropriate for such plans generally or any particular Plan or plan subject to Similar Laws.

THE PRECEDING DISCUSSION IS ONLY A SUMMARY OF CERTAIN ERISA IMPLICATIONS OF AN INVESTMENT IN THE NOTES AND DOES NOT PURPORT TO BE COMPLETE. PROSPECTIVE INVESTORS SHOULD CONSULT WITH THEIR OWN LEGAL, TAX, FINANCIAL AND OTHER ADVISORS PRIOR TO INVESTING IN THE NOTES TO REVIEW THESE IMPLICATIONS IN LIGHT OF SUCH INVESTOR'S PARTICULAR CIRCUMSTANCES.

# Book-entry, delivery and form

## GENERAL

Notes sold to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act will initially be represented by a global note in registered form without interest coupons attached (the "**Rule 144A Global Note**"). Notes sold to non-U.S. persons outside the United States in reliance on Regulation S under the U.S. Securities Act will initially be represented by a global note in registered form without interest coupons attached (the "**Regulation S Global Note**" and, together with the Rule 144A Global Note, the "**Global Notes**"). The Global Notes will be deposited, on the closing date, with a common depositary and registered in the name of the nominee of the common depositary for the account of Euroclear and Clearstream.

Ownership of interests in the Rule 144A Global Note ("**Rule 144A Book-Entry Interests**") and ownership of interests in the Regulation S Global Note (the "**Regulation S Book-Entry Interests**" and, together with the Rule 144A Book-Entry Interests, the "**Book-Entry Interests**") will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that hold interests through such participants. Euroclear and Clearstream will hold interests in the Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositories.

The Book-Entry Interests will not be held in definitive form. Instead, Euroclear and/or Clearstream will credit on their respective book-entry registration and transfer systems a participant's account with the interest beneficially owned by such participant. The laws of some jurisdictions, including certain states of the United States, may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge Book-Entry Interests. In addition, while the Notes are in global form, owners of interests in the Global Notes will not have the Notes registered in their names, will not receive physical delivery of the Notes in certificated form and will not be considered the registered owners or "holders" of Notes under the Indenture for any purpose.

So long as the Notes are held in global form, Euroclear and/or Clearstream, as applicable (or their respective nominees) will be considered the holders of Global Notes for all purposes under the Indenture. As such, participants must rely on the procedures of Euroclear and/or Clearstream and indirect participants must rely on the procedures of Euroclear and/or Clearstream and the participants through which they own Book-Entry Interests in order to exercise any rights of holders under the Indenture.

Neither the Issuer nor the Trustee under the Indenture nor any of the Issuer's respective agents will have any responsibility or be liable for any aspect of the records relating to the Book-Entry Interests.

## DEFINITIVE REGISTERED NOTES

Under the terms of the Indenture, owners of Book-Entry Interests will receive definitive Notes in registered form (the "**Definitive Registered Notes**"):

- if Euroclear and Clearstream notify the Issuer that it is unwilling or unable to continue to act as depositary and a successor depositary is not appointed by the Issuer within 120 days; or
- if Euroclear or Clearstream so requests following an event of default under the Indenture.

In such an event, the registrar will issue Definitive Registered Notes, registered in the name or names and issued in any approved denominations, requested by or on behalf of Euroclear and/or Clearstream or the Issuer, as applicable (in accordance with their respective customary procedures and based upon directions received from participants reflecting the beneficial ownership of Book-Entry Interests), and such Definitive Registered Notes will bear the restrictive legend referred to in "*Notice to investors*" unless that legend is not required by the Indenture or applicable law.

## REDEMPTION OF GLOBAL NOTES

In the event any Global Note, or any portion thereof, is redeemed, Euroclear and/or Clearstream, as applicable, will distribute the amount received by it in respect of the Global Note so redeemed to the holders of the Book-Entry Interests in such Global Note from the amount received by it in respect of the redemption of such Global Note. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Issuer understands that under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; *provided*, *however*, that no Book-Entry Interest of less than €100,000 principal amount at maturity, or less, may be redeemed in part.

## PAYMENTS ON GLOBAL NOTES

Payments of amounts owing in respect of the Global Notes (including principal, premium, interest, additional interest and additional amounts) will be made by the Issuer to the principal paying agent. The principal paying agent will, in turn, make such payments to the common depositary for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their respective procedures.

Under the terms of the Indenture, the Issuer and the Trustee will treat the registered holder of the Global Notes (*i.e.,* Euroclear or Clearstream (or their respective nominees)) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, neither the Issuer nor the Trustee or any of their respective agents has or will have any responsibility or liability for:

- any aspects of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a Book-Entry Interest, for any such payments made by Euroclear, Clearstream or any participant or indirect participant, or for maintaining, supervising or reviewing the records of Euroclear, Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest;
- payments made by Euroclear, Clearstream or any participant or indirect participant, or for maintaining, supervising or reviewing the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a Book-Entry Interest; or
- Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of Book-Entry Interests held through participants are the responsibility of such participants, as is now the case with securities held for the accounts of subscribers registered in "street name."

## CURRENCY AND PAYMENT FOR THE GLOBAL NOTES

The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Global Notes, will be paid to holders of interest in such Notes (the "**Euroclear/Clearstream Holders**") through Euroclear and/or Clearstream in euros.

## ACTION BY OWNERS OF BOOK-ENTRY INTERESTS

Euroclear and Clearstream have advised the Issuer that they will take any action permitted to be taken by a holder of Notes only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Notes. However, if there is an event of default under the Notes, each of Euroclear and Clearstream reserves the right to exchange the Global Notes for Definitive Registered Notes in certificated form, and to distribute such Definitive Registered Notes to their respective participants.

## TRANSFERS

Transfers between participants in Euroclear or Clearstream will be done in accordance with Euroclear and Clearstream's rules and will be settled in immediately available funds. If a holder of Notes requires physical delivery of Definitive Registered Notes for any reason, including to sell Notes to persons in states which require physical delivery of such securities or to pledge such securities, such holder must transfer its interest in the Global Notes in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the provisions of the Indenture.

The Global Notes will bear a legend to the effect set forth in "*Notice to investors*." Book-Entry Interests in the Global Notes will be subject to the restrictions on transfer discussed in "*Notice to investors*."

Through and including the 40th day after the later of the commencement of the offering of the Notes and the closing of the offering (the "**40-day Period**"), beneficial interests in a Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note denominated in the same currency only if such transfer is made pursuant to Rule 144A and the transferor first delivers to the Trustee a certificate (in the form provided in the Indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a "qualified institutional buyer" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under "*Notice to investors*" and in accordance with all applicable securities laws of the states of the United States and other jurisdictions.

After the expiration of the 40-day Period, beneficial interests in a Regulation S Global Note may be transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A Global Note denominated in the same currency without compliance with these certification requirements.

Beneficial interests in a Rule 144A Global Note may be transferred to a person who takes delivery in the form of a beneficial interest in the Regulation S Global Note denominated in the same currency only upon receipt by the Trustee of a written certification (in the form provided in the Indenture) from the transferor to the effect that such transfer is being made in accordance with Regulation S or Rule 144 under the U.S. Securities Act (if available).

Subject to the foregoing, and as set forth in "*Notice to investors*" Book-Entry Interests may be transferred and exchanged as described under "*Description of the Notes—Transfer and exchange*." Any Book-Entry Interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a Book-Entry Interest in the other Global Note of the same denomination will, upon transfer, cease to be a Book-Entry Interest in the first-mentioned Global Note and become a Book-Entry Interest in the other Global Note, and accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in such other Global Note for as long as it retains such a Book-Entry Interest.

Definitive Registered Notes may be transferred and exchanged for Book-Entry Interests in a Global Note only as described under "*Description of the Notes—Transfer and exchange*" and, if required, only if the transferor first delivers to the Trustee a written certificate (in the form provided in the Indenture) to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such Notes. See "*Notice to investors*."

Any Book-Entry Interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a Book-Entry Interest in any other Global Note will, upon transfer, cease to be a Book-Entry Interest in the first-mentioned Global Note and become a Book-Entry Interest in such other Global Note, and accordingly will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in such other Global Note for as long as it remains such a Book-Entry Interest.

## INFORMATION CONCERNING EUROCLEAR AND CLEARSTREAM

All Book-Entry Interests will be subject to the operations and procedures of Euroclear and Clearstream, as applicable. The Issuer provides the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. Neither the Issuer nor the Initial Purchasers are responsible for those operations or procedures.

Euroclear and Clearstream hold securities for participating organizations. They also facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in the accounts of such participants. Euroclear and Clearstream provide various services to their participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear and Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear and Clearstream participant, either directly or indirectly.

Because Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the Euroclear or Clearstream systems, or otherwise take actions in respect of such interest, may be limited by the lack of a definite certificate for that interest. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such person may be limited. In addition, owners of beneficial interests through the Euroclear or Clearstream systems will receive distributions attributable to the 144A Global Notes only through Euroclear or Clearstream participants.

## GLOBAL CLEARANCE AND SETTLEMENT UNDER THE BOOK-ENTRY SYSTEM

The Notes represented by the Global Notes are expected to be listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market. Transfers of interests in the Global Notes between participants in Euroclear or Clearstream will be effected in the ordinary way in accordance with their respective system's rules and operating procedures.

Although Euroclear and Clearstream currently follow the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants in Euroclear or Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or modified at any time. None of the Issuer, the Initial Purchasers, the Trustee, the transfer agent, the registrar or the principal paying agent will have any responsibility for the performance by Euroclear and/or Clearstream or their participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

The information in this section concerning Euroclear and Clearstream and their respective book-entry systems has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy thereof.

## INITIAL SETTLEMENT

Initial settlement for the Notes will be made in euros. Book-Entry Interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional bonds in registered form. Book-Entry Interests will be credited to the securities custody accounts of Euroclear/ Clearstream Holders on the business day following the settlement date against payment for value on the settlement date.

## SECONDARY MARKET TRADING

The Book-Entry Interests will trade through participants of Euroclear or Clearstream and will settle in same-day funds. Since the purchase determines the place of delivery, it is important to establish at the time of trading of any Book-Entry Interests where both the purchaser's and the seller's accounts are located to ensure that settlement can be made on the desired value date.

# Plan of distribution

Subject to the terms and conditions set forth in the purchase agreement dated the date of this Offering Memorandum (the "**Purchase Agreement**"), the Issuer has agreed to sell to the Initial Purchasers and the Initial Purchasers have agreed to purchase from the Issuer, the entire principal amount of Notes.

The Purchase Agreement provides that the obligations of the Initial Purchasers to pay for and accept delivery of the Notes are subject to, among other conditions, the delivery of certain legal opinions by their counsel.

The Notes will initially be offered at the price indicated on the cover page of this Offering Memorandum. After the initial Offering, the offering price and other selling terms of the Notes may from time to time be varied by the Initial Purchasers without notice. Any sales of Notes may be made through affiliates of the Initial Purchasers or through their U.S.-registered broker-dealer affiliates.

The Purchase Agreement provides that the Issuer will indemnify the Initial Purchasers against certain liabilities, including liabilities under the U.S. Securities Act, and will contribute to payments that the Initial Purchasers may be required to make in respect thereof.

None of the Issuer, the Guarantors, or any of their subsidiaries will for a period of 90 days after the date of this Offering Memorandum, without the prior written consent of the Initial Purchasers (subject to certain exceptions), offer, sell or contract to sell, or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by the Issuer, the Guarantors, or any affiliate thereof or any person in privity with the Issuer, the Guarantors (or any affiliate thereof), directly or indirectly, including through an "orphan" special purpose vehicle structure, or announce the offering of, any debt securities issued or guaranteed by the Issuer (other than the Notes or any debt permitted under the Indenture that governs the Notes), the Guarantors, or any of their subsidiaries.

The Notes have not been and will not be registered under the U.S. Securities Act. The Initial Purchasers have agreed that they will only offer or sell the Notes (A) in the United States to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act, and (B) outside the United States to non-U.S. persons in offshore transactions in reliance on Regulation S under the U.S. Securities Act. Terms used in this paragraph have the meanings given to them by Rule 144A and Regulation S under the U.S. Securities Act.

In connection with sales outside the United States, the Initial Purchasers have agreed that they will not offer, sell or deliver the Notes to, or for the account or benefit of, U.S. persons (i) as part of the Initial Purchasers' distribution at any time or (ii) otherwise, until 40 days after the later of the commencement of the Offering or the date the Notes are originally issued. The Initial Purchasers will send to each distributor, dealer or person to whom they sell such Notes during such 40-day period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, with respect to Notes initially sold pursuant to Regulation S, until 40 days after the later of the commencement of this Offering or the date the Notes are originally issued, an offer or sale of such Notes within the United States by a dealer that is not participating in the Offering may violate the registration requirements of the U.S. Securities Act.

Each of Initial Purchasers have represented and warranted that they (i) have only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity, within the meaning of section 21 of the FSMA, received by them in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer and (ii) have complied and will comply with all applicable provisions of the FSMA with respect to anything done by them in relation to any Notes in, from or otherwise involving the UK.

The Notes will constitute a new class of securities with no established trading market. Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trade the Notes on the Euro MTF Market of the Luxembourg Stock Exchange. However, there can be no assurance that the prices at which the Notes will sell in the market after this Offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this Offering. The Initial Purchasers (or persons acting on their behalf) have advised the Issuer that they currently intends to make a market in the Notes. However, it is not obligated to do so, and may discontinue any market-making activities with respect to the Notes at any time without notice. In addition, market-making activity will be subject to the limits imposed by the U.S. Securities Act and the Exchange Act, and may be limited. Accordingly, there can be no assurance as to the liquidity of or the trading market for the Notes. See "*Risk factors—Risks relating to the Notes and our capital structure—There is no established trading market for the Notes. If a market for the Notes does not develop you may be unable to sell your Notes*."

Buyers of the Notes sold by the Initial Purchasers may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the initial offering price set forth on the cover of this Offering Memorandum.

The Issuer expects that delivery of the Notes will be made against payment on the Notes on or about the date specified on the cover page of this Offering Memorandum, which will be five business days (as such term is used for purposes of Rule 15c6-1 of the U.S. Exchange Act) following the date of pricing of the Notes (this settlement cycle is being referred to as "**T+5**"). Under Rule 15c6-1 of the U.S. Exchange Act, trades in the secondary market generally are required to settle in three business days unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the date of this Offering Memorandum or the next succeeding business day will be required to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to make such trades should consult their own advisors.

In connection with the issue of the Notes, UBS Limited and Deutsche Bank AG, London Branch (the "**Stabilizing Managers**") (or any person acting on behalf of the stabilizing managers) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Managers or persons acting on their behalf will undertake stabilization action. Any stabilizations action may begin on or after the date on which adequate public disclosure of the terms of the offer of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilization action or over-allotment must be conducted by the Stabilizing Managers or persons acting on behalf of any Stabilizing Managers (or any person acting on behalf of the stabilizing managers) in accordance with all applicable laws and rules.

The Initial Purchasers or their respective affiliates has performed in the past and may perform in the future commercial and investment banking and advisory services for the Issuer, the Guarantors, and their subsidiaries and affiliates from time to time for which it has received or may receive customary fees and expenses. The Initial Purchasers and their respective affiliates may, from time to time, engage in transactions with, and perform services for, the Issuer, the Guarantors and their subsidiaries and affiliates in the ordinary course of their business.

In connection with the Offering, the Initial Purchasers are not acting for anyone other than the Issuer and will not be responsible to anyone other than the Issuer for providing the protections afforded to clients nor for providing advice in relation to the Offering.

# Notice to investors

*You are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of any of the Notes offered hereby.*

The Notes and the Guarantees have not been and will not be registered under the U.S. Securities Act, or any state securities laws, and, unless so registered, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and state or other applicable securities laws. Accordingly, the Notes offered hereby are being offered and sold only to qualified institutional buyers ("**QIBs**") (as defined in Rule 144A under the U.S. Securities Act) in reliance on Rule 144A under the U.S. Securities Act and to non-U.S. persons in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

The terms "offshore transaction", "U.S. person" and "United States" are used with the meanings given to them in Regulation S.

Each purchaser of Notes, by its acceptance thereof, will be deemed to have acknowledged, represented to and agreed with the Issuer, each Guarantor, and the Initial Purchasers as follows:

(1) You understand and acknowledge that the Notes and the Guarantees have not been registered under the U.S. Securities Act or any other applicable securities laws and that the Notes are being offered for resale in transactions not requiring registration under the U.S. Securities Act or any other securities laws, including sales pursuant to Rule 144A under the U.S. Securities Act, and, unless so registered, may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the U.S. Securities Act or any other applicable securities laws, pursuant to an exemption therefrom or in any transaction not subject thereto and in each case in compliance with the conditions for transfer set forth in paragraphs (4) and (5) below.

(2) You are not an "affiliate" of the Issuer or the Guarantors (as defined in Rule 144 under the U.S. Securities Act), you are not acting on their behalf and you are either:

(a) a person in the United States or a U.S. person who is a QIB, within the meaning of Rule 144A under the U.S. Securities Act and are aware that any sale of these Notes to you will be made in reliance on Rule 144A under the U.S. Securities Act, and such acquisition will be for your own account or for the account of another QIB; or

(b) not a U.S. person or purchasing for the account or benefit of a U.S. person (other than a distributor) and you are purchasing the Notes in an offshore transaction in accordance with Regulation S under the U.S. Securities Act.

(3) You acknowledge that none of the Issuer, the Guarantors, or the Initial Purchasers, nor any person representing any of them, has made any representation to you with respect to the Issuer, the Guarantors or the offer or sale of any of the Notes, other than the information contained in this Offering Memorandum, which Offering Memorandum has been delivered to you and upon which you are relying on making your investment decision with respect to the Notes. You acknowledge that neither the Initial Purchasers nor any person representing the Initial Purchasers makes any representation or warranty as to the accuracy or completeness of this Offering Memorandum. You have had access to such financial and other information concerning the Issuer, the Guarantors, the Indenture, the Guarantees, and the Notes as you have deemed necessary in connection with your decision to purchase any of the Notes, including an opportunity to ask questions of, and request information from, the Issuer, the Guarantors and the Initial Purchasers.

(4) You are purchasing the Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the U.S. Securities Act or any state or other securities laws, subject to any requirement of law that the disposition of your property or the property of such investor account or accounts be at all times within its or their control and subject to your or their ability to resell such Notes pursuant to Rule 144A or any other exemption from registration available under the U.S. Securities Act, or in any transaction not subject to the U.S. Securities Act.

(5) You agree on your own behalf and on behalf of any investor account for which you are purchasing the Notes, and each subsequent holder of the Notes by its acceptance thereof will be deemed to agree, to offer, sell or otherwise transfer such Notes prior to the date (the "**Resale Restriction Termination Date**") that is one year (in the case of Rule 144A Notes) or 40 days (in the case of Regulation S Notes) after the later of the date of the original issue and the last date on which the Issuer or any of its affiliates were the owner of such Notes (or any predecessor thereto) only (i) to the Issuer or the Guarantors, (ii) pursuant to a registration statement that has been declared effective under the U.S. Securities Act, (iii) for so long as the Notes are eligible for resale pursuant to Rule 144A under the U.S. Securities Act, to a person you reasonably believe is a QIB that purchases for its own account or for the account of a QIB to whom notice is given that the transfer is being made in reliance on Rule 144A under the U.S. Securities Act, (iv) pursuant to offers and sales that occur outside the United States in compliance with Regulation S under the U.S. Securities Act or (v) pursuant to any other available exemption from the registration requirements of the U.S.

Securities Act, subject in each of the foregoing cases to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and to compliance with any applicable state securities laws, and any applicable local laws and regulations, and further subject to the Issuer's and the Trustee's rights prior to any such offer, sale or transfer (I) pursuant to clause (v) to require the delivery of an opinion of counsel, certification and/or other information satisfactory to each of them and (II) in each of the foregoing cases, to require that a certificate of transfer in the form appearing on the reverse of the security is completed and delivered by the transferor to the Trustee. The foregoing restrictions on resale will not apply subsequent to the Resale Restriction Termination Date.

Each purchaser acknowledges that each Note will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**US. SECURITIES ACT**") OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE U.S. SECURITIES ACT) OR (B) IT IS NOT A U.S. PERSON ACQUIRING THIS NOTE IN AN "OFFSHORE TRANSACTION" PURSUANT TO RULE 144A OR RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR FOR WHICH IT HAS PURCHASED SECURITIES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "**RESALE RESTRICTION TERMINATION DATE**") WHICH IS [IN THE CASE OF RULE 144A NOTES: ONE YEAR AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF THIS SECURITY)] [IN THE CASE OF REGULATION S NOTES: 40 DAYS AFTER THE LATER OF THE DATE WHEN THE SECURITIES WERE FIRST OFFERED TO PERSONS OTHER THAN DISTRIBUTORS IN RELIANCE ON REGULATION S AND THE DATE OF THE COMPLETION OF THE DISTRIBUTION] ONLY (A) TO THE ISSUER OR THE GUARANTORS, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE U.S. SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES IN COMPLIANCE WITH REGULATION S UNDER THE U.S. SECURITIES ACT OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT, SUBJECT IN EACH OF THE FOREGOING CASES TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF ITS PROPERTY OR THE PROPERTY OF SUCH INVESTOR ACCOUNT OR ACCOUNTS BE AT ALL TIMES WITHIN ITS OR THEIR CONTROL AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS AND ANY APPLICABLE LOCAL LAWS AND REGULATIONS AND FURTHER SUBJECT TO THE ISSUER'S AND THE TRUSTEE'S RIGHTS PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER (I) PURSUANT TO CLAUSE (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM AND (II) IN EACH OF THE FOREGOING CASES, TO REQUIRE THAT A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

Each Note will also contain a legend substantially to the following effect:

> BY ACCEPTANCE OF A NOTE, EACH HOLDER WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED THAT EITHER (A) NO PORTION OF THE ASSETS USED BY SUCH HOLDER TO ACQUIRE OR HOLD THE NOTES CONSTITUTES THE ASSETS OF ANY EMPLOYEE BENEFIT PLAN THAT IS SUBJECT TO TITLE I OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**"), A PLAN, INDIVIDUAL RETIREMENT ACCOUNT OR OTHER ARRANGEMENT THAT IS SUBJECT TO SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**") OR PROVISIONS UNDER ANY OTHER FEDERAL, STATE, LOCAL, NON-U.S. OR OTHER LAWS, RULES OR REGULATIONS THAT ARE SIMILAR TO SUCH PROVISIONS OF ERISA OR THE CODE ("**SIMILAR LAWS**"), OR ENTITY WHOSE UNDERLYING ASSETS ARE CONSIDERED TO INCLUDE "PLAN ASSETS" OF ANY SUCH PLAN, ACCOUNT OR ARRANGEMENT OR (B) THE PURCHASE AND HOLDING OF THE NOTES BY SUCH HOLDER WILL NOT CONSTITUTE A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR A SIMILAR VIOLATION UNDER ANY APPLICABLE SIMILAR LAWS.

If you purchase Notes, you will also be deemed to acknowledge that the foregoing restrictions apply to holders of beneficial interests in these Notes as well as to holders of these Notes.

(6) You agree that you will give to each person to whom you transfer the Notes notice of any restrictions on the transfer of such Notes.

(7) You acknowledge that the registrar will not be required to accept for registration or transfer any Notes acquired by you except upon presentation of evidence satisfactory to the Issuer and the registrar that the restrictions set forth therein have been complied with.

(8) You acknowledge that the Issuer, the Initial Purchasers and others will rely upon the truth and accuracy of your acknowledgements, representations, warranties and agreements and agree that if any of the acknowledgements, representations, warranties and agreements deemed to have been made by your purchase of the Notes are no longer accurate, you shall promptly notify the Initial Purchasers. If you are acquiring any Notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each such investor account and that you have full power to make the foregoing acknowledgements, representations and agreements on behalf of each such investor account.

(9) You understand that no action has been taken in any jurisdiction (including the United States) by the Issuer or the Initial Purchasers that would result in a public offering of the Notes or the possession, circulation or distribution of this Offering Memorandum or any other material relating to us or the Notes in any jurisdiction where action for such purpose is required. Consequently, any transfer of the Notes will be subject to the selling restrictions set forth under "Plan of Distribution," "Notice to Prospective Investors" and "Notice to Certain European Investors."

(10) Either (a) no portion of the assets used to acquire or hold the Notes constitutes assets of any Plan or non-U.S., governmental or church plan subject to any Similar Laws or entity whose underlying assets are considered to include "plan assets" of any such Plan, account or arrangement or (b) the purchase and holding of the Notes will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation under any applicable Similar Laws.

Persons into whose possession this Offering Memorandum comes are advised to inform themselves about and to observe any restrictions relating to the Offering, the distribution of this Offering Memorandum and resale of the Notes. See "*Notice to prospective investors*," "*Notice to certain European investors*" and "*Plan of distribution*."

# Legal matters

Certain legal matters in connection with this Offering will be passed upon for the Issuer and the Guarantors by White & Case LLP, as to matters of U.S. Federal and New York State law, Italian law, Finnish law, German law, Polish law and Swedish law, NautaDutilh N.V. as to matters of Dutch law, and Okhrimchuk Grushyn Khandurin Law Firm as to matters of Ukrainian law. Certain legal matters in connection with this Offering will be passed upon for the Initial Purchasers by Shearman & Sterling (London) LLP, as to matters of U.S. Federal and New York State law, Italian law, and German law, Castrén & Snellman Attorneys Ltd as to matters of Finnish law, Van Doorne N.V. as to matters of Dutch law, WKB Wierciński, Kwieciński, Baehr Sp. k. as to matters of Polish law, Advokatfirman Vinge K.B. as to matters of Swedish law, and CMS Cameron McKenna LLC as to matters of Ukrainian law.

# Independent auditors

The consolidated financial statements of the Issuer as of December 31, 2012 and 2011, and for the years then ended, included in this Offering Memorandum, have been audited by KPMG Oy Ab, independent auditors, as stated in their reports appearing herein.

# Where you can find more information

Each purchaser of the Notes from the Initial Purchasers will be furnished with a copy of this Offering Memorandum and, to the extent provided to the Initial Purchasers by the Issuer, any related amendment or supplement to this Offering Memorandum. Each person receiving this Offering Memorandum acknowledges that:

(1) such person has been afforded an opportunity to request from us, and to review and has received, all additional information considered by it to be necessary to verify the accuracy and completeness of the information herein;

(2) such person has not relied on the Initial Purchasers or any person affiliated with the Initial Purchasers in connection with its investigation of the accuracy of such information or its investment decisions; and

(3) except as provided pursuant to (1) above, no person has been authorized to give any information or to make any representation concerning the Notes offered hereby other than those contained herein, and, if given or made, such information or representation should not be relied upon as having been authorized by the Issuer or the Initial Purchasers.

So long as the Notes are outstanding and are “restricted securities” within the meaning of Rule 144, the Issuer and the Guarantors have agreed in the Indenture governing the Notes that, if at any times the Issuer and the Guarantors are neither subject to Section 13 of 15(d) of the U.S. Securities Exchange Act of 1934, as amended, nor exempt from reporting pursuant to Rule 12g3-2(b) of the Exchange Act, the Issuer and the Guarantors will, upon request, furnish to any holder or beneficial owner of the Notes the information required to be delivered pursuant to Rule 144A(d)(4) under the U.S. Securities Act to permit compliance with Rule 144A in connection with resales of the Notes. Any such request should be directed to the Issuer and the Guarantors care of Sanitec Oyj, Kaupintie 2, FI-00440 Helsinki, Finland.

# Service of process and enforcement of civil liabilities

The Issuer of the Notes is incorporated under the laws of Finland and the Guarantors are incorporated under the laws of several jurisdictions. In general, each of the security documents relating to the Collateral will be governed by the laws of the applicable jurisdiction. The Indenture (including the Guarantees) and the Notes will be governed by New York law. The Intercreditor Agreement will be governed by the laws of England and Wales. All of the directors and executive officers of the Issuer and each of the Guarantors are non-residents of the United States. Since substantially all of the assets of the Issuer and each of the Guarantors, and its and their directors and executive officers, are located outside the United States, any judgment obtained in the United States against the Issuer or a Guarantor or any such other person, including judgments with respect to the payment of principal, premium (if any) and interest on the Notes or any judgment of a U.S. court predicated upon civil liabilities under U.S. federal or state securities laws, may not be collectible in the United States. Furthermore, although the Issuer and each of the Guarantors will appoint an agent for service of process in the United States and will submit to the jurisdiction of New York courts, in each case, in connection with any action in relation to the Notes and the Indenture or under U.S. securities laws, it may not be possible for investors to effect service of process on us or on such other persons as mentioned above within the United States in any action, including actions predicated upon the civil liability provisions of U.S. federal securities laws.

If a judgment is obtained in a U.S. court against the Issuer or a Guarantor or a security provider, investors will need to enforce such judgment in jurisdictions where the relevant company has assets. Even though the enforceability of U.S. court judgments outside the United States is described below for the countries in which each of the Issuer, the Guarantors is located, you should consult with your own advisors in any pertinent jurisdictions as needed to enforce a judgment in those countries or elsewhere outside the United States.

Similar limitations on the enforcement of civil liabilities exist in many of the jurisdictions in which our subsidiaries or the Guarantors are located.

### FINLAND

The Company is organized under the laws of Finland. All of the directors and members of the Executive Committee of the Company are non-residents of the United States. All or a substantial portion of the assets of such non-resident persons and of the Company are located outside of the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or the Company or to enforce against them in U.S. courts judgments obtained in such courts.

We have been advised by our Finnish counsel that there is no treaty on the reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters between the United States and Finland. Courts in Finland will not automatically recognize and enforce a final judgment rendered by a U.S. court.

Under Finnish law, a Finnish title for execution (*i.e.,* a Finnish court judgment) is required for such recognition and enforcement; in seeking a Finnish court judgment or order to such effect, a judgment of a U.S. court will constitute circumstantial evidence of the questions of fact in the case concerned and evidence of the governing law as applied to the matter in dispute. The application by a Finnish court of foreign law in a matter brought before it is subject to (a) the foreign law not being contrary to such mandatory rules of Finnish law that due to their public nature or general interest would be considered applicable irrespective of the agreed choice of law; and (b) the application of the foreign law not resulting in an outcome contrary to the public policy of the Finnish legal system.

As to types of damages awarded, punitive or exemplary damages are unenforceable under Finnish law and a Finnish court may only award damages to the extent that they form compensation of actual losses and damages as proven by the claimant. A feature of the Finnish civil procedure is that the burden of proof with respect to any claims presented lies with the claimant. A party to legal proceedings in Finland is also ordinarily expected to plead its case primarily on the basis of the evidence in its own possession. U.S. notions of discovery, including the expectation that broadly defined categories of documents and information in the possession of third parties will be readily accessible for use as evidence, are not recognized under Finnish law. The availability of documentation in the possession of counterparties or third parties is very limited. Depositions are also a form of taking evidence unknown to Finnish law. In Finland, witness testimony is usually only taken at a separate oral main hearing (comparable to a U.S. trial) after the preparatory phase of the proceedings.

# Certain insolvency considerations and limitations on the validity and enforceability of the Guarantees and the Deeds of Surety

The following is a summary description of certain limitations on the validity and enforceability of the guarantees and the security interests for the Notes, and a summary of certain insolvency law considerations in some of the jurisdictions in which the Issuer, the Guarantors, and other relevant subsidiaries are organized. The description is only a summary and does not purport to be complete or to discuss all of the limitations or considerations that may affect the validity and enforceability of the notes, the guarantees and the security interests. Prospective investors in the Notes should consult their own legal advisors with respect to such limitations and considerations.

## EUROPEAN UNION

Several of the Guarantors are organized under the laws of Member States of the European Union. Pursuant to Council Regulation (EC) no. 1346/2000 on insolvency proceedings (the "**EU Insolvency Regulation**"), the court which shall have jurisdiction to open insolvency proceedings in relation to a company is the court of the Member State (other than Denmark) where the company concerned has its "center of main interests" (as that term is used in Article 3(1) of the EU Insolvency Regulation). The determination of where any such company has its "center of main interests" is a question of fact on which the courts of the different Member States may have differing views.

The term "center of main interests" is not a static concept and may change from time to time. Although there is a rebuttable presumption under Article 3(1) of the E.U. Insolvency Regulation that any such company has its "center of main interests" in the Member State in which it has its registered office, Preamble 13 of the E.U. Insolvency Regulation states that the "center of main interests" of a debtor should correspond to the place where the debtor conducts the administration of its interests on a regular basis and "is therefore ascertainable by third parties." In that respect, factors such as where board meetings are held, the location where the company conducts the majority of its business and the location where the large majority of the company's creditors are established may all be relevant in the determination of the place where the company has its "center of main interests."

If the center of main interests of a company is and will remain located in the state in which it has its registered office, the main insolvency proceedings in respect of the company under the EU Insolvency Regulation would be commenced in such jurisdiction and accordingly a court in such jurisdiction would be entitled to commence the types of insolvency proceedings referred to in Annex A to the EU Insolvency Regulation. Insolvency proceedings opened in one Member State under the EU Insolvency Regulation are to be recognized in the other Member States (other than Denmark), although secondary proceedings may be opened in another Member State. If the "center of main interests" of a debtor is in one Member State (other than Denmark) under Article 3(2) of the EU Insolvency Regulation, the courts of another Member State (other than Denmark) have jurisdiction to open "territorial proceedings" only in the event that such debtor has an "establishment" in the territory of such other Member State. The effects of those territorial proceedings are restricted to the assets of the debtor situated in the territory of such other Member State. If the company does not have an establishment in any other Member State, no court of any other Member State has jurisdiction to open territorial proceedings in respect of such company under the EU Insolvency Regulation.

## THE NETHERLANDS

The following is a brief description of certain aspects of the insolvency laws of the Netherlands.

There are two primary insolvency regimes under Dutch law: the first, moratorium of payments (*surseance van betaling*), is intended to facilitate the reorganization of a debtor's indebtedness and enable the debtor to continue as a going concern. The second, bankruptcy (*faillissement*), is primarily designed to liquidate and distribute the proceeds of the assets of a debtor to its creditors. Such liquidation, however, may take place by way of a going concern sale. Both insolvency regimes are set forth in the Dutch Bankruptcy Act (*Faillissementswet*).

### Moratorium of Payments

An application for a moratorium of payments can only be made by the debtor itself. Once the request for a moratorium of payments is filed, the Dutch court will immediately (*dadelijk*) grant a provisional moratorium and appoint an administrator (*bewindvoerder*). The debtor is only entitled to administer and dispose of its assets with the consent of the administrator. A meeting of creditors is required to decide on the definitive moratorium. If a draft composition (*ontwerp akkoord*) is filed simultaneously with the application for moratorium of payments, the Dutch court can order that the composition will be processed before a decision about a definitive moratorium. If the composition is accepted and subsequently ratified (*gehomologeerd*) by the Dutch court, the provisional moratorium ends. The definitive moratorium will generally be granted unless a qualified minority (more than one-quarter in amount of claims held by creditors represented at the creditors' meeting or more than one-third in number of creditors represented at such creditors' meeting) of the unsecured non-preferential creditors withholds its consent or if there is no prospect that the debtor will in the future be able to pay its debts as they fall due (in which case the debtor will generally be declared bankrupt). The moratorium of payments is only effective with regard to unsecured non-preferential creditors.

Unlike Chapter 11 proceedings under U.S. bankruptcy law, during which both secured and unsecured creditors are generally barred from seeking to recover on their claims during a moratorium of payments, under Dutch law, secured and preferential creditors (including tax and social security authorities) may enforce their rights against assets of the company in moratorium of payments to satisfy their claims as if there were no moratorium of payments. A recovery under Dutch law could, therefore, involve a sale of assets that does not reflect the going concern value of the debtor. However, the Dutch court may order a "cooling off period" (*afkoelingsperiode*) for a maximum period of four months during which, *inter alia*, enforcement actions by secured or preferential creditors are barred. Also in a definitive moratorium of payments, a composition (*akkoord*) may be offered to creditors. A composition will be binding on all unsecured and non-preferential creditors if it is (i) approved by a simple majority of the meeting of the recognized and of the admitted creditors representing at least 50% of the amount of the recognized and of the admitted claims, and (ii) subsequently ratified (*gehomologeerd*) by the Court. Upon request by the debtor or the administrator, the court or supervisory judge (*rechter commissaris*) if appointed, can decide to adopt the proposed but rejected composition as if it were approved if (i) three-fourths the number of the creditors represented at the creditors' meeting approved the composition and (ii) the rejection of the composition is caused by one or more creditors such that, taking all circumstances into consideration, especially the percentage of the claim that such creditor(s) would receive in case the estate is liquidated and distributed, such creditor(s) reasonably could not have voted against the composition. Secured or preferential claims are not affected by a composition, unless such claims are submitted for verification (see definition below) to the administrator and not withdrawn prior to the vote on the composition plan, in which case security or preferential rights in respect of those claims will be lost. Consequently, Dutch insolvency laws could preclude or inhibit the ability of the holders of the Notes to effect a restructuring and could reduce the recovery of a holder of Notes in Dutch moratorium of payments proceedings. Interest payments that fall due after the date on which a moratorium of payments is granted cannot be claimed in a composition.

### Bankruptcy

At the request of the debtor itself or one or more of its creditors, the court may open bankruptcy proceedings in respect of a debtor that has ceased to pay its debts. If bankruptcy is declared by the court, the court will appoint a receiver (*curator*) who is entrusted with the administration of the bankruptcy. The bankrupt debtor loses the right to administer and dispose of its assets. Under Dutch bankruptcy proceedings, the assets of a debtor are generally liquidated and the proceeds distributed to the debtor's creditors in accordance with the respective rank and priority of their claims. The general principle of Dutch bankruptcy law is the so-called *paritas creditorum* (principle of equal treatment) which means that all creditors have an equal right to payment and that the proceeds of bankruptcy proceedings shall be distributed in proportion to the size of their claims. However, certain creditors (such as secured creditors and tax and social security authorities) will have special rights that take priority over the rights of other creditors, which may adversely affect the interests of (non-preferential) holders of Notes. For example, in a Dutch bankruptcy secured creditors may take recourse against the encumbered assets of a debtor to satisfy their claims as if there is no bankruptcy. Consequently, Dutch insolvency laws could reduce the potential recovery of a holder of Notes in Dutch bankruptcy proceedings.

As in suspension of payments proceedings, the court may order a "cooling off period" (*afkoelingsperiode*) for a maximum of four months during which enforcement actions by secured creditors are barred. Further, a receiver in bankruptcy can force a secured creditor to enforce its security interest within a reasonable period of time, failing which, the receiver will be entitled to sell the secured assets, if any, and the secured creditor will have to share in the bankruptcy costs. Excess proceeds of enforcement must be returned to the bankrupt estate; they may not be set-off against an unsecured claim of the secured creditor in the bankruptcy. Such set-off is allowed prior to the bankruptcy although a set-off prior to bankruptcy may be subject to clawback in the case of fraudulent conveyance or bad faith in obtaining the claim used for set-off. The claim of a creditor may be limited depending on the date the claim becomes due and payable in accordance with its terms. Generally, claims of the holders of Notes that are not due and payable by their terms on the date of a bankruptcy of the relevant Guarantor will be accelerated and become due and payable as of that date. Each of these claims will have to be submitted to the receiver to be verified. "Verification" under Dutch law means that the receiver determines the value of the claim and whether and to what extent it will be admitted in the bankruptcy proceedings. The valuation of claims that are not due and payable at the time of the opening of the bankruptcy proceedings or within one year thereafter, is based on a net present value analysis. Interest payments that fall due after the date of the bankruptcy cannot be verified. The existence, value and ranking of any claims submitted by the holders of the Notes may be challenged in the Dutch bankruptcy proceedings.

Generally, in a creditors' meeting (*verificatie vergadering*), the receiver, the insolvent debtor and all verified creditors may dispute the verification of claims of other creditors. Creditors whose claims or value thereof are disputed in the creditors, meeting may be referred to separate court proceedings (*renvooi*). These *renvooi* procedures could cause holders of notes to recover less than the principal amount of their notes or less than they could recover in a U.S. liquidation. Such *renvooi* procedures could also cause payments to the holders of notes to be delayed compared with holders of undisputed claims.

As in moratorium of payments proceedings, in a bankruptcy a composition may be offered to creditors, which shall be binding on unsecured non-preferential creditors if (i) it is approved by a simple majority of the meeting of unsecured non-preferential creditors, with admitted and provisionally admitted claims representing at least 50% of the total amount of the admitted and provisionally admitted unsecured non preferential claims, and (ii) subsequently ratified by the court. Upon request by the debtor or the receiver, the supervisory judge can decide to adopt the proposed but rejected composition as if it were approved if (i) three-fourths the number of the creditors represented at the creditors' meeting approved the composition and (ii) the rejection of the composition is caused by one or more creditors such that, taking all circumstances into consideration, especially the percentage of the claim that such creditor(s) would receive in case the estate is liquidated and distributed, such creditor(s) reasonably could not

have voted against the composition. The Dutch Bankruptcy Act does not in itself recognize the concept of classes of creditors. Remaining amounts, if any, after satisfaction of the secured and the preferential creditors are distributed among the unsecured non-preferential creditors, who will be satisfied on a *pro rata* basis. Contractual subordination may to a certain extent be given effect in Dutch insolvency proceedings. The actual effect depends largely on the way such subordination is construed.

### Ranking of Security Rights

In general, mortgages and pledges rank above other rights of priority, including the general priority right of the Dutch tax authorities on the tax debtor's assets. However, Dutch law provides for exceptions. For example, under certain circumstances, the Dutch tax authorities' priority right ranks above a non-possessory pledge on inventory (not including stock) found on the premises of the tax debtor (*bodemzaken*). No conclusive case law in The Netherlands is available on the enforcement by the Dutch courts of security rights established under and governed by laws other than the laws of The Netherlands. The enforcement and ranking of such security rights and preferred rights in The Netherlands may be subject to restrictions and requirements applicable under Dutch law, which provides for a closed system and a mandatory ranking of security rights and preferred rights. Any security rights established under and governed by laws other than the laws of The Netherlands may only be given effect to by the Dutch courts, if they fit within the closed system of security rights existing under the laws of The Netherlands. A security right will for this purpose be compared with the security right under Dutch law which most closely resembles such security right and, if regarded as an equivalent security right, be treated as such and be given the same ranking as the comparable security right under Dutch law. This means that the Security Agent will not have more rights than available to secured parties of the comparable security right under Dutch law. It is uncertain how a Dutch court would treat a security right that differs materially from security rights available under the laws of The Netherlands.

### Actio Pauliana

To the extent that Dutch law applies, a legal act performed by a debtor (including, without limitation, an agreement pursuant to which it guarantees the performance of the obligations of a third party or agrees to provide or provides security for any of its or a third party's obligations, enters into additional agreements benefiting from existing security and any other legal act having a similar effect) can be challenged in an insolvency proceeding or otherwise and may be nullified by any of its creditors or its trustee in bankruptcy, if (i) it performed such acts without an obligation to do so (*onverplicht*), (ii) generally the creditor concerned or, in the case of its bankruptcy, any creditor was prejudiced as a consequence of the act, and (iii) at the time the act was performed both it and (unless the act was for no consideration (*om niet*)) the party with or towards which it acted, knew or should have known that one or more of its creditors (existing or future) would be prejudiced. In addition, in the case of such a bankruptcy, their trustee may nullify its performance of any due and payable obligation (including (without limitation) an obligation to provide security for any of its or a third party's obligations) if (i) the payee *(hij die betaling ontving)* knew that a request for bankruptcy had been filed at the moment of payment, or (ii) the performance of the obligation was the result of a consultation between the debtor and the payee with a view to give preference to the latter over the debtor's other creditors.

Under Dutch law, as soon as a debtor is declared bankrupt, all pending executions of judgments against such debtor, as well as all attachments on the debtor's assets (other than with respect to secured creditors and certain other creditors, as described above), will be terminated by operation of law. Simultaneously with the opening of the bankruptcy, a Dutch receiver will be appointed. The proceeds resulting from the liquidation of the bankrupt estate may not be sufficient to satisfy unsecured creditors under the guarantees granted by a bankrupt Guarantor after the secured and the preferential creditors have been satisfied. Litigation pending on the date of the bankruptcy order is automatically stayed.

### Limitations

If a Dutch company grants a guarantee and that guarantee is not in the company's corporate interest, the guarantee may be nullified by the Dutch company, its receiver in bankruptcy and its administrator (*bewindvoerder*) and, as a consequence, not be valid, binding and enforceable against it. In determining whether the granting of such guarantee is in the interest of the relevant company, the Dutch courts would not only consider the text of the objects clause in the articles of association of the company but all relevant circumstances including whether the company derives certain commercial benefits from the transaction in respect of which the guarantee was granted.

In addition, if it is determined that there are no, or insufficient, commercial benefits from the transactions for the company that grants the guarantee, then such company (and any bankruptcy receiver) may contest the enforcement of the guarantee, and it is possible that such challenge would be successful. Such benefit may, according to Dutch case law, consist of an indirect benefit derived by the company as a consequence of the interdependence of such company with the group of companies to which it belongs. In addition, it is relevant whether, as a consequence of the granting of the guarantee, the continuity of such company would foreseeably be endangered by the granting of such guarantee. It remains possible that even if such strong financial and commercial interdependence exists, the transaction may be declared void if it appears that the granting of the guarantee cannot serve the realization of the relevant company's objects.

Whether or not a Guarantor is insolvent in The Netherlands, payment under a guarantee or a security document governed by Dutch law may be withheld under the doctrines of reasonableness and fairness (*redelijkheid en billijkheid*), force majeure and unforeseen circumstances (*onvoorziene omstandigheden*).

A guarantee or security governed by Dutch law may be voided by a Dutch court, if the document was executed through undue influence (*misbruik van omstandigheden*), fraud (*bedrog*), duress (*bedreiging*) or mistake (*dwaling*) of a party to the agreement contained in that document.

In addition, a guarantee issued by a Dutch company and a security provided by a Dutch company may be suspended or avoided by the Enterprise Chamber of the Court of Appeal in Amsterdam (*Ondernemingskamer van het Gerechtshof te Amsterdam*) on the motion of the holder or holders of 10% or more of the shares in such company, as well as on the motion of a trade union and of other entities entitled thereto in the articles of association (*statuten*) of the relevant Dutch company, if the Enterprise Chamber finds there is a matter of mismanagement (*wanbleid*). Likewise, the guarantee or security itself may be upheld by the Enterprise Chamber, yet actual payment under it may be suspended or avoided.

### Parallel Debt

Under Dutch law, certain "accessory" security interests such as pledges require that the pledgee and the creditor be the same person. Such security interests cannot be held on behalf of third parties who do not hold the secured claim. The beneficial holders of the Notes from time to time will not be party to the security documents. In order to permit the holders of the Notes from time to time to have a secured claim, the security documents will provide for the creation of a "parallel debt." Pursuant to the parallel debt, the security agent becomes the holder of a claim equal to each amount payable by an obligor under the Notes. The pledges governed by Dutch law will directly secure the parallel debt. The parallel debt procedure has not been tested under Dutch law, and there is no certainty that it will eliminate or mitigate the risk of unenforceability posed by Dutch law.

## GERMANY

The following is a brief description of certain aspects of the insolvency laws of Germany.

Under German insolvency law, insolvency proceedings are not initiated by the competent insolvency court ex officio, but require that the debtor and/or a creditor files a petition for the opening of insolvency proceedings. Insolvency proceedings can be initiated either by the debtor or by a creditor in the event of over-indebtedness (*Überschuldung*) of the debtor or in the event that the debtor is unable to pay its debts as and when they fall due (*Zahlungsunfähigkeit*). The debtor is over-indebted if its liabilities exceed the value of its assets (which must be assessed on the basis of an over-indebtedness balance sheet), unless its continuation as a going concern is predominantly likely (positive going-concern-prognosis). In addition, the debtor can file for insolvency proceedings if it is imminently at risk to be unable to pay its debts as and when they fall due (*drohende Zahlungsunfähigkeit*). If a stock corporation (*Aktiengesellschaft*), a limited liability company (*Gesellschaft mit beschränkter Haftung*) or any other limited liability company or any company not having an individual as a personally liable shareholder gets into a situation of illiquidity and/or over-indebtedness, the management of such company is obliged to file for insolvency without undue delay, but not later than three weeks after becoming illiquid and/or over-indebted. The insolvency proceedings are court controlled, and the court opens the insolvency proceedings if certain formal requirements are met and if there are sufficient assets to cover at least the costs of the proceedings. Upon opening of the insolvency proceedings, the court either appoints an insolvency administrator (*Insolvenzverwalter*) that has full administrative and disposal authority over the debtor's assets or orders the debtor-in-possession proceedings (*Eigenverwaltung*) under the supervision of a court appointed trustee (*Sachwalter*). The insolvency administrator (or in case of debtor-in-possession-status the debtor) may raise new financial indebtedness and incur other liabilities to continue the debtor's operations, and satisfaction of these liabilities as preferential debts of the estate (*Masseverbindlichkeiten*) will be preferred to any insolvency liabilities created by the debtor prior to the opening of insolvency proceedings (including secured debt as far as they are not satisfied by realization of collateral).

For the holders of the Notes, additional consequences of the opening of German insolvency proceedings against any entity subject to the German insolvency regime would include the following:

- if the court does not order debtor-in-possession proceedings (*Eigenverwaltung*), disposals effected by the Guarantor's or such subsidiary's management after the opening of insolvency proceedings are null and void by operation of law;
- if, during the final month preceding the date of filing for insolvency proceedings, a creditor in the insolvency proceedings acquires through enforcement (*e.g.,* attachment) a security interest in part of the debtor's property that would normally form part of the insolvency estate, such security becomes null and void by operation of law upon the opening of the insolvency proceedings; and
- claims against any Guarantor or its subsidiaries may generally only be pursued in accordance with the rules set forth in the German Insolvency Code (*Insolvenzordnung*).

All creditors, whether secured or unsecured (unless they have a right to segregate an asset from the insolvency estate (*Aussonderungsrecht*)), who wish to assert claims against the debtor need to participate in the insolvency proceedings. Any individual enforcement action brought against the debtor by any of its creditors is subject to an automatic stay once insolvency proceedings have been opened. Secured creditors are generally not entitled to enforce their security interests outside the insolvency proceedings and in many cases the insolvency administrator will have the sole right to enforce the security. Whether or not a secured creditor remains entitled, after the initiation of insolvency proceedings, to enforce security granted to it by the relevant debtor depends on the type of security. Even if the law vests the right of disposal regarding the relevant collateral in the insolvency administrator, the secured creditor retains the right of preferred satisfaction with regard to the disposal proceeds

(*Absonderungsrecht*). Consequently, the enforcement proceeds are paid to creditors holding a security interest in the relevant Collateral up to an amount equal to its secured claims minus certain contributory charges for (i) assessing the value of the secured assets and (ii) realizing the secured assets. Remaining amounts are allocated to the insolvency estate and would, after deduction of the costs of the insolvency proceedings (*e.g.,* fees for and expenses of the insolvency administrator and the insolvency court as well as the members of the creditors' committee), and satisfaction of certain preferential liabilities, be distributed among the non-preferential unsecured creditors, including, to the extent their claims exceed the enforcement proceeds of the security interests, the holders of the Notes. If a Guarantor or a subsidiary subject to German insolvency proceedings grants security over its assets to creditors other than the holders of the Notes, such security may result in a preferred treatment of creditors secured by such security. The proceeds resulting from such collateral and after satisfaction of the secured creditors may not be sufficient to satisfy the holders of the Notes. In addition, it may take several years before an insolvency dividend, if any, is distributed to unsecured creditors. A different distribution of enforcement proceeds can be proposed in an insolvency plan (*Insolvenzplan*) that can be submitted by the debtor or the insolvency administrator and requires the consent of each class of creditors in accordance with specific majority rules.

Under German insolvency laws, it is possible to implement a debt-equity-swap through an insolvency plan. However, it will not be possible to force a creditor into a debt-to-equity conversion if it does not consent to such debt-to-equity swap.

Under German insolvency law, there is no consolidation of the assets and liabilities of a group of companies in the event of insolvency. In case of a group of companies, each entity, from an insolvency law point of view, has to be dealt with separately (*i.e.,* there is no group insolvency concept under German insolvency law). As a consequence, there is, in particular, no pooling of claims among the respective entities of a group, but rather claims of and vis-à-vis each entity have to be dealt with separately.

Under the German Insolvency Code, an insolvency administrator may also challenge transactions which are deemed detrimental to insolvency creditors and which were effected prior to the commencement of insolvency proceedings. The administrator's right to challenge transactions can, depending on the circumstances, extend to transactions during the ten-year period prior to the commencement of insolvency proceedings.

In the event such a transaction is successfully voided, the Security Agent and/or the holders of the Notes would be under an obligation to repay the amounts received under the guarantees to the insolvency estate or to waive the guarantees or for the benefit of any security interest and would have a claim solely under the Notes.

In particular, an act (*Rechtshandlung*) or a transaction (*Rechtsgeschäft*) (which includes the provision of security or the repayment of debt) may be voided in the following cases:

- any act granting an insolvency creditor, or enabling an insolvency creditor to obtain, security (including a guarantee) or satisfaction of a debt if such act was taken (i) during the last three months prior to the filing of the petition for the opening of insolvency proceedings, provided that the debtor was illiquid (*zahlungsunfähig*) at the time when such act was taken and the creditor knew of such illiquidity (or of circumstances that imperatively suggest that the debtor was illiquid) at such time, or (ii) after the filing of the petition for the opening of insolvency proceedings, if the creditor knew of the debtor's illiquidity or the filing of such petition (or of circumstances imperatively suggesting such illiquidity or filing);
- any act granting an insolvency creditor, or enabling an insolvency creditor to obtain, security (including a guarantee) or satisfaction of a debt to which such creditor was not entitled or which was granted or obtained in a form or at a time to which or at which such creditor was not entitled to such security or satisfaction, if (i) such act was taken during the last month prior to the filing of the petition for the opening of insolvency proceedings or after such filing; (ii) such act was taken during the second or third month prior to the filing of the petition and the debtor was illiquid at such time; or (iii) such act was taken during the second or third month prior to the filing of the petition for the opening of insolvency proceedings and the creditor knew at the time such act was taken that such act was detrimental to the other insolvency creditors (or had knowledge of circumstances that imperatively suggest such detrimental effect);
- any transaction by the debtor that is directly detrimental to the insolvency creditors or by which the debtor loses a right or the ability to enforce a right or by which a proprietary claim against a debtor is obtained or becomes enforceable, provided it was entered into (i) during the three months prior to the filing of the petition of the opening of insolvency proceedings and the debtor was illiquid at the time of such transaction and the counterparty to such transaction knew of the illiquidity at such time, or (ii) after the filing of the petition for the opening of insolvency proceedings and the counterparty to such transaction knew of either the debtor's illiquidity or such filing at the time of the transaction;
- any act by the debtor without (adequate) consideration (*e.g.*, whereby a debtor grants security (including a guarantee) for a third party debt, which might be regarded as having been granted gratuitously (*unentgeltlich*)), if it was effected in the four years prior to the filing of the petition for the opening of insolvency proceedings;
- any act performed by the debtor during the ten years prior to the filing of the petition for the opening of insolvency proceedings or at any time after the filing with the intent to prejudice the insolvency creditors and the other party knew of such intention at the time of such act;
- any act that provides security or satisfaction for a shareholder loan made to the debtor or a similar claim if (i) in the case of the provision of security (including a guarantee), the act took place during the ten years prior to the filing of the petition for the opening of insolvency proceedings or after the filing of such petition; or (ii) in the case of satisfaction, the act took place during the last year prior to the filing of the petition for the opening of insolvency proceedings or after the filing of such petition; and

- any act whereby the debtor grants satisfaction for a loan claim or an economically equivalent claim to a third party if (i) the transaction was effected in the last year prior to the filing of a petition for commencement of insolvency proceedings or thereafter, and (ii) a shareholder of the debtor had granted security or was liable as a guarantor or surety (*Bürge*) (in which case the shareholder has to compensate the debtor for the amounts paid (subject to further conditions)).

In this context, "knowledge" is generally deemed to exist if the other party is aware of the facts from which the conclusion must be drawn that the debtor (*e.g.,* a Guarantor) was unable to pay its debts generally as they fell due, that a petition for the opening of insolvency proceedings had been filed, or that the act was detrimental to, or intended to prejudice, the insolvency creditors, as the case may be. A person is deemed to have knowledge of the debtor's intention to prejudice the insolvency creditors if it knew of the debtor's imminent illiquidity and that the transaction prejudiced the debtor's creditors. With respect to a "related party," there is a general statutory presumption that such party had "knowledge." The term "related party" includes, subject to certain limitations, in the case of debtors that are corporate persons, members of the management or supervisory board, shareholders owning more than 25% of the debtor's share capital, persons or companies holding comparable positions that give them access to information about the economic situation of the debtor, and persons that are spouses, relatives or members of the household of any of the foregoing persons.

Furthermore, even in the absence of an insolvency proceeding, a third party creditor who has obtained an enforcement order but has failed to obtain satisfaction of its enforceable claims by a levy of execution, under certain circumstances, has the right to void certain transactions, such as the payment of debt and the granting of security (including a guarantee) pursuant to the German Code on Avoidance (*Anfechtungsgesetz*). The conditions for avoidance under the German Code on Avoidance differ to a certain extent from the above described rules under the German Insolvency Code and the avoidance periods are calculated from the date when a creditor exercises its rights of avoidance in the courts.

### Limitations

The enforcement of guarantees and security granted by German companies is limited under German corporate law.

Depending on the security structure, a German stock corporation (*Aktiengesellschaft*) may not grant any cross stream or upstream security or guarantee in order to secure obligations of its direct or indirect shareholders (or their subsidiaries) in excess of dividends or other distributions permitted by law according to section 57 German Stock Corporation Act (*Aktiengesetz/AktG*)) with the following exceptions: (i) If it has entered into a domination or profit and loss pooling agreement (*Beherrschungs- oder Gewinnabführungsvertrag*) it can grant security/ guarantees but only to the extent the dominating party (here: Allia Holding GmbH) is able to compensate the stock corporation for any loss suffered (such claim has to be fully recoverable); (ii) If the stock corporation has a fully recoverable indemnity or claim for refund (*vollwertiger Gegenleistungs- oder Rückgewähranspruch*) following payment under the guarantee or enforcement of the security. Furthermore, enforcement of guarantees and security granted should not lead to illiquidity of the German stock corporation according to section 92 paragraph sentence 3 German Stock Corporation Act (*Aktiengesetz*). The security agreements contain a respective limitation.

A German limited liability company and a German limited partnership with a limited liability company as its general partner (GmbH & Co. KG) can generally grant cross stream and upstream security and guarantees but in order to prevent any infringement of section 30 paragraph 1 or section 64 sentence 3 of the German Limited Liability Companies Act (*Gesetz betreffend die Gesellschaften mit beschränkter Haftung*) the parties typically agree on a limitation of the demand under the guarantees or enforcement of the security if and up to the extent payments under any such guarantee or enforcement of security would cause (i) the amount of the relevant German Guarantor's net assets to fall below the amount of its registered share capital (*Stammkapital*) or to increase an existing shortfall of its net assets in relation to its registered share capital or (ii) the limited liability company to become illiquid. The security agreements contain a respective limitation.

German capital maintenance rules are subject to evolving case law. Future court rulings may further limit the access of a shareholder to assets of its subsidiaries or an affiliated company (*verbundenes Unternehmen*) with the meaning of section 15 German Stock Corporation Act (*Aktiengesetz*) which can negatively affect the ability of a German (direct or indirect) subsidiary of the Issuer or an entity affiliated with the Issuer to make payments under a guarantee.

Furthermore it cannot be ruled out that the case law of the German Federal Supreme Court (*Bundesgerichtshof*) regarding so-called destructive interference (*existenzvernichtender Eingriff*) (i. e. a situation where a shareholder deprives a German limited liability company of the liquidity necessary for it to meet its own payment obligations) may be applied by courts with respect to the enforcement of a guarantee or security interest granted by a German (direct or indirect) subsidiary of the Issuer or an entity affiliated (*verbundenes Unternehmen*) with the Issuer within the meaning of section 15 German Stock Corporation Act (*Aktiengesetz*)- In such case, the amount of proceeds to be realized in an enforcement process may be reduced, even to zero.

According to a decision of the German Federal Supreme Court (*Bundesgerichtshof*), a security agreement may be void due to tortious inducement of breach of contract if a creditor knows about the distressed financial situation of the debtor and anticipates that the debtor will only be able to grant collateral by disregarding the vital interests of its other business partners. It cannot be ruled out that German courts may apply this case law with respect to the granting of guarantees or security interest by (direct or indirect) subsidiaries or an affiliated entity (*verbundenes Unternehmen*) within the meaning of section 15 German Stock Corporation Act (*Aktiengesetz*) in the legal form of a GmbH or a GmbH & Co. KG incorporated or stablished in Germany.

### Creditor's liability

Furthermore, the beneficiary of a transaction effecting a repayment in violation of section 57 German Stock Corporation Act or section 20 German Limited Liability Companies Act (as described above) could moreover become personally liable under exceptional circumstances. The German Federal Supreme Court (*Bundesgerichtshof*) ruled that this could be the case if for example the creditor were to act with the intention of detrimentally influencing the position of the other creditors of the debtor in violation of the legal principle of *bonos mores* (*Sittenwidrigkeit*). Such intention could be present if the beneficiary of the transaction was aware of any circumstances indicating that the grantor of the guarantee or security is close to collapse (*Zusammenbruch*), or had reason to enquire further with respect thereto.

### Parallel Debt

Under German law, certain "accessory" security interests such as pledges (*Pfandrechte*) require that the pledgee and the creditor be the same person. Such security interests cannot be held on behalf of third parties who do not hold the secured claim. The holders of interests in the Notes from time to time will not be party to the security documents. In order to permit the holders of the Notes from time to time to have a secured claim, the transaction documents will provide for the creation of a "parallel debt." Pursuant to the creation of the parallel debt, the Security Agent will become the holder of a claim equal to each amount payable by an obligor under the Notes. The pledges governed by German law will directly secure the parallel debt. The parallel debt concept has not been tested under German law, and there is no certainty that it will eliminate or mitigate the risk of unenforceability posed by German law.

## FINLAND

The following is a brief description of certain aspects of the insolvency law of Finland.

There are two primary insolvency regimes under Finnish law. The first, company reorganization (*yrityssaneeraus*), is intended to investigate whether the business has a reasonable chance to continue and, if so, to rehabilitate the company's viable business, ensure its continued viability and make arrangements with creditors. The second, bankruptcy (*konkurssi*), is primarily designed to liquidate and distribute the assets of a debtor to its creditors.

### Company Reorganization

If a company is insolvent or is at risk of becoming insolvent, and it is probable that a company reorganization will remedy the insolvency or prevent its recurrence otherwise than for a short period, an application for company reorganization can be made to a court by the debtor or by one or more creditors. Further, the initiation of company reorganization proceedings is possible—in theory, irrespective of the company's solvency situation—when at least two creditors whose total claims represent at least one-fifth of the debtor's known debts and who are not related to the debtor file a joint application with the debtor or declare that they support the debtor's application for company reorganization. If there are no specific legal barriers to company reorganization and, consequently, the court approves the application and opens company reorganization proceedings, the court will simultaneously appoint an administrator (*selvittäjä*).

All existing claims against the company are suspended as of the commencement of the company reorganization. The suspension as a main rule prohibits the enforcement and placing of security, the repayment and enforcement of the restructuring debts (although debts arising after the filing of the company reorganization application can be repaid and enforced) and the seizure of assets. The suspensions are in force until the company reorganization program has been confirmed by the district court or the proceedings have been dismissed.

Creditors with equal ranking have an equal status in the arrangements of the restructuring debts within the company reorganization program. Subject to certain restrictions set forth in the Finnish Company Reorganization Act, the following measures may be taken with respect to unsecured debts in the company reorganization program: (i) change the repayment schedule; (ii) order that debt payments be considered as payments against principal first, and as payments of interest and other credit costs only second; (iii) reduce the obligation to pay interest and other credit costs with respect to the remaining term of a debt; and (iv) reduce the outstanding principal balance of unpaid debt. The company reorganization program may also include the full or partial refinancing of debt. Consequently, the company reorganization procedure could result in holders of the Notes receiving a right to recover considerably less than they would otherwise be entitled to recover under the Note Guarantee.

Secured debt means restructuring debt where the creditor holds an effective (against third parties) security interest to property that belongs to or is in the possession of the debtor, insofar as the value of the security at the commencement of the proceedings would have been enough to cover the amount of the creditor's claim after the deduction of liquidation costs and claims with a higher priority. Regarding business mortgages, only 50% of the value of the mortgaged property will be considered as secured debt. The value of the property will be determined by the reorganization program.

The following debt arrangements may be applied to secured debt: (i) change the repayment schedule; (ii) order that debt payments be applied as payments against principal first and as payments of interest and other credit costs second; or (iii) reduce the obligation to pay interest and other credit costs with respect to the remaining term of the debt. Even if the debt arrangement does not affect the existence or content of a creditor's security interest, the security arrangements relating to the debt may be altered by replacing the security with other fully adequate security.

Payments on a secured debt shall be determined so that at least the present value of the secured debt will be repaid within a reasonable period, not to materially exceed the remainder of the credit period without the consent of the creditor or, if the debt has become due in full, not to materially exceed one-half of the original credit period. As for reducing interest and other credit costs, a court will take into consideration the length of the remaining credit period, so that the longer the remaining credit period, the smaller the reduction in interest and credit costs.

### Bankruptcy

A debtor or its creditor may apply for bankruptcy from a bankruptcy court of competent jurisdiction when the debtor has failed to pay its debts and the inability to pay is not temporary. If the application is approved, an estate administrator (or several estate administrators) of the bankruptcy estate (*pesänhoitaja*) will be appointed by the court.

A bankruptcy covers all the liabilities of the debtor, and its objective is to liquidate the assets of the debtor and use the proceeds received therefrom in payment of the creditors' claims. In order to achieve the objective of bankruptcy, the debtor's assets are, from the beginning of the bankruptcy, subject to the authority of the estate administrator. The creditors are represented through the meeting of creditors. The estate administrator must act for the common benefit of all creditors and shall comply with the decisions and guidelines of the creditors in matters falling within the decision-making powers of the creditors.

As a main rule, in order to be entitled to a disbursement, a creditor must file a claim in bankruptcy in writing (a "claim letter"), by delivering it to the estate administrator no later than the deadline set by the estate administrator. The obligation to notify the bankruptcy estate of a claim is binding even on a creditor with a secured claim. A creditor who holds assets belonging to the debtor as security for the debt of a third party must, at the request of and within a time limit set by the estate administrator, provide the information on receivables and collateral that should be provided in a claim letter. A creditor who holds a business mortgage over the assets of the debtor as security of a claim against the debtor in bankruptcy or a debt owed by some other debtor shall file the claim as provided in the Finnish Bankruptcy Act. If a claim is denominated in a currency other than euro, a value in euro for the purposes of the bankruptcy proceedings is determined using the exchange rate of the date of commencement of the bankruptcy proceedings.

A creditor who wishes to use his or her claim for set-off against a debt owed to the debtor must, when giving notice of the set-off, provide the estate administrator with the same information that would be provided in a claim letter.

Creditors have an equal right to a payment from the funds of the bankruptcy estate in the proportion of the amount of their claims, unless otherwise provided by law. However, the following creditors have precedence over unsecured creditors to receive their claims: (i) secured creditors and holders of retention rights have priority to the proceeds relating to the relevant asset; (ii) creditors of the administrative expenses of the bankruptcy estate, creditors with claims on the basis of contracts that the bankruptcy estate (rather than the debtor) has entered into, any liabilities for which the bankruptcy estate is responsible by operation of law and creditors of a debt that has arisen between the commencement and discontinuation of restructuring proceeding; and (iii) creditors with claims that are secured by a business mortgage will receive prior to other claims a disbursement of 50% of the value of the mortgaged assets. The rights of the above-mentioned preferential creditors may adversely affect the interests of holders of the Notes. Bankruptcy of the Finnish Guarantor could result in holders of the Notes recovering considerably less than they would have otherwise been entitled to recover under the Note guarantee.

Finnish law prescribes claims that are to be settled lastly. In practice, the most significant of such claims are the interest accruing on the claim during the period subsequent to the commencement of the bankruptcy, a bond issued with a low priority and a subordinated loan. The Finnish state has no preferential rights regarding taxes and other fiscal charges. The assets of the bankruptcy estate are disposed of in the most advantageous manner so as to maximize the aggregate net proceeds. However, secured creditors that are secured pursuant to a fixed charge over movable or immovable property may exercise their right to enforce such collateral regardless of the bankruptcy proceedings. The bankruptcy estate may at its own discretion prohibit the sale for a maximum of two months. The bankruptcy estate may sell collateral belonging to the estate only if the creditor protected by the collateral consents to the same or if the court grants a specific permission.

### Fraudulent Conveyance Law

Pursuant to the Finnish Act on the Recovery of Assets to Bankruptcy Estate (*Laki takaisinsaannista konkurssipesään*) (the "**Recovery Act**"), certain acts performed by a debtor can be revoked if the rights of creditors have been prejudiced by those acts. According to the Finnish Company Reorganization Act (*Laki yrityksen saneerauksesta*) and the Finnish Enforcement Code (*Ulosottokaari*), the grounds for recovery set forth in the Recovery Act are also to be applied in company reorganization and enforcement proceedings.

The bankruptcy estate administrator, the administrator in the company reorganization and certain creditors may seek to recover assets of the debtor in connection with bankruptcy, company reorganization or enforcement proceedings. The administrator or the creditors may, within a specified time, either file an action for recovery against the debtor's counterparty in a separate court proceeding or file an objection.

Certain general rules for recovery apply to all transactions between an insolvent debtor (including a debtor who becomes insolvent partially due to the transaction) and the counterparty of the debtor. A transaction concluded within five years prior to the date when the petition for bankruptcy, company reorganization or enforcement is filed with the court or relevant authority (as well as

transactions performed after such date) may be recovered if: (i) the transaction, either by itself or together with other transactions, improperly (a) favors a creditor at the expense of other creditors, (b) places property beyond the reach of other creditors, or (c) increases debts to the detriment of the creditors; (ii) the debtor, at the time of the transaction, was, or partly due to the transaction became, insolvent or, in case of a transaction considered to be a gift or a contract with the characteristics of a gift, over-indebted; (iii) the counterparty of the transaction knew or should have known of the insolvency or over-indebtedness, or the relevance of the transaction to the debtor's economic situation; and (iv) the counterparty knew or should have known the facts mentioned above in clause (i), on the basis of which the transaction is considered improper. The grounds for recovery under Section 5 of the Recovery Act, which covers all transactions concluded between the debtor and a counterparty, are thus applicable only if the counterparty had qualified or should have had qualified knowledge of all the issues described above in (i) and (ii). Transactions between the debtor and certain (natural or legal) persons within the debtor's sphere of interest (as defined in the Recovery Act) may be recovered regardless of the date of the transaction.

Pursuant to the Recovery Act, certain transactions can, in certain circumstances, be recovered regardless of the good faith of the counterparty and regardless of the solvency of the debtor at the time of the transaction. Such transactions include, among other things: (i) payments received through enforcement; (ii) the payment of debts; and (iii) the granting of security. Any debt paid later than three months prior to the date when the petition for bankruptcy, company reorganization or enforcement is filed with the court or relevant authority (or, in the event that the beneficiary is a person within the debtor's sphere of interest, within two years) may be recovered if: (i) unusual means of payment have been used; (ii) the payment was premature; or (iii) the amount of payment was considerable in comparison to the assets of the debtor. However, a payment may not be recovered if it, when all circumstances are taken into consideration, may be held as customary. Security given later than three months prior to the date when the petition for bankruptcy, company reorganization or enforcement is filed with the court or the relevant authority (or, in the event that the beneficiary is a person within the debtor's sphere of interest, within two years) may be recovered if: (i) the parties had not agreed upon the security in connection with the granting of the credit; or (ii) the possession of the security had not been transferred, or any similar act perfecting the security had not been taken without unjustified delay after the granting of the credit.

When a transaction is recovered, the property that has been received from the debtor is returned to the bankruptcy estate or the debtor. The bankruptcy estate or the debtor also returns the compensation that had been paid for the property. If the compensation has been placed beyond the reach of the creditors and the party that paid the compensation knew or should have known that this was the intention of the debtor, there is no obligation to return the compensation. If the property to be returned no longer exists, or is otherwise not returnable, compensation for the value of the property must be made. In addition, should the return of certain property cause inconvenience to the party under such obligation, a court may entitle such party to pay compensation equal to the value of the property instead of returning the property. The Recovery Act also sets forth an obligation to compensate for any decrease in value of the returnable property.

Accordingly, the validity of the Note guarantees or any payment made thereunder may be challenged and it is possible that such challenge would be successful. If the granting of a Note guarantee or a payment thereunder is successfully challenged, then the granting of such Note guarantee could be nullified or the payment recovered. As a result of such successful challenges, holders of the Notes may not enjoy the benefit of a Note guarantee, and the value of any consideration that holders of the Notes received with respect to a Note guarantee could also be subject to recovery from the holders of the Notes.

### Limitations

Pursuant to the Finnish Companies Act (624/2006, as amended, the "**Finnish Companies Act**") a Finnish company may not provide financing, or grant guarantees or security to secure the financing, of the acquisition of its or its parent company's shares (financial assistance).

Further, a company can only distribute its assets in ways specified in the Finnish Companies Act. Other transactions that reduce the assets of the company or increase its liabilities without a sound business reason constitute unlawful distribution of assets. Granting of guarantees and security is subject to the rules applicable to distribution of funds and therefore, requires that the granting of guarantee/security is based on sound business reasons (corporate benefit).

In addition to the corporate benefit requirement, the granting of the guarantee/security has to be within the limits of the company's business purpose (as set out in its articles of association) and the company may not be insolvent and the granting of security may not result in the company becoming insolvent.

## ENGLAND AND WALES

The following is a brief description of certain aspects of the insolvency law of England and Wales.

### Challenges to Guarantees and Security

There are circumstances under English insolvency law in which the granting by an English company of security and guarantees can be challenged.

- *Transaction at an undervalue.* Under English insolvency law, a liquidator or an administrator of a company could apply to the court for an order to set aside a security interest (in certain cases) or a guarantee granted by the company (or give other relief) on the grounds that the creation of such security interest or guarantee constituted a transaction at an undervalue. The grant of a security interest or guarantee will only be a transaction at an undervalue if the transaction constitutes a gift or is made on terms that provide that the company receives no consideration or if the company receives consideration of significantly less value, in money or in money's worth, than the consideration given by such company. For a challenge to be made, the guarantee or security must be granted within a period of two years ending with the onset of insolvency (as defined in section 240 of the UK Insolvency Act 1986, as amended). In addition the company must have been "unable to pay its debts" at the time that it granted the guarantee or security or became "unable to pay its debts" as a result. A company will be "unable to pay its debts" if a statutory demand for over £750 is served on the company and remains unsatisfied for three weeks or an execution on or other process issued on a judgment, decree or order of a court in favor of a creditor is returned unsatisfied in whole or in part or if it is proved to the court's satisfaction that the company is not able to pay its debts as they fall due or that the value of the company's assets is less than the amount of its liabilities (taking into account contingent and prospective liabilities). A court will not make an order in respect of a transaction at an undervalue if it is satisfied that the company entered into the transaction in good faith and for the purpose of carrying on its business and that, at the time it did so, there were reasonable grounds for believing the transaction would benefit the company. Subject to this, if the court determines that the transaction was a transaction at an undervalue the court can make such order as it thinks fit to restore the position to what it would have been if the transaction had not been entered into (which could include reducing payments under the guarantees or setting aside any security interests granted or guarantees although there is protection for a third party that benefits from the transaction and has acted in good faith and for value). In any challenge proceedings, it is for the administrator or liquidator to demonstrate that the English company was unable to pay its debts unless a beneficiary of the transaction was a "connected person" (as defined in the UK Insolvency Act 1986, as amended), in which case there is a presumption that the company was unable to pay its debts and the connected person must demonstrate that the company was not unable to pay its debts at the time of the transaction.
- *Preference.* Under English insolvency law, a liquidator or administrator of a company could apply to the court for an order to set aside a security interest or a guarantee granted by such company (or give other relief) on the grounds such security interest or such guarantee constituted a preference. The grant of a security interest or guarantee is a preference if it has the effect of placing a creditor (or a surety or Guarantor of the company) in a better position in the event of the company's insolvent liquidation than if the security interest or guarantee had not been granted. For a challenge to be made, the decision to prefer must be made within the period of six months ending with the onset of insolvency (as defined in section 240 of the UK Insolvency Act 1986, as amended) if the beneficiary of the security interest or the guarantee is not a connected person or two years if the beneficiary is a connected person. A court may not make an order in respect of a preference of a person unless it is satisfied that the company in deciding to give the preference was influenced by a desire to put that person in a better position. If the court determines that the transaction was a preference, the court can make such order as it thinks fit to restore the position to what it would have been if that preference had not been given (which could include reducing payments under the guarantees or setting aside the security interests or guarantees). There is protection for a third party that benefits from the transaction and acted in good faith and for value. In any proceedings, it is for the administrator or liquidator to demonstrate that the company was unable to pay its debts and that the company was influenced by a desire to produce the preferential effect, unless the beneficiary of the transaction was a connected person, in which case there is a presumption that the company was influenced by a desire to produce the preferential effect and the connected person must demonstrate in such proceedings that there was no such influence.
- *Transaction defrauding creditors.* Under English insolvency law, a liquidator or an administrator of a company, or a person who is a victim of the relevant transaction can apply to the court for an order to set aside a security interest or guarantee granted by that company on the grounds the security interest or guarantee was a transaction defrauding creditors. A transaction will constitute a transaction defrauding creditors if it is a transaction at an undervalue and the court is satisfied the substantial purpose of a party to the transaction was to put assets beyond the reach of actual or potential claimants against it or to prejudice the interest of such persons. If the court determines that the transaction was a transaction defrauding creditors, then it may make such order as it may deem fit to restore the position to what it was prior to the transaction or protect the victims of the transaction (including reducing payments under the guarantee or setting aside the security interest or guarantees) but there is protection for a third party acting in good faith and for value without notice of the relevant circumstances. Any "victim" of the transaction (with the leave of the court if the company is in liquidation or administration) may apply to court under this provision and not just liquidators or administrators. There is no time limit in the English insolvency legislation within which the company must enter insolvency proceedings and the relevant company does not need to have been unable to pay its debts at the time of the transaction.

- *Grant of floating charge.* Under English insolvency law, if an English company is unable to pay its debts at the time of (or as a result of) granting a floating charge then such floating charge can be avoided on the action of a liquidator or administrator if it was granted in the period of one year ending with the onset of insolvency (as defined in section 245 of the UK Insolvency Act 1986, as amended). The floating charge, however, will be validated to the extent of the value of the consideration provided for the creation of the charge in the form of money paid to, or goods or services supplied to, or any discharge or reduction of any debt of, the relevant English company at the same time as or after the creation of the floating charge plus interest payable on such amounts. Where the floating charge is granted to a "connected person," the charge can be challenged if given within two years of the onset of insolvency and the prerequisite to challenge that the company is unable to pay its debts does not apply. However, if the floating charge qualifies as a "security financial collateral arrangement" under the Financial Collateral Arrangements (No. 2) Regulations 2003, the floating charge will not be subject to challenge as described in this paragraph.

### Administration; Fixed and Floating Charges

Under English insolvency law, English courts are empowered to order the appointment of an administrator in respect of an English company in certain circumstances. An administrator can also be appointed out of court by an English company, its directors or the holder of a qualifying floating charge and different procedures apply according to the identity of the appointor. During the administration, in general no proceedings or other legal process may be commenced or continued against such company, or security enforced over such company's property, except with leave of the court or the consent of the administrator. The moratorium does not, however, apply to a "security financial collateral arrangement" (such as a charge over cash or financial instruments such as shares, bonds or tradable capital market debt instruments) under the Financial Collateral Arrangements (No. 2) Regulations 2003. During the administration of an English company, a creditor would not be able to enforce any security interest (other than security financial collateral arrangements) granted by it without the consent of the administrator or the court. In addition, a secured creditor cannot appoint an administrative receiver.

The Security Agent can appoint its choice of administrator by the out-of-court route or appoint an administrative receiver if it is the holder of a qualifying floating charge (as defined in paragraph 14 of Schedule B1 of the UK Insolvency Act 1986, as amended). The essential characteristics of a qualifying floating charge are that (a) the charge must by its terms give the holder power to appoint an administrator (or an administrative receiver) and (b) the charge (or that and other charges taken together) must relate to the whole or substantially the whole of the relevant Obligor's property. Even if the Security Agent holds a qualifying floating charge, it can only appoint an administrative receiver if one of the exceptions to the general prohibition of appointing an administrative receiver applies. The most relevant exception to the prohibition on the appointment of an administrative receiver by the Security Agent is that the Security Agent can appoint an administrative receiver under security forming part of a "capital market arrangement" (as defined in the UK Insolvency Act 1986, as amended), which is the case if a party incurs debt of at least £50,000,000 during the life of the arrangement and the arrangement involves the issue of a "capital markets investment" (which is defined in the UK Insolvency Act 1986, as amended). Once an administrative receiver is appointed by the Security Agent the company or its directors will not be able to appoint an administrator by the out-of-court route and a court will only appoint an administrator if the charge under which the administrative receiver appointed is successfully challenged or the Security Agent agrees. If an administrator is appointed to a company, any administrative receiver then in office must vacate office and any receiver of part of the company's property must resign if requested to do so by the administrator.

An administrator, receiver (including administrative receiver) or liquidator of the company will be required to ring-fence a certain percentage of the proceeds of enforcement of floating charge security for the benefit of unsecured creditors. Under current law, this applies to 50% of the first £10,000 of floating charge realizations and 20% of the remainder over £10,000, with a maximum aggregate cap of £600,000.

Fixed-charge security has a number of advantages over floating charge security: (a) an administrator appointed to the company that granted the floating charge can dispose of floating charge assets for cash or collect receivables charged by way of floating charge and use the proceeds and/or cash subject to a floating charge, to meet administration expenses (which can include the costs of continuing to operate the charging company's business while in administration) in priority to the claims of the floating charge holder; (b) a fixed charge, even if created after the date of a floating charge, may have priority as against the floating charge over the charged assets; (c) general costs and expenses (including the liquidator's remuneration) properly incurred in a winding-up are payable out of floating charge assets to the extent the assets of the company available for unsecured creditors generally are otherwise insufficient to meet them in priority to floating charge claims; (d) until the floating charge security crystallizes, a company is entitled to deal with assets that are subject to floating charge security in the ordinary course of its business, meaning that such assets can be effectively disposed of by the charging company so as to give a third party good title to the assets free of the floating charge and so as to give rise to the risk of security being granted over such assets in priority to the floating charge security; (e) floating charge security is subject to certain challenges under English insolvency law; and (f) floating charge security is subject to the claims of preferential creditors (such as occupational pension scheme contributions and salaries owed to employees (subject to a cap per employee) and holiday pay owed to employees) and, where the floating charge is not a security financial collateral arrangement, to the claims of unsecured creditors in respect of a ring-fenced amount of the proceeds.

Under English law, there is a possibility that a court could recharacterize as floating charges any security interests expressed to be created by a security document as fixed charges where the chargee does not have the requisite degree of control over the relevant chargor's ability to deal with the relevant assets and the proceeds thereof or does not exercise such control in practice, as the description given to the charges in the relevant security document as fixed charges is not determinative. Where the chargor is free to deal with the secured assets without the consent of the chargee, the court is likely to hold that the security interest in question constitutes a floating charge, notwithstanding that it may be described as a fixed charge.

## SWEDEN

The following is a brief description of certain aspects of the insolvency law of Sweden.

### Swedish Reorganization Act of 1996

The Swedish Company Reorganization Act 1996 (the "**Reorganization Act**") (*lag (1996:764) om företagsrekonstruktion (1996:764)*) provides companies facing economic difficulty with an opportunity to resolve these issues without being declared bankrupt unless the court has approved a request for "public composition" proceedings (*offentligt ackard*). Corporate reorganization proceedings shall, as a main rule, terminate within three months from commencement but may under certain conditions be extended for up to one year.

An administrator is appointed by the court and supervises the day-to-day activities and safeguards the interests of creditors. However, the debtor remains in full possession of the business except that, for important decisions such as paying a debt that has fallen due prior to the order of reorganization, granting security for a debt that arose prior to the order, undertaking new obligations or transferring, pledging or granting rights in respect of assets of a substantial value for the business, the consent of the administrator is required.

The making of an order under the Reorganization Act does not have the effect of terminating contracts with the debtor and, during the reorganization procedure, the debtor's business activities continue in the normal way. However, the procedure includes a suspension of payments to creditors and the debtor cannot pay a debt that fell due prior to the order without the consent of the administrator and such consent may only be granted should there be exceptional reasons for doing so and any petition for bankruptcy in respect of the debtor will be stayed. A moratorium also applies to execution in respect of a claim or enforcement of security during Swedish corporate reorganization proceedings unless the security assets are in the physical possession of the secured creditor or any agent acting on behalf of such creditor, which is the case with a share pledge over the shares in a Swedish limited liability company where the share certificates of such company have been physically delivered to the agent for the secured creditor.

The debtor may apply to the court requesting "public composition" proceedings (*offentligt ackord*) which means that the amount of a creditor's claim may be reduced on a percentage basis. The proposal for a "public composition" must meet certain requirements such as that a sufficient proportion of the creditors which are allowed to vote, in respect of a sufficient proportion of the outstanding claims vote in favor of such public composition. Creditors with set-off rights and secured creditors will not participate in the composition unless they wholly or partly waive their set-off rights or priority rights. Should the security not cover a secured creditor's full claim, the remaining claim will, however, be part of a public composition. A creditors' meeting is convened to vote on the proposed public composition. The public composition is binding for all known and unknown creditors that had a right to participate in the public composition proceedings.

### Bankruptcy

In the event of Swedish bankruptcy, a Swedish court will appoint a receiver who will work in the interest of all creditors with the objective of selling the debtor's assets and distribute the proceeds among the creditors.

The purpose of Swedish bankruptcy proceedings is to wind up a Swedish company in such a way that the company's creditors receive as high a proportion of their claims as possible. The receiver in bankruptcy is required to safeguard the assets and can decide to continue the business or to close it down, depending on what is considered best for all creditors. In general, the receiver in bankruptcy is required to sell the assets of the debtor as soon as possible and to distribute the proceeds. In the interim, the receiver will take over the management and control of the company and the company's directors and/or managing director will no longer be entitled to represent the company or dispose of the company's assets. Secured creditors may, subject to restrictions and notification requirements, enforce certain types of security despite the pledgor's bankruptcy.

When distributing the proceeds, the receiver must follow the mandatory provisions in the Swedish Rights of Priority Act of 1970, as amended (the "**Rights of Priority Act**") (*förmånsrättslag (1970:979)*) which state the order in which creditors have a right to be paid. As a general principle, competing claims have equal right to payment in relation to the size of the amount claimed from the debtor's assets. However, some preferential and secured creditors, where such preference or security may arise as a consequence of law, have the benefit of payment before other creditors. There are two types of preferential rights: "specific preferential rights" and "general preferential rights". "Specific preferential rights" apply to certain specific property and give the creditor a right to payment from such property. "General preferential rights" cover all property belonging to the insolvent company's estate in bankruptcy, which is not covered by specific preferential rights, and give the creditor a right to payment from such property. Claims that do not carry any of the above mentioned preferential rights or exceed the value of the security provided for such claim (to the extent of such excess), are non-preferential and are of equal standing as against each other.

In case of enforcement outside bankruptcy, an enforcement process is initiated by the creditor obtaining an enforcement order from the Swedish Enforcement Authority (*Kronofogdemyndigheten*) or the relevant Swedish court. Upon obtaining an enforcement order against a debtor, a creditor may apply to the Swedish Enforcement Authority for an order to pay or on eviction. Should the creditor's claim be secured by way of a pledge, he may (based on his rights under the pledge agreement and depending on the kind of collateral) choose to enforce the pledge by liquidating the security assets in addition to or instead of initiating an enforcement procedure with the Swedish Enforcement Authority or the court (but it should be noted that the creditor has extreme obligations to observe the debtor's interest when enforcing the pledge). Such secured party is always considered a creditor with a specific right of priority to payment.

### Limitations

To the extent that a guarantee or a pledge by a Swedish limited liability company as security for the obligations of a parent or sister company exceed the distributable reserves (calculated according to the latest annual report approved by the annual shareholders meeting, such amount reduced by any negative variations or reservations since the end of the financial year to which the annual report relates to the date when the guarantee or pledge is given) of the relevant Guarantor or pledgor at the time when the guarantee or pledge is given, the validity of such guarantee or pledge is subject to the condition that the Guarantor or pledgor receives consideration on market terms for its undertakings or that otherwise sufficient corporate benefit accrues. It should also be noted that the provisions of the Swedish Companies Act (*aktiebolagslag (2005:511)*) relating to financial assistance in Sweden prohibit limited liability companies incorporated in Sweden from providing guarantees or granting security or other credit support for debt financing the direct or indirect acquisition of shares in these companies, or limit the enforceability of such guarantees and securities.

In Swedish bankruptcy and company reorganization proceedings, transactions can (in certain circumstances and subject to specific time limits) be reversed and the goods or money can then be returned to the bankruptcy estate or the company subject to company reorganization. Broadly, these transactions include, amongst others, situations where the debtor has conveyed property fraudulently or preferentially to one creditor to the detriment of its other creditors before the initiation of the relevant insolvency proceedings, created a new security interest, granted a guarantee or security that was either not stipulated at the time when the secured obligation arose or not perfected without delay after such time and the delay is not considered to be ordinary, or paid a debt that is not due or that is considerable compared to the value of the debtor's assets or if the payment is made by using unusual means of payment. In the majority of situations, a claim for recovery can be made concerning actions that were made during the three months preceding the commencement of the relevant Swedish insolvency proceedings. In certain situations, longer time limits apply and in others there are no time limits. These include, amongst others, situations where the other party to an agreement or other arrangement is deemed to be a closely related party to the debtor such as a subsidiary or parent company.

### Security Interests

Under Swedish law, in addition to certain actions that must be taken to perfect a security interest by the secured party and the grantor, for any security to be validly created, the grantor must be effectively deprived of its right to control, deal with or dispose of the assets subject to the security interest. Any security interests purported to be created under Swedish law over assets which the security provider may remain in possession of, retain exclusive control over, freely operate or collect, invest and dispose of any income from until the occurrence of an enforcement event would therefore not be effective until an enforcement event has occurred and the security interests have been perfected. Such unperfected secured assets are vulnerable under applicable provisions of Swedish law of being set aside as a preference in any Swedish insolvency proceeding affecting the security provider. Thus, a security provider must be effectively deprived of its right to control, deal with or dispose of the secured assets, and arrangements providing for the release of a security interest over an asset in connection with the disposal thereof or upon the occurrence of other circumstances would be at risk of impairing the validity of the security. Perfection of security at a state after the secured liabilities were incurred could incur a hardening period of three months from the date of full perfection.

It is generally possible under Swedish law to grant security interests in favor of an agent acting on behalf of the secured parties. However, it is not established by judicial precedent or otherwise by law that a power of attorney or a mandate of agency, including the appointment of an agent, can be made irrevocable. Therefore, any powers of attorney or mandates of agency can be revoked and will terminate by operation of law and without notice at the bankruptcy or temporal demise of the party giving such powers.

### Parallel Debt

The concept of parallel debt arrangements is not generally recognized under Swedish law and any agreement or document may not be enforceable to the extent it purports to effect such arrangements.

## POLAND

The following is a brief description of certain aspects of insolvency law in Poland.

### Insolvency (Bankruptcy) Proceedings

As a general rule, insolvency proceedings with respect to any Guarantor with its registered office in Poland should be subject to the jurisdiction of Polish courts, which will apply the Polish Bankruptcy and Rehabilitation Law of February 28, 2003 (consolidated text in the Journal of Laws *(Dziennik Ustaw*) of 2012, Item 1112, as amended, the "**Bankruptcy Law**").

Pursuant to the Bankruptcy Law, a declaration of bankruptcy shall be issued by a court in respect of a debtor who has become insolvent, *i.e.,* the debtor fails to fulfill its due and payable pecuniary obligations and/or, (in respect of a legal entity with legal personality (*osobowość prawna*), or legal entity which has no legal personality, but according to the law, it has legal capacity, *i.e.,* the ability to enter into transactions and to be the subject of rights and obligations (*zdolność prawna*)) where its obligations are in excess of the value of its assets, even if it is able to discharge these obligations on time.

A bankruptcy petition may be filed by a debtor or any of his creditors. In the case of a legal person, it may also be filed by anyone who is entitled to represent the same, individually or jointly with other persons. The debtor is obliged to file a bankruptcy petition with the court within two weeks from the day on which the grounds for the declaration of bankruptcy arose.

The insolvency proceedings may be carried out in two ways: (i) proceedings with the possibility of an arrangement (an arrangement may also provide for the satisfaction of creditors through liquidation of the bankrupt's assets) ("**Arrangement Proceedings**"); or (ii) proceedings involving the liquidation of the debtor's assets ("**Liquidation Proceedings**"). The Arrangement Proceedings are conducted with respect to the debtor, where it has been credibly established that the creditors' claims will be satisfied to a larger extent than they would be in Liquidation Proceedings. In the Arrangement Proceedings, certain claims are not subject to a potential arrangement (in particular, without limitation, claims secured on the bankrupt entity's assets by mortgage, pledge, registered pledge or transfer of title to movables, receivables or other rights are not subject to arrangement, however only to the extent covered by the value of assets on which security was established). Notwithstanding the foregoing, a creditor whose claims are so secured may consent to being subject to an arrangement. The court may change the manner of conducting the insolvency proceedings from the Arrangement Proceedings into the Liquidation Proceedings and *vice versa*, if the grounds for conducting a given type of the proceedings have became known after the declaration of bankruptcy.

Provisions of any agreement which stipulate that such an agreement will be terminated and/or amended upon bankruptcy of one of the parties are invalid. Also, provisions of an agreement to which the bankrupt entity is a party which hinder or prevent the objectives of the insolvency proceedings, will be deemed ineffective in relation to the bankruptcy estate. These specific provisions of Polish law are deemed to be forcing their jurisdiction with respect to provisions of the kind as referred to above also over contracts that are subject to laws other than the laws of Poland, as long as said provisions of such contract would apply to an entity that is subject to bankruptcy proceedings under Polish bankruptcy law.

Following a declaration of bankruptcy, any debt (claim) payable in a currency other than złoty and included in the list of claims, regardless of whether it has become due or not, must be converted into złoty at the National Bank of Poland's average exchange rate prevailing on the date of the declaration of bankruptcy. Accordingly, in the event of bankruptcy of a Guarantor, its creditors, including holders of Notes, may be subject to an exchange rate risk between the date of the declaration of bankruptcy and the date of receipt of any amounts in the course of insolvency proceedings.

Following the declaration of bankruptcy, any debt of a debtor, including a debt of a Guarantor in respect of the Notes, may be paid only after certain debts that are entitled to priority have been satisfied. Such preferential debts include, among other things, money owed to the State Treasury of Poland in respect of taxes or social security contributions or unpaid remuneration owed to employees.

It is not clear whether Polish courts and/or a bankruptcy estate administrator (*zarządca*) and/or a court receiver (*nadzorca sądowy*) and/or a bankruptcy trustee (*syndyk*) (unless otherwise specifically stated, hereinafter the term "bankruptcy estate administrator" shall include each of *zarządca*, *nadzorca sądowy* and/or *syndyk*) will give effect to intercreditor agreements and/or subordination agreements. There is a risk that, in the course of insolvency proceedings, claims of all unsecured creditors will be discharged on a *pari passu* basis, irrespectively of any intercreditor agreements and/or subordination agreements, and the creditors who are parties to such agreements may have to enforce their rights thereunder outside of the insolvency proceedings (*e.g.* by claiming the return of particular amounts from other creditors who are parties to such intercreditor agreements and/or subordination agreements).

Following a declaration of bankruptcy in respect of a Guarantor, the following would be recognized, by operation of law, as ineffective against the Guarantor's bankruptcy estate:

- any transaction of the Guarantor, including its guarantee, if such transaction was executed within one year prior to filing of the motion to declare the Guarantor bankrupt and to the extent that such transaction was a transaction at an undervalue, *i.e.,* the Guarantor disposed of or encumbered its assets for no consideration or for a consideration where the value of the Guarantor's performance was glaringly higher than the consideration received by the Guarantor or reserved for a third party; the above restriction does not apply to security interests created before the date of the declaration of bankruptcy in connection with certain financial term contracts (*terminowe operacje finansowe*) borrowing of financial instruments (*pożyczka instrumentów finansowych*) or repo contracts in financial instruments (*sprzedaż instrumentów finansowych ze zobowiązaniem do ich odkupu*), provided such contracts satisfy certain conditions set out in the Bankruptcy Law;
- security interests established by the Guarantor or the payment by the Guarantor of a debt not yet due if the security was established or the payment was made within two months prior to the filing of the motion to declare the Guarantor bankrupt; however, the holder of the respective security or a recipient of payment may file a lawsuit or plea seeking the assertion of effectiveness of the respective security or the payment, if at the time of execution of the transaction that holder or recipient was not aware of the existing grounds for declaring the Guarantor's bankruptcy; the above restriction does not apply to security interests created before the date of the declaration of bankruptcy in connection with certain financial term contracts (*terminowe operacje finansowe*), borrowing of financial instruments (*pożyczka instrumentów finansowych*) or repo contracts financial instruments (*sprzedaż instrumentów finansowych ze zobowiązaniem do ich odkupu*), provided such contracts satisfy certain conditions set out in the Bankruptcy Law; and
- any transactions if entered into within six months prior to the filing of the motion to declare the Guarantor bankrupt and to the extent they were entered into with entities related to the Guarantor: (i) the Guarantor's shareholders, their representatives and/or relatives; or (ii) affiliated companies, their shareholders, and/or representatives or relatives of such shareholders; and/or (iii) the Guarantor's subsidiary or holding companies.

Further, the judge commissioner may, under a motion from the bankruptcy estate administrator declare any encumbrances (security interests) established over the assets of the Guarantor (such as mortgages, pledges, registered pledges, *etc.*) ineffective towards the bankruptcy estate, to the extent that the Guarantor was not the personal (direct) obligor with respect to the underlying debt and if the encumbrance was established within one year prior to the filing of the motion to declare the Guarantor bankrupt and the Guarantor received no consideration or the consideration received was glaringly low compared to the value of the encumbrance. However, irrespective of the value of the consideration received, the judge commissioner will decide that the security interests established over the assets of the bankrupt entity are ineffective towards the bankruptcy estate if they secure obligations of an entity related to the bankrupt entity: (i) the Guarantor's shareholders, their representatives and/or relatives; (ii) affiliated companies, their shareholders, and/or representatives or relatives of such shareholders; and/or (iii) the Guarantor's subsidiary or holding companies.

Under Polish bankruptcy law, once bankruptcy of a company is declared by the relevant court no new encumbrances over such bankrupt company's assets may be established. This means that a registered pledge will not be entered into the relevant register of pledges post-bankruptcy, even if the registered pledge agreement had been entered into (and the application for filing had been submitted to the relevant court) before bankruptcy was declared. This limitation would not apply to mortgages in relation to which the application for filing had been submitted more than six months before the bankruptcy was declared.

Agreement on the security assignment of a thing, receivable or of another right is effective towards the bankruptcy estate if it was executed with a so-called "date certain" (*e.g.,* with notarized signatures). A creditor who benefits from such a security assignment may not request that the assigned right or asset be excluded from the bankruptcy estate. It will have, however, priority in satisfying its claim from the proceeds of the liquidation of such rights or assets.

The security interest created by any Subsidiary Guarantor incorporated in Poland may be held to be wholly or partly invalid as a result of the opening of insolvency proceedings, within the meaning of EC Regulation on Insolvency Proceedings against such Subsidiary Guarantor in another EU Member State or as a result of the Polish courts being required, under that Regulation, to give effect to the law of that EU Member State or to recognize or enforce any judgment of a court of that EU Member State concerning those proceedings.

### Polish Civil Code

Under the Polish Civil Code of April 23, 1964 (Journal of Laws (*Dziennik Ustaw*) of 1964, No. 16, Item 93, as amended), a creditor may request the court to declare a transaction (*e.g.* the granting of a guarantee or security or any disposal of assets) of such creditor's debtor ineffective towards such creditor if a third party obtains a benefit as a result of such transaction to the detriment of the debtor's creditors *provided that* the debtor acted with the knowledge of such detriment and the third party beneficiary (a) knew of that fact or could have known if it exercised due care or (b) obtained the benefit for no consideration. A transaction is to the detriment of creditors if, as a result of such transaction, the debtor becomes insolvent or becomes insolvent to a greater extent.

In addition, if a debtor's entering into a given agreement made it wholly or partially impossible to satisfy a third party's claim, such third party may request that the court declare such agreement ineffective towards that third party, *provided that* the debtor and the other party to the agreement knew of the third party's claim or if the agreement was for no consideration.

### Financial Assistance and/or Preservation of Capital

The Commercial Companies Code of September 15, 2000 (Journal of Laws (*Dziennik Ustaw*) of 2000, No. 94, Item 1037, as amended; Article 345) (the "**Commercial Companies Code**") restricts joint-stock companies (*spółka akcyjna*) from providing financial assistance for the direct or indirect acquisition of their own shares, which includes, without limitation, granting loans, security or guarantees. Financial assistance is allowed only under the following circumstances, all of which need to be met jointly: (i) the transaction will be made on an arm's-length basis following examination of the debtor's solvency and in exchange for a "fair" price; (ii) the company has set aside reserve capital for the purposes of financing from earnings or capital which, under the relevant provisions of the Commercial Companies Code, is available to be distributed to shareholders; (iii) the shareholders' meeting of the company has adopted a resolution approving the scope of the financing; and (iv) the management board has prepared a report which is then submitted to the court registry and which includes: (a) the reasons or purpose of the financing, (b) the company's interest in the financing, (c) the terms of the financing, (d) the impact of the financing on the risk concerning financial liquidity and solvency of the company, and (e) the price for the acquisition of or subscription for the shares, together with proof/justification that the price is fair. The restrictions on financial assistance are broadly construed under Polish law and consequently it is impractical for many companies to follow them. If the proceeds from the Offering were to be used to repay those loans which were, either directly or indirectly, used to finance the acquisition of any Guarantors who are joint-stock companies, there would be a risk that the Guarantees given by such Guarantors could be said to constitute indirect financial assistance for the acquisition of their own shares. The Commercial Companies Code also restricts both, joint stock companies and limited liability companies (*spółka z ograniczoną odpowiedzialnością*) from making any payments to their shareholders (under any legal title) from their assets which are necessary to cover their share capital. This provision is not very clear but it is assumed that it forbids any payments to the shareholders as a result of which the assets of the company would become less than the nominal value of its share capital.

## Registration of Security

The establishment and perfection of certain security instruments in Poland, in particular registered pledges and mortgages, requires the execution of certain documents and entry in certain registers. A registered pledge is effective at the actual date of registration. Registration proceedings can last up to three weeks. Registered pledges have priority in the order they were registered. To the extent that the security grantor has tax obligations in Poland, registered pledge may be encumbered with a treasury lien for the benefit of the State Treasury. It is a standard market practice that until the entry of the pledge in the register, the payment obligations are secured by a financial or civil pledge, which does not give the same scope of rights to secured creditors as the registered pledge in terms of protection against unauthorized transfers and subsequent charges.

## Effectiveness of Security

In general, civil pledges contemplated in the relevant Security Documents will become effective upon notification to the relevant debtor (which must include evidence of agreement, order or registration of the pledges). The pledge will not be effective against the company unless and until such notification is made.

Transfer of a future claim, by Guarantors organized in Poland, is permissible; however, it is only fully effective when a claim has arisen. Therefore, on the date of the transfer the assignor transfers only the expectancy of future rights to the assignee. This means that if bankruptcy of the assignee is pending at the time the future claim arises, the transfer of that claim may be deemed ineffective vis-à-vis the bankrupt estate.

Generally, the establishment of a registered pledge will not prevent third-party creditors of the security grantor from initiating enforcement proceedings to satisfy their claims. In such event, the Security Agent will have the right to participate in the distribution of funds resulting from such enforcement and its claims will have priority over unsecured claims of third parties (except for certain court-enforcement expenses, alimony claims and employee and pension claims) and claims secured with the lower-ranking pledges according to the order of priorities set forth in accordance with applicable law.

Under Polish law, pledges and mortgages are considered an accessory to the underlying secured obligations, which automatically terminate if the secured obligations have been satisfied, become void or otherwise expire or, in general, the pledge/mortgage is released by the pledgee/mortgagee.

## Parallel Debt

Parallel debt as a concept has been considered and accepted by Polish courts in the context of foreign-law debts, even though the concept is not valid under Polish law *per se*.

## Application of Foreign Law

If any obligation is to be performed in a jurisdiction outside Poland, it might not be enforceable in Poland to the extent that such performance would be illegal or contrary to public policy under the laws of the other jurisdiction. Polish courts may take into account the law of the place of performance when evaluating the manner of performance and the steps to be taken in the event of defective performance.

No law of any other jurisdiction will apply in the Republic of Poland if its application would have an effect that is contrary to the public policy in the Republic of Poland.

## Consents and Notification

An exercise of voting rights in a company by a holder of the relevant security under the power of attorney may be recognized as change of control pursuant to the Act on Protection of Competition and Consumers (uniform text, Journal of Laws dated 2003, No. 86, item 804) (“**Competition Law**”). Therefore, the holder of such security may be obliged to notify the Polish Office for Protection of Competition and Consumers about its intention to exercise its voting rights. Further, it may be required to obtain an anti-monopoly clearance to exercise such voting rights.

The enforcement of a registered pledge through the appropriation of the shares by the Security Agent may be recognized as a notifiable merger under the Competition Law. Therefore, the holder of the relevant Security Interest may be required to notify the Polish Office for Protection of Competition and Consumers about its intention to take over the shares. Further, it may be required to obtain an antimonopoly clearance to take over the shares.

# UKRAINE

The following is a brief description of certain aspects of insolvency law in Ukraine.

## Suretyships

Ukrainian entities will produce a Deed of Surety in lieu of a guarantee.

A deed of surety will constitute a suretyship for the purposes of Ukrainian law. According to the Law of Ukraine “On Financial Services and the State Regulation of the Markets of Financial Services” dated July 12, 2001, suretyships are considered “financial services”, which may only be rendered by a duly licensed bank or other financial institution or, as an exception, by a non-financial

institution when expressly permitted by a law of Ukraine or the State Commission of Ukraine on the Regulation of the Markets of Financial Services (the "**Commission**"). The Commission has permitted non-financial institutions to issue suretyships, subject to compliance by the issuer of a suretyship with anti-money laundering requirements and procedures. Ukrainian companies often enter into suretyship agreements, and neither the Commission nor Ukrainian courts have as yet challenged such practice. However, due to a lack of guidance by the Commission with regard to the exact scope of such compliance, a particular surety could be viewed by the Ukrainian authorities or courts as not complying with such requirements and procedures and, accordingly, the legal capacity of such surety to issue a suretyship and the validity of any particular suretyship could be challenged.

### Ukrainian currency control regulations may impact a surety's ability to make payments under deeds of surety

The National Bank of Ukraine (the "**NBU**") is empowered to establish policies for and to regulate currency operations in Ukraine and has the power to establish restrictions on currency operations and repatriation of profits. Ukrainian currency controls and practice are subject to change, with the NBU exercising considerable autonomy in interpretation and application.

Applicable Ukrainian legislation will be interpreted to require a resident Ukrainian entity to obtain an individual license (a "**Foreign Payment License**") from the NBU in order to make cross-border payments pursuant to a suretyship (although no Foreign Payment License is required for a resident Ukrainian entity to issue the suretyship). As a result, there is a risk that any such payments may be made by a surety only after it has obtained a Foreign Payment License for such payment. The NBU would refuse to issue such a license on a contingency basis or for a contingency payment, when the exact amount of the payment and its term cannot be specified. Despite its previous standpoint indicating that a payment in foreign currency under a suretyship would not require a prior individual license from the NBU, on November 15, 2010 the NBU issued Letter No. 13-210/5939-20044 in which it clarified that a Ukrainian legal entity, which is not a financial institution, may transfer foreign currency abroad to perform its obligations of a surety to a non-resident creditor only on the basis of an individual license granted by NBU to such entity.

At the same time, even if the NBU takes the approach that a Foreign Payment Licence is required for sureties to make payment under the deeds of surety at the relevant time, this should not affect the validity of the deeds of surety. In such circumstances, absent a Foreign Payment License, a Ukrainian surety may be permitted to make cross-border payments under suretyship if such payment is required pursuant to a valid and effective order of a Ukrainian court (including that enforcing a foreign arbitral award).

The ability of sureties to make cross-border payments under the deed of surety may be further impeded by Ukrainian currency control regulations restricting a resident Ukrainian entity's ability to purchase foreign currency in order to make payments under a suretyship issued with respect to obligations of a foreign debtor. Payments in foreign currency from Ukrainian residents to non-residents abroad are generally subject to the NBU licensing regime provided for under Decree No. 15-93 of the Cabinet of Ministers of Ukraine "On the System of Currency Regulation and Currency Control" dated February 19, 1993 (as amended) (the "**Currency Decree**") unless such payments are otherwise exempt under the Currency Decree.

The contemplated payments by the relevant surety under the suretyship toward the discharge of the obligations to Noteholders under the Indenture and various payments that may be required to be effected by the relevant surety under the respective suretyship are not exempt from the NBU licensing regime and, thus, an NBU individual licence will be required to make such payments. The licence cannot be obtained at the time of entering into the suretyship and can be requested by the relevant surety only after its payment obligation has materialized.

The NBU, in order to decide whether to issue an individual licence, may request any documents that it considers necessary, based on which it will assess the payments to be made by the surety and their nature, including from the perspective of mandatory provisions and concepts of Ukrainian law. The concept of "indemnity" is not expressly recognized under Ukrainian law, and with respect to various indemnities set out in the suretyships as well as other similar payment obligations of sureties throughout suretyships to reimburse, compensate or otherwise indemnify the Trustee on behalf of the holders of the Notes on for various other fees, costs, expenses, taxes, charges, duties and other similar provisions, it is uncertain whether the NBU will consider them in line with Ukrainian law for the purposes of issuing an individual licence, and consequently whether the sureties will be able to make such payments to the Trustee on behalf of the holders of the Notes.

Further, sureties cannot buy foreign currency to fulfil their obligations under suretyships. Each respective surety must be able to make any such payments on account of its own (not purchased or borrowed) funds in foreign currency.

### Bankruptcy

*Moratorium on satisfaction of creditors' claims*. After any bankruptcy proceeding is commenced, the Ukrainian court imposes a moratorium on claims of creditors which became payable prior to the moratorium introduction. During the term of such moratorium, the relevant surety would be unable to make payments to the Trustee on behalf of the holders of the Notes, and the Noteholders' claims against such surety would not be enforceable in Ukraine. Such surety may not be held liable in Ukraine for the non-performance of its obligations to the holders of the Notes resulting from the imposition of the moratorium. Upon the termination of the moratorium (other than as a result of a surety entering bankruptcy proceedings), the Noteholders would be entitled to make, and to enforce, claims against the relevant Surety in the amounts existing as of the date when the moratorium was imposed.

*Invalidation of agreements or property related acts*. Further, according to Article 20 of the Law of Ukraine "On Restoring Debtor Solvency or Declaring Bankruptcy" agreements or property related acts of a debtor performed by the debtor after commencement of the bankruptcy proceeding or within one year that precedes the commencement of the bankruptcy proceeding may be invalidated by the commercial court within the scope of insolvency proceedings filed by a receiver or a creditor on the following grounds: (i) the debtor disposes property on a free-of-charge basis, assumes an obligation without any property related acts being performed by the other party, waives his own property claims; (ii) the debtor performs property related obligations in advance of the prescribed term; (iii) the debtor, prior to the institution of the bankruptcy case, assumes an obligation and, as a result, becomes insolvent or the performance of his payment obligations to other creditors becomes impossible, in full or in part; (iv) the debtor disposes or purchases property at prices that are lower or higher than the market, provided that at the time when he assumes the obligation (or as a result of performing the same) the debtor's property is (becomes) insufficient to satisfy the creditors' claims; (v) the debtor pays a creditor or accepts property towards performance of monetary claims on the day when total creditors' claims to the debtor exceed the value of the property; and (vi) the debtor assumes security obligations in order to secure the performance of monetary claims.

Invalidation of agreements or property related acts of the debtor is initiated by the receiver appointed by the court to carry out any acts aimed at the financial rehabilitation of the debtor or the debtor's creditor and must be confirmed by a court's judgement. Where agreements or property related acts of the debtor are invalidated on the grounds provided above the creditor shall return the property that the creditor received from the debtor to the bankruptcy estate.

If the respective Deed of Surety were to be declared invalid on any of the above grounds, the holders of the Notes would be required to repay to the relevant Ukrainian Surety all funds received pursuant to the respective Deed of Surety. There is a lack of certainty as to whether, in such event, the court might impose other requirements as a result of the invalidity. In light of the risks associated with the Ukrainian legal system no assurance can be given as to how the courts in Ukraine would react in the event of the respective surety being invalidated.

*Subordination*. Furthermore, in the event of the bankruptcy of a Surety, the Noteholders' claims would be treated as claims of unsecured creditors and the Ukrainian Surety's obligations to Noteholders would be subordinated to the following obligations:

- obligations secured by a pledge or mortgage over the assets of the Ukrainian Surety;
- severance pay and employment related obligations;
- expenditures associated with the conduct of the bankruptcy proceedings and expenses of the liquidator;
- obligations arising as a result of causing death or damage to health;
- workplace injury compensation;
- local and state taxes and other mandatory payments (including mandatory pension and social security contributions); and
- expenditures associated with ecological damage prevention measures during bankruptcy proceedings incurred by the competent state agencies.

### Foreign Judgments

To the extent the holders of the Notes attempt to enforce in Ukraine any judgment obtained in their favour in the courts of England or other countries, actual enforcement thereof will be subject to compliance with relevant enforcement procedures under Ukrainian law.

Since Ukraine is a party to the New York Convention, a foreign arbitral award obtained in a state which is also a party to the New York Convention would be enforceable in Ukraine, subject to the terms of the New York Convention.

## ITALY

The following is a brief description of certain aspects of insolvency law and limitations on the validity and enforceability of the guarantees in Italy.

### Bankruptcy

In Italy, the courts play a central role in the insolvency process and the enforcement of security interests by creditors in Italy can be time consuming. Under the Italian Royal Decree No. 267 of March 16, 1942 (the main Italian bankruptcy legislation), as reformed and currently in force (the "**Italian Bankruptcy Law**"), the two primary aims are to liquidate the debtor's assets and protect the goodwill of the going concern (if any) for the satisfaction of creditors' claims as well as, in case of the "*Prodi-bis*" procedure or "*Marzano*" procedure, to maintain employment. These competing aims are often balanced by the sale of businesses as going concerns and ensuring that employees are transferred along with the businesses being sold. However, the Italian Bankruptcy Law has been recently amended with a view to promoting rescue procedures rather than liquidation, focusing on the continuity and survival of financially distressed businesses and enhancing pre-bankruptcy restructuring options.

Under the Italian Bankruptcy Law, bankruptcy must be determined and declared by a court, based on the insolvency ("*insolvenza*") of a company upon a petition filed by the company itself, the public prosecutor and/or one or more creditors. Insolvency occurs in Italy when a debtor is no longer capable to regularly fulfill its payment obligations as they fall due. This must be a permanent and not a temporary status in order for a court to hold that a company is insolvent.

The following restructuring and bankruptcy alternatives are available under Italian laws for companies in a state of crisis and for insolvent companies:

- *Restructuring outside of a judicial process ("accordi stragiudiziali").* Restructuring generally takes place through a formal judicial process because it is more favorable for the debtor and because informal arrangements put in place to effect an out-of-court restructuring are susceptible to being reviewed by a court in the event of a subsequent insolvency, and possibly challenged as voidable transactions. However, in cases where a company is solvent, but facing financial difficulties, it may be possible to enter into a purely contractual arrangement with its creditors, which may safeguard the existence of the company.
- *Agreements to restructure indebtedness* pursuant to Article 182-*bis* of the Italian Bankruptcy Law ("*accordi di ristrutturazione dei debiti*"). Out of court arrangements for the restructuring of debts entered into with those creditors that represent at least 60% of the outstanding claims can be ratified by the court: an independent expert must certify that the agreement is feasible and, particularly, that non-participating creditors can be fully satisfied in a timely manner. Precisely such debtors should be fully satisfied according to the following timeframes: (i) 120 days from the date of ratification of the agreement by the court, in the case of debts which are due and payable to the nonparticipating creditors as at the date of the sanctioning (*"omologazione*") of the debt restructuring agreement by the court; and (ii) 120 days from the date on which the relevant debts fall due, in case of debts which are not yet due and payable to the nonparticipating creditors as of the date of the sanctioning (*omologazione)* of the debt restructuring agreement by the court. Only the debtor who is insolvent or in a situation of financial distress can request the court's ratification of the debt restructuring arrangements entered into with its creditors (*omologazione*). The agreement must be made public through its filing with the register of the companies and is effective as of the day of its publication. For sixty days from such publication all restraining or enforcement actions by existing creditors are stayed. Such moratorium can be requested, pursuant to Article 182-bis, Paragraph 6 of the Italian Bankruptcy Law, by the debtor from the court pending negotiations with creditors (prior to the above-mentioned publication of the agreement), subject to the fulfillment of certain conditions. Such moratorium request must be published in the companies' register and becomes effective as of the date of publication. The court, having verified the completeness of the documentation, sets the date for a hearing within 30 days of the publication and orders the company to supply the relevant documentation in relation to the moratorium to the creditors. In such hearing, the court assesses whether the conditions for granting the moratorium are in place and, if they are, orders that no interim relief or enforcement action may be started or continued, nor can security interests (unless agreed) be acquired over the assets of the debtor, and sets a deadline (not exceeding 60 days) within which the restructuring agreement has to be filed. The court's order may be challenged within 15 days of its publication. Within the same time frame, an application for the *concordato preventivo* (as described below) may be filed, without prejudice to the effect of the moratorium. The Italian Bankruptcy Law does not expressly provide for any indications concerning the contents of the debt restructuring agreement. The plan can therefore provide, *inter alia*, either for the prosecution of the business by the debtor or by a third party, or the sale of the business to a third party and may contain, business refinancing agreements, moratoria, cut-offs and/or postponements of claims. The debt restructuring agreement may also contain a proposed tax settlement for the partial or deferred payment of certain taxes. Creditors and other interested parties may oppose the agreement within thirty days from the publication of the agreement in the companies' register. The court will, after having settled the oppositions (if any), validate the agreement by issuing a decree, which may be appealed within 15 days of its publication. Pursuant to the new Article 182-quinquies of the Italian Bankruptcy Law, the court, pending the sanctioning (*omologazione*) of the agreement pursuant to Article 182-bis, paragraph 1, or after the filing of the instance pursuant to Article 182-bis, paragraph 6, or a petition for a *concordato preventivo*, also pursuant to Article 161, paragraph 6, may authorize the debtor (i) to incur in new indebtedness pre-deductible (*i.e.,* super senior in case of bankruptcy of the debtor pursuant to Article 111 of the Italian Bankruptcy Law), provided that the expert appointed by the debtor declares the aim of the new financial indebtedness results in a better satisfaction of the creditors, and (ii) to pay debts deriving from the supply of services or goods, already payable and due, provided that the expert declares that such payment is essential for the keeping of company's activities and to ensure the best satisfaction for all creditors.

  Moreover, pursuant to Article 182-*quater* financings granted to a debtor "in view of" (*in funzione*) a petition for the sanctioning (*omologazione*) of an agreement pursuant to Article 182-*bis* or a *concordato preventivo* procedure benefit of the same super-priority status in case of subsequent bankruptcy of the debtor where such financings are contemplated under the underlying restructuring plan and the super-priority status is expressly recognized by the court in the context of the sanctioning (*omologazione*) of the Article 182-*bis* agreement or the approval of the *concordato preventivo* procedure. Same provisions apply to financings granted by shareholders up to 80% of their amount.
- Out-of-Court Restructuring ("*piano di risanamento"* pursuant to Article 67, Paragraph 3(d) of the Italian Bankruptcy Law: Out-of-court debt restructuring agreements are based on restructuring plans (*piani di risanamento attestati*) prepared by companies in order to restructure their indebtedness and to ensure the recovery of their financial condition. An independent expert appointed directly by the debtor has to verify the feasibility of the restructuring plan and the truthfulness of the business data provided by the company. There is no need to obtain court approval to appoint the expert. The terms and conditions of these plans are freely negotiable. Unlike in-court pre-bankruptcy agreement proceedings and debt restructuring agreements, out-of-court reorganization plans do not offer the debtor any protection against enforcement proceedings and/or precautionary actions of third-party creditors. The Italian Bankruptcy Law provides that, should these plans fail and the debtor be declared

bankrupt, the payments and/or acts carried out for the implementation of the reorganization plan, subject to certain conditions (i) are not subject to clawback action and (ii) are exempted from the potential application of certain criminal sanctions. Neither ratification by the court nor publication in the Companies' Register are needed (although publication in the Companies' Register is possible upon a debtor's request and would allow to certain tax benefits).

- *Court-supervised pre-bankruptcy composition with creditors* ("*concordato preventivo"*). A company, in a state of crisis that has not been declared bankrupt by the court, has the option to seek an arrangement with its creditors, under court supervision, in order to avoid a declaration of insolvency and the initiation of bankruptcy proceedings. Such arrangement with creditors can be sought by a company which exceeds certain thresholds (i.e., assets in an aggregate amount exceeding €0.3 million in each of the latest three fiscal years, gross revenues in an aggregate amount exceeding €0.2 million for each of the latest three fiscal years and total indebtedness in excess of €0.5 million). Only the debtor can file a petition with the court for a *concordato preventivo* (together with, *inter alia*, the proposed agreement and an independent expert report certifying the feasibility of the composition proposal and the truthfulness of the business data provided by the company). The petition for *concordato preventivo* is then published by the debtor in the companies' register. From the date of such publication to the date on which the court sanctions the *concordato preventivo*, all enforcement and interim relief actions by the creditors (whose title to enforcement arose before the filing with the court) are stayed. Preexisting creditors cannot obtain security interests (unless authorized by the court) and mortgages registered within the 90 days preceding the date on which the petition for the *concordato preventivo* is published in the companies' register are ineffective against such preexisting creditors. The composition proposal filed in connection with the petition may provide for: (i) the restructuring of debts and the satisfaction of creditors in any manner, including by way of example, through extraordinary transactions such as the granting to creditors and their subsidiaries or affiliated companies of shares, bonds (also convertible into shares), or other financial instruments and debt securities; (ii) the transfer to a third party who undertakes the debts ("*assuntore*") of the operations of the business involved in the proposed composition agreement; (iii) the division of creditors into classes; and (iv) different treatments for creditors belonging to different classes. The composition proposal may also contain a proposed tax settlement for the partial or deferred payment of certain taxes. The filing of the petition for the *concordato preventivo* may be preceded by the filing of a preliminary petition for a *concordato preventivo*. The debtor company may file such petition along with its financial statements from the latest three financial years reserving the right to submit the underlying plan, the proposal and all relevant documentation within a period assigned by the court between 60 and 120 days from the date of the filing of the preliminary petition, subject to only one possible further extension of up to 60 days, where there are reasonable grounds for such extension. In advance of such deadline, the debtor may also file a petition for the approval of a debt restructuring agreement (pursuant to Article 182-bis of the Italian Bankruptcy Law). The composition proposal may propose that (i) the debtor's company's business continues to be run by the debtor's company as a going concern, or (ii) the disposal of the business on a going-concern basis *concordato con continuità aziendale*. In these cases, the petition for the *concordato preventivo* should fully describe the costs and revenues which are expected as a consequence of the continuation of the business as a going concern, as well as the financial resources and support which will be necessary. The report of the independent expert shall also certify that the continuation of the business is conducive to the satisfaction of creditors' claims to a greater extent than if such composition proposal was not implemented. A composition arrangement on a going-concern basis (*concordato con continuità aziendale*) could also contemplate a moratorium of up to one year in respect of payments to be made to secured creditors, save in case of disposals of the underlying secured assets where repayment of relevant secured claims is immediately required. Furthermore, the going concern-based arrangements with creditors can provide for, inter alia, the windingup of those assets which are not functional to the business allowed. The composition agreement may also contain a proposed tax settlement for the partial or deferred payment of certain taxes. If the court determines that the composition proposal is admissible, it appoints a judge (*giudice delegato*) to supervise the procedure, appoints one or more judicial officers (*commissari giudiziali*) and calls a creditors' meeting. During the implementation of the proposal, the company generally continues to be managed by its board of directors, but is supervised by the appointed judicial officers and judge (who shall authorize all transactions that exceed the ordinary course of business). The *concordato preventivo* must be approved by creditors representing a majority of claims entitled to vote (including privileged or secured creditors regarding those claims to which they have waived their right to security in relation to the procedure or that are pursuant to the recovery plan). Where different classes of creditors are formed, the *concordato preventivo* is approved if also the majority of classes approve it by a majority vote of the relevant creditors entitled to vote. If the proposal does not provide for classes of creditors and any objection to the implementation of the *concordato preventivo* is filed by at least 20% of the creditors entitled to vote or, where different classes of creditors exist, any such objection is filed by creditors belonging to a dissenting class, the court may approve the arrangement if the court believes that the creditors which have filed an opposition to the *concordato preventivo* will receive an amount not less than the amount they would receive under "any other practicable alternative." After the creditors' approval, the court must confirm the *concordato preventivo* proposal and decide on possible objections raised by dissenting creditors. During the implementation of the arrangement, the company is managed by the debtor under the surveillance of a judicial commissioner ("*commissario giudiziale*") appointed by the court, and under the supervision of the court. If the *concordato preventivo* fails, the court may declare the company bankrupt.

- *Extraordinary administration for large insolvent companies ("amministrazione straordinaria delle grandi imprese in stato di insolvenza").* An extraordinary administration procedure applies under Italian law for large industrial and commercial enterprises (the *Prodi-bis* procedure). The purpose of the administration is to rescue and rehabilitate an insolvent company, in consideration of its technical, commercial, productive and employment relevance. The procedure is supervised by the Ministry of Economic Development ("Ministero dello Sviluppo Economico") (the "Ministry") and the court and is available for a debtor with at least 200 employees that has an indebtedness equal to at least two thirds of its total assets and two-thirds of its revenues

from sales and provision of services for the last fiscal year. The procedure may be commenced by petition of the creditors, the debtor, a court or the public prosecutor. The same rules set forth for bankruptcy proceedings with respect to existing contracts and creditors' claims largely apply to an extraordinary administration proceeding. There are two main phases: a judicial phase and an administrative phase. In the judicial phase, the court determines whether the company meets the admission criteria and whether it is insolvent. It then issues a decision to that effect and appoints a judicial commissioner (or up to three) (*commissiario giudiziale*) to investigate whether there are serious prospects for recovery via a business sale or reorganization. The judicial commissioner submits a report to the court (within 30 days) together with an opinion from the Ministry The court has 30 days to decide whether to admit the company to the procedure or place it into bankruptcy. Assuming that the company is admitted to the extraordinary administration procedure, the administrative phase begins and the extraordinary commissioner prepares a restructuring plan which may contain either the sale of the business as a going concern within one year (unless extended by the Ministry) (the "Disposal Plan") or a reorganization leading to the company's economic and financial recovery within two years (unless extended by the Ministry) (the "Recovery Plan"). It may also include an arrangement with creditors (e.g. debt for equity swap, issue of shares in a new company to whom the assets of the company have been transferred, etc) (concordato). The plan must be approved by the Ministry. The procedure ends upon successful completion of either a Disposal Plan or Recovery Plan, however should either plan fail, the company will be declared bankrupt.

- *Industrial restructuring of large insolvent companies* ("*ristrutturazione industriale di grandi imprese in stato di insolvenza*"). Introduced in 2003, the industrial restructuring of large insolvent companies is also known as the "*Marzano*" procedure. It is complementary to the Prodi-bis procedure and, except as otherwise provided, the same provisions apply. The purpose of the *Marzano* procedure is to continue the company's operations by means of restructuring its debts and selling assets which are not strategic or which do not fall within the core business of the company. The *Marzano* procedure, supervised by the Ministry and the court, is available for a debtor that has employed at least 500 employees for at least one year and whose aggregate indebtedness (including guarantees) is not less than €300 million. The company must show actual prospects of recovery through a financial and economic restructuring of the business that can last up to two years (extendable to a total of four years, under certain circumstances). The management of the debtor, the preparation and the implementation of the restructuring plan are conducted by an extraordinary commissioner, appointed by the Ministry. The extraordinary commissioner has 180 days (or 270 days if the Ministry so agrees) to submit a Disposal Plan or Recovery Plan. The restructuring through the Disposal Plan or the Recovery Plan must be completed within, respectively, one year (extendable to two years) and two years. If no Disposal or Recovery Plan is approved by the Ministry, the court will declare the company bankrupt and open bankruptcy proceedings.
- *Bankruptcy proceedings ("fallimento").* A request to declare a debtor bankrupt and to commence a bankruptcy proceeding for the judicial liquidation of its assets can be filed by the debtor, a creditor or a public prosecutor. The request must be approved by an insolvency court. The Italian Bankruptcy Law is applicable only to commercial enterprises (*imprenditori commerciali*) if certain thresholds are met (*i.e.*, assets in an aggregate amount exceeding €0.3 million in the latest three fiscal years, gross revenues in an aggregate amount exceeding €0.2 million in the latest three fiscal years and total indebtedness in excess of €0.5 million). Upon the commencement of a bankruptcy proceeding:
  - subject to certain exceptions, all actions of creditors are stayed and creditors must file claims within a defined period;
  - the administration of the debtor and the management of its assets pass from the debtor to the receiver ("*curatore*");
  - any action by the debtor after a declaration of bankruptcy with respect to a creditor is ineffective;
  - continuation of business may be authorized by the court if an interruption would cause greater damage to the company, but only if the continuation of the company's business does not cause damage to creditors; and
  - the execution of certain contracts and/or transactions pending as of the date of the bankruptcy declaration are suspended until the receiver decides whether to take them over.

The bankruptcy proceeding is carried out under the direction of the receiver and under the supervision of a judge ("*giudice delegato*") and a creditors' committee. The bankruptcy receiver is responsible for the liquidation of the assets of the debtor for the satisfaction of creditors. The proceeds from the liquidation are distributed to the creditors whose claims have been filed and approved by the court in accordance with statutory priority. The liquidation of a debtor can take a considerable amount of time, particularly in cases where the debtor's assets include real property. The Italian Bankruptcy Law provides for priority to the payment of certain preferential creditors, including employees, the Italian treasury judicial and social authorities.

- *Bankruptcy composition with creditors* ("*concordato fallimentare"*). A bankruptcy proceeding can be terminated prior to liquidation through a bankruptcy composition with creditors. Over the first year following the bankruptcy declaration, only creditors or third parties may file a composition proposal, whereas the debtor or its subsidiaries are admitted to file such a proposal only after such period. The petition must indicate the percentage of the unsecured claims that will be paid and the timing of the repayment. The petition may provide for the division of creditors into classes (thereby proposing different treatments among the classes), and the restructuring of debts and the satisfaction of creditors in any manner. The petition may provide the possibility that the secured claims are paid only in part. A *concordato fallimentare* proposal must be accepted by the creditors' committee and the creditors holding the majority of claims (and, if classes are formed, by majority of claims in a majority of classes). Final court confirmation is required.

- *Statutory priorities.* The statutory priority given to creditors under the Italian Bankruptcy Law may be different than priorities in the United States, the United Kingdom and certain other European Union jurisdictions. In Italy, the highest priority claims (after the costs of the proceedings are paid) are the claims of preferential creditors, which include the claims of the Italian Tax Authority and social security administrators and claims for employee wages. The rules of statutory priority apply irrespective of whether the proceeds are derived from the sale of the entire bankrupt's estate or part thereof, or from a single asset. Article 111 of the Italian Bankruptcy Law establishes the order of allocation of proceeds deriving from liquidation shall.

### Limitations on Enforcement

According to Italian law, the enforcement of any claims, obligations, security interest and rights in general may be subject to:

- bankruptcy, insolvency, liquidation, reorganization and other laws of general application relating to or affecting the rights of creditors as such law may be applied in the event of the insolvency or bankruptcy with respect to the relevant party;
- an Italian Court will not necessarily grant any specific enforcement or precautionary measures, the availability of which is subject to the discretion of the Court;
- in contracts providing for mutual obligations (*contratti a prestazioni corrispettive*), each party can refuse to perform its obligation if the other party does not perform or does not offer to perform its own obligation thereunder, in accordance with and subject to the provisions of Article 1460 of the Italian Civil Code;
- claims arising under documents governed by Italian law may become barred under the provision of Italian law concerning prescriptions and limitations by the lapse of time (*prescrizioni* and *decadenze*) or may be or become subject to a defence of set-off (*compensazione*) or to counterclaim;
- pursuant to Articles 1241 of the Italian Civil Code concerning set-off of reciprocal obligations (*compensazione*), persons who have reciprocal debt obligations may set-off such obligations for the correspondent amount when both such debt obligations have as an object a pecuniary obligation or fungible assets and are equally liquid and payable;
- where any party to any agreement or instrument is vested with discretion or may determine a matter in its opinion, Italian law may require that such discretion is exercised reasonably or that such opinion is based on reasonable grounds;
- the enforceability in Italy of obligations or contractual provisions governed by a foreign law may be limited by the fact that the relevant provisions of laws may be deemed contrary to Italian public policy principles;
- there is some possibility that an Italian Court could hold that a judgment on a particular agreement or instrument, whether given in an Italian Court or elsewhere, would supersede such agreement or instrument to all intents and purposes, so that any obligation thereunder which by its terms would survive such judgment might not be held to do so;
- enforcement of obligations may be invalidated by reason of fraud or abuse of right;
- the enforceability of an obligation pursuant to the terms set forth in any agreement or instrument may be subject to the interpretation of an Italian court which may carry out such interpretation pursuant to the provisions of Articles 1362 and following of the Italian Civil Code;
- any question as to whether or not any provision of any agreement or instrument which is illegal, invalid, not binding, unenforceable or void may be severed from the other provisions thereof in order to save those other provisions would be determined by an Italian court on the basis of the interpretation of intention of the parties, taking also into account the conduct of the parties following the execution of such agreement or instrument (Article 1419 of the Italian Civil Code);
- the priority rights (*prelazione*) granted by a pledge extend to interest accrued in the year in which the date of the relevant seizure/attachment or adjudication in bankruptcy falls (or, in the absence of seizure/attachment, at the date of the notification of the payment demand (*precetto*)) and extend, moreover, to interest accrued and to accrue thereafter, but only to the extent of legal interest (i.e. interest accruing at the so-called legal rate, currently equal to 3 per cent.) and until the date of the forced sale occurred in the context of the relevant foreclosure proceeding/bankruptcy proceedings;
- the validity of the obligations expressed to be created under any so-called "parallel-debt" provision and the validity of any guarantee or security interest purporting to guarantee or secure any such obligation are questionable from an Italian law perspective and have not been tested by Italian courts;
- it is uncertain and untested in the Italian courts whether under Italian law a security can be created and perfected (i) in favor of creditors which are neither directly parties to the relevant security documents nor are specifically identified therein or in the relevant share certificates and corporate documents or public registries; and (ii) in favor of a trustee in respect of notes on behalf of the noteholders, since there is no established concept of ''trust'' or ''trustee'' under Italian law and the precise nature, effect and enforceability of the duties, rights and powers of a trustee as agent or trustee for holders of the notes under security interests on Italian assets is debatable under Italian law;
- the security interest do not prevent creditors of the relevant debtor other than the pledgee from bringing forward enforcement or enforcement proceedings on the subject matter of the relevant pledge; and
- in case of bankruptcy of the grantor of the pledge over quotas or shares, the subject matter of the pledge could be freely sold to any third party in the context of the relevant bankruptcy proceeding and, as a consequence, the proceeds would be set aside for the prior satisfaction of the pledgee but the pledge would be terminated and, therefore, the latter would lose entitlement to the voting rights on the pledged quotas or shares.

### Hardening Period/Clawback and Fraudulent Transfer

Similar to other jurisdictions, there are so-called "claw-back" or avoidance provisions under Italian law that may give rise to the revocation, *inter alia*, of payments or grants of security interests made by the debtor prior to the declaration of bankruptcy. The key avoidance provisions include transactions made below market value, preferential transactions and transactions made with a view to defraud creditors. Claw-back rules under Italian law are normally considered to be particularly favorable to the receiver in bankruptcy in comparison to the rules applicable in the United States and the United Kingdom. The Italian Bankruptcy Law distinguishes between acts or transactions which are ineffective by operation of law and acts or transactions which are voidable at the request of the bankruptcy receiver/court commissioner.

Under Italian law, in the event that the relevant obligor enters into insolvency proceedings, the security interests created under the documents entered into to secure the collateral and the guarantees or the parallel debt obligation could be subject to potential challenges by an insolvency administrator or by other creditors of such obligor under the rules of avoidance or clawback of Italian insolvency laws and the relevant law on the non-insolvency avoidance or clawback of transactions by the debtor made during a certain legally specified period (the "**suspect period**"). The avoidance may relate to (i) transactions made by the debtor within a suspect period of one year prior to the declaration of the insolvency at below market value (i.e., to the extent the asset or obligation given or undertaken exceeds by one quarter the value of the consideration received by the debtor), or involving unusual means of payment (e.g., payment in kind) or security taken after the creation of the secured obligations, whereby the creditor must prove his lack of knowledge of the state of insolvency of the relevant entity in order to rebut any clawback action, (ii) security granted in order to secure a debt due and payable, whereby the creditor must prove his lack of knowledge of the state of insolvency of the relevant entity in order to rebut any claw back action during the suspect period of six months prior to the declaration of the insolvency, and (iii) payments of due and payable obligations, transactions at arm's length or security taken simultaneously to the creation of the secured obligations during the suspect period of six months prior to the declaration of the insolvency, whereby the bankruptcy trustee must prove that the creditor was aware of the state of insolvency of the relevant entity in order to enforce any claw back action. If challenged successfully, the security interest may become unenforceable and any amounts received must be refunded to the insolvent estate. To the extent that the grant of any security interest is voided, holders of the Notes could lose the benefit of the security interest and may not be able to recover any amounts under the related security documents.

Please also note that, under Italian law, claims of certain categories of creditors (referred to as "*privilegiati*") are given statutory priority in relation to the proceeds of a debtor's property in respect to the claims of other creditors. Such claims are classified either as (i) general privileges or liens (*privilegi generali*) which apply only in respect of all personal property of the debtor, or (ii) special privileges or liens (*privilegi speciali*), which apply only in respect of particular (immovable or movable) property of the debtor. Some of these claims have statutory priority and would therefore be preferred to the claims of the holders of the Additional Notes in case of insolvency proceeding. Such claims include, for example, courts costs, mandatory social security contributions and credits of the government for taxes.

In any case, it should be noted that: (i) under article 64 of the Italian Bankruptcy Law, all transactions for no consideration are ineffective vis-à-vis creditors if entered into by the debtor in the two-year period prior to the insolvency declaration, and (ii) under article 65 of the Italian Bankruptcy Law, payments of receivables falling due on the day of the insolvency declaration or thereafter are ineffective vis-à-vis creditors, if made by the bankrupt entity in the two-year period prior to insolvency.

### Corporate Benefit and Financial Assistance Issues

Under Italian law, the entry into a transaction (including the creation of a security interest) by a company must be permitted by the applicable laws and by its by-laws (*statuto sociale*) and is subject to compliance with rules on corporate benefit and corporate authorization. If a security interest or a guarantee is being provided in the context of an acquisition, group reorganization, refinancing or restructuring, financial assistance issues may also be triggered.

#### *Corporate Benefit*

An Italian company entering into a transaction (including granting a security interest) must receive a real and adequate benefit in exchange for it. The concept of a real and adequate benefit is not specifically defined in the applicable legislation and is determined by a factual analysis on a case-by-case basis. As a general rule, corporate benefit is to be assessed at the level of the relevant company on a stand-alone basis, although upon certain circumstances and subject to specific rules the interest of the group to which such company belongs may also be taken into consideration.

As a general rule, absence of a real and adequate corporate benefit could render the transaction *ultra vires* and potentially affected by conflict of interest and the related corporate resolutions adopted by the shareholders and directors may be the subject matter of challenges and annulment. Civil liabilities also may be imposed on the directors of the company if it is assessed that they did not act in the interest of it and that the acts they carried out do not fall within the corporate purpose of the company or were against mandatory provisions of Italian law. The lack of corporate benefit could also lead to civil liabilities on those companies or persons ultimately exercising control over the Italian grantor or having knowingly received an advantage or profit from such improper control. Moreover, the transaction (including the security interest granted by an Italian company) could be declared null and void if the lack of corporate benefit was known or presumed to be known by the third party and such third party acted intentionally against the interest of the company.

In relation to security interests, while corporate benefit for a downstream security (i.e., a security granted to secure financial obligations of direct or indirect subsidiaries of the relevant grantor) can usually be easily proved, the validity and effectiveness of an upstream or cross-stream security (i.e., a security granted to secure financial obligations of the direct or indirect parent or sister companies of the relevant grantor) granted by an entity organized under the laws of Italy depend on the existence of a real and adequate benefit in exchange for the granted security interest. The general rule is that the risk assumed by an Italian grantor of security must not be disproportionate to the direct or indirect economic benefit received.

*Financial Assistance*

Save for specific exceptions, it is unlawful under Italian laws for a company to give financial assistance (whether by means of loans, security, guarantees or otherwise) to support the acquisition or subscription by a third party of its own shares or quotas or those of any entity that (directly or indirectly) controls the Italian company, and any loan, guarantee or security given or granted in breach of these provisions is null and void. Financial assistance to refinance indebtedness incurred by a company to purchase or subscribe for its own shares or quotes or those of its direct or indirect parent company might also be considered as falling within the scope of Italian financial assistance provisions.

# Listing and general information

## LISTING

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF Market in accordance with the rules of that exchange. All notices to holders of the Notes, including any notice of any additional redemption, change of control or any change in the rate of interest payable on the Notes will be published in a Luxembourg daily newspaper of general circulation (which is expected to be the *Luxemburger Wort*) or, to the extent and in the same manner permitted by such rules, posted on the official website of the Luxembourg Stock Exchange (www.bourse.lu).

The Issuer has obtained all necessary consents, approvals, authorizations or other orders for the issue of the Notes and other documents to be entered into by the Issuer in connection with the issue of the Notes in Luxembourg.

This Offering Memorandum may only be used for the purposes for which it has been published.

For so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF Market, copies of the following documents may be inspected and obtained at the specified office of the listing agent in Luxembourg during normal business hours on any weekday:

- the organizational documents of the Issuer and Guarantors;
- the most recent annual and interim consolidated financial statements of the Issuer, which are available quarterly;
- the Indenture governing the Notes (which includes the form of the Notes) and the Guarantee;
- the purchase agreement relating to the Notes; and
- the relevant security documents.

The Issuer will maintain a paying and transfer agent in Luxembourg for as long as any of the Notes are listed on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF Market. Deutsche Bank Luxembourg S.A. has been appointed paying and listing agent. The Issuer and the Guarantors reserve the right to change this appointment and the Issuer will publish notice of such change of appointment in a newspaper having a general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, to the extent and in the same manner permitted by such rules, posted on the official website of the Luxembourg Stock Exchange (www.bourse.lu).

So long as the Notes are listed on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF Market, the Notes will be freely transferable in accordance with the rules of the Luxembourg Stock Exchange.

## CLEARING INFORMATION

The Notes sold pursuant to Regulation S under the U.S. Securities Act and the Notes sold pursuant to Rule 144A under the U.S. Securities Act have been accepted for clearance through the facilities of Euroclear and Clearstream under common codes 092600505 and 092819248, respectively. The international securities identification number for the Notes sold pursuant to Regulation S under the U.S. Securities Act is XS0926005058 and the international securities identification number for the Notes sold pursuant to Rule 144A under the U.S. Securities Act is XS0928192482.

## LEGAL INFORMATION

Sanitec Oyj is a public limited liability company organized under the laws of Finland, and it was incorporated on March 25, 2005. It is registered in the commercial register kept by the National Board of Patents and Registration of Finland under business identity code 1955115-2 and the address of its registered office is Kaupintie 2, FI-00440 Helsinki, Finland.

On April 29, 2013 the Board of Directors of Sanitec Oyj approved the issuance of the bond.

## GUARANTOR LEGAL INFORMATION

Sanitec Europe Oy is a private limited liability company organized under the laws of Finland, and it was incorporated on April 6, 2001. It is registered in the commercial register kept by the National Board of Patents and Registration of Finland under business identity code 1700086-7 and the address of its registered office is Kaupintie 2, FI-00440 Helsinki, Finland.

IDO Kylphyhuone Oy is a private limited liability company organized under the laws of Finland, and it was incorporated on December 31, 1990. It is registered in the commercial register kept by the National Board of Patents and Registration of Finland under business identity code 0827404-9 and the address of its registered office is FI-10600 Tammisaari, Finland.

Pozzi-Ginori S.p.A. is a Società per azioni organized under the laws of Italy and it was incorporated on December 18, 1986. It is registered in the commercial register kept by the Registro delle Imprese of Milan under registration number and Codice Fiscale No. 02095910283 and the address of its registered office is Piazza Borromeo 8, Milan, Italy.

Sanitec Holding Italy S.p.A. is a Società per azioni organized under the laws of Italy and it was incorporated on April 4, 2005. It is registered in the commercial register kept by the Registro delle Imprese of Milan under registration number and Codice Fiscale No. 04812360966 and the address of its registered office is Piazza Borromeo 8, Milan, Italy.

Ifö Sanitär Aktiebolag is a private limited liability company organized under the laws of Sweden and it was incorporated on February 28, 1934. It is registered in the commercial register kept by the Swedish Companies Registration Office (*Bolagsverket*) under registration number 556033-0788 and the address of its registered office is Box 140, 295 00 Bromölla, Sweden.

Sanitec Holdings Sweden AB is a private limited liability company organized under the laws of Sweden and it was incorporated on January 2, 2007. It is registered in the commercial register kept by the Swedish Companies Registration Office (*Bolagsverket*) under registration number 556726-7272 and the address of its registered office is Box 140, 295 22 Bromölla, Sweden.

Sanitec Koło Sp. z o.o., is a limited liability company organized under the laws of Poland and it was incorporated on February 16, 2004. It is registered in the commercial register kept by the District Court for Poznań—Nowe Miasto and Wilda in Poznań, IX Commercial Division of the National Court Register under registration number 0000193222 and the address of its registered office is ul. Turuńska 154, 62-600 Koło, Poland.

KERAMAG Keramische Werke Aktiengesellschaft is a stock corporation organized under the laws of the Federal Republic of Germany. It is registered in the commercial register of the local court of Duesseldorf under registration number HRB 42976 and its registered office is at Kreuzerkamp 11, 40878 Ratingen, Germany.

Allia Holding GmbH is a limited liability company organized under the laws of the Federal Republic of Germany. It is registered in the commercial register of the local court of Duesseldorf under registration number HRB 48025 and its registered office is at Kreuzerkamp 11, 40878 Ratingen, Germany.

B.V. DE SPHINX MAASTRICHT is a private limited liability company (besloten vennootschap met beperkte aansprakelijkheid) organized under the laws of the Netherlands, incorporated on November 30, 1898. It is registered in the commercial register kept by the Chamber of Commerce Limburg in the Netherlands under registration number 14600336 and the address of its registered office is Stationsplein 12b, 6221 BT Maastricht.

Lincoln Land Fünfte B.V. is a private limited liability company (besloten vennootschap met beperkte aansprakelijkheid) organized under the laws of the Netherlands, incorporated on December 29, 2006. It is registered in the commercial register kept by the Chamber of Commerce Amsterdam in the Netherlands under registration number 34262868 and the address of its registered office is Prins Bernhardplein 200, 1097 JB Amsterdam.

Sanitec UK Limited is a private limited company organized under the laws of England and it was incorporated on September 6, 2000. It is registered in the commercial register kept by Companies House under registration number 04066175and the address of its registered office is Lawton Road, Alsager, Stoke on Trent, Staffordshire ST7 2DF.

Twyford Holdings Limited is a private limited company organized under the laws of England and it was incorporated on December 1, 2000. It is registered in the commercial register kept by Companies House under registration number 04118131 and the address of its registered office is Lawton Road, Alsager, Stoke on Trent, Staffordshire ST7 2DF.

Twyford Bathrooms is a private unlimited company organized under the laws of England and it was incorporated on March 18, 1955. It is registered in the commercial register kept by Companies House under registration number 00546129 and the address of its registered office is Lawton Road, Alsager, Stoke on Trent, Staffordshire ST7 2DF.

### Guarantor Approvals

On May 1, 2013 the Board of Directors of Sanitec Europe Oy approved the giving of the Guarantee.

On May 1, 2013 the Board of Directors of IDO Kylphyhuone Oy approved the giving of the Guarantee.

On April 29, 2013 the Administrative Board of Pozzi-Ginori S.p.A. approved the giving of the Guarantee.

On April 29, 2013 the Administrative Board of Sanitec Holding Italy S.p.A. approved the giving of the Guarantee.

On April 30, 2013 the Board of Directors of Ifö Sanitär Aktiebolag. approved the giving of the Guarantee.

On April 30, 2013 the Board of Directors of Sanitec Holdings Sweden AB approved the giving of the Guarantee.

On April 30, 2013 the Management Board of Sanitec Koło Sp. z o.o. approved the giving of the Guarantee.

On April 30, 2013 the Shareholders of KERAMAG Keramische Werke Aktiengesellschaft approved the giving of the Guarantee.

On April 30, 2013 the Shareholders of Allia Holding GmbH approved the giving of the Guarantee.

On May 2, 2013 the Supervisory Board of B.V. DE SPHINX MAASTRICHT approved the giving of the Guarantee.

On May 2, 2013 the Shareholder of Lincoln Land Fünfte B.V. approved the giving of the Guarantee.

On April 30, 2013 the Board of Directors of Sanitec UK Limited approved the giving of the Guarantee.

On April 30, 2013 the Board of Directors of Twyford Holdings Limited approved the giving of the Guarantee.

On April 30, 2013 the Board of Directors of Twyford Bathrooms approved the giving of the Guarantee.

## ADDITIONAL LEGAL INFORMATION FOR PURPOSES OF LISTING

Issuer and Guarantors are organized for the purpose of and derive their cash flow from manufacturing and selling ceramic sanitaryware and ceramic complementary products. Consolidated financial statements can be obtained from the Issuer at their registered office.

The registered office of the Lead Manager is:
UBS Limited
1 Finsbury Avenue
London
EC2M 2PP
United Kingdom

The Offering is comprised of €15,500,000 in value of Rule 144A Notes and €234,500,000 in value of Regulation S Notes.

Issuer has 1,000,000 outstanding issued shares and the share capital is €2,813,142.66.

Issuer holds 100% of the shares of its subsidiaries, with the exceptions of PJSC Slavuta Plant Budfarfor and Koralle International GmbH where minimal stock is held by minority shareholders, less than 1% and less than 6% respectively, as well as Allia International S.A., Produit Ceramiques de Toureine S.A., and Eurocer S.A. which each have less than 1% minority shareholding due to the local legal requirements.

## REGISTERED OFFICE OF THE ISSUER

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(1) The corporate status of the Issuer was changed from a private limited liability company to a public limited liability company on April 25, 2013. In connection with the change, the name of the Issuer was changed from Sanitec Oy to Sanitec Oyj. The financial statements of the Issuer included in this Offering Memorandum have been prepared prior to this change and, accordingly, reflect the previous name of the Issuer.

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## Independent Auditors' Report

## To the Board of Directors of Sanitec Oy

We have audited the accompanying consolidated financial statements of Sanitec Oy and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*
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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 our judgment, 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, we consider 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 management, 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 financial position of the Group as at December 31, 2012 and 2011, and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Helsinki, April 23, 2013

KPMG Oy Ab

Virpi Halonen
*Authorized Public Accountant*

KPMG Oy Ab, a Finnish limited liability company and a member firm
of the KPMG network of independent member firms affiliated with
KPMG International Cooperative ("KPMG International"), a Swiss entity.

Business ID 1805485-9
Domicile Helsinki

# SANITEC OY

## Consolidated financial statements

From January 1, 2012 to December 31, 2012

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# Review of the Board of the Directors

## 2012 IN BRIEF

Sanitec Group is one of the leading companies in the bathroom fixtures market in Europe, predominantly engaged in ceramics sanitaryware and ceramics complementary products. Sanitec has leading market share positions in ceramics sanitaryware area in major European markets, including the Nordics, Germany, Benelux, Poland, Ukraine and the UK. Sanitec has a portfolio of leading national brands. Sanitec has strong local presence through dedicated sales force and customer service.

The market environment in 2012 was characterized by unstable financial climate and weakening economic climate in Europe. Also in the bathroom fixtures market the macroeconomic uncertainties emerging during the third quarter 2011 continued throughout 2012 with varying impacts in different parts of Europe. Against the volatile business environment Sanitec Group's business performance was solid in 2012.

Sanitec Group ("Group") comprises of the parent company Sanitec Oy ("Sanitec Corporation"), a Finnish limited company, and its directly and indirectly controlled subsidiaries. The ultimate parent company of Sanitec Corporation is Sofia I Ltd, a company registered in Luxemburg.

## GROUP FINANCIAL PERFORMANCE

### Net sales and operating profit

Net sales of the Group were €752.8 million during the financial year 2012 (€770.8 million during the financial year 2011). The reduction in net sales of 2.3% was primarily caused by lower volumes in 2012 compared with prior year due to weaker market demand especially during the last quarter of 2012 and the disposal of Leda S.A.S in October 2012. Comparable net sales, using comparable exchange rates with 2011 and same structure, decreased by 3.0%.

Net sales of North Europe and East Europe increased mainly driven by increased demand in Norway and Finland, where as in other regions net sales decreased slightly on the back of weaker market demand.

Other operating income amounted to €5.4 million (€9.4 million) and related mainly to transportation costs charged to customers, while the gains on sale of fixed assets were lower than in prior year.

The Group's EBITDA before non-recurring items amounted to €107.6 million (14.3% of net sales) compared with prior year's €105.7 million (13.7%). The EBITDA including non-recurring items of €102.7 million improved by 6.1% from prior year's €96.8 million. The improvement was due to the combined effect of sales of better product mix, increased efficiencies in supply chain (manufacturing and purchasing), effects of more focused activities in the sales and marketing area as well as cost reductions in support functions due to improved processes and procedures.

Operating profit in the financial period amounted to €73.0 million (€67.1 million) or 9.7% (8.7%) of net sales.

### Financial items, taxes and profit for the period

Financial income and expenses totaled €-6.0 million (€-15.9 million) for the period. The main reason for the improvement in total financial income and expenses derive from net gains from foreign exchange in 2012 amounting to €3.2 million, while in prior year the net impact from foreign exchange was negative at €-6.1 million. Net interest expenses were €-8.5 million (€-7.1 million) during the financial period.

Income taxes totaled €4.7 million (€-3.5 million).

Profit for the period was €71.7 million (€47.7 million).

### Cash flow, financial position and financing

Cash flow from operating activities was €87.9 million and improved 61.3% from prior year's €54.5 million. The improvement was mainly caused by improved operating profits and reduction of working capital.

Cash flow from investing activities totaling €-11.4 million diminished compared with prior year mainly due to the phasing of capital investments. Capital expenditure in 2012 amounted to €-13.0 (€-23.2 million) and comprised mainly of ordinary maintenance and replacement investments in the manufacturing footprint. Depreciation was €29.7 million (€29.7 million). The proceeds from disposal of assets and other investments generated cash inflow of €1.6 million (€11.0 million) during the financial year. In 2012 there were no acquisitions (€-13.1 million).

Working capital amounted to €29.9 million at year-end compared with €41.7 million prior year. Cash and cash equivalents were €215.7 million (€161.3 million).

The total indebtedness amounted to €172.9 million (€194.0 million), consisting of related party loans of €148.5 million (€168.0 million), loans from financial institutions €0.1 million (€0.1 million) and other current liability of €24.3 million (€25.9 million) that are mainly used to finance the Ukrainian operations. During the year the cash repayments of long-term and short-term loans amounted to €21.8 million.

Following the positive operating cash flow in 2012 the net debt of the Group was turned into a net cash position of €42.9 million (€32.7 million net debt).

### Research and development

Research and development costs are normally expensed as incurred apart from when the asset increases the future economic benefits embodied in the specific asset to which it relates. Research and development costs amounted to €-9.7 million (€-9.0 million) for the financial year.

### Personnel

The total number of employees was 6,688 (7,096) on December 31, 2012. In connection with the Leda S.A.S. disposal the headcount was reduced by 108 persons. The average number of employees during 2012 was 7,004 (7,391). Salaries and wages of the financial year amounted to €167.2 million (€181.9 million).

## ACQUISITIONS AND DISPOSALS

No acquisitions were done during 2012. Acquisition of shares at €13.1 million in 2011 consists of purchasing of 49 percent or the remainder of minority interest of Slavuta Holding LLC. The ownership of the Group in Slavuta Holding LLC is subsequently 100%.

In order to focus on core business, the Group divested the French subsidiary of Leda S.A.S. operating in the shower business in 2012.

## OPERATING MODEL AND CORPORATE GOVERNANCE

### Operating model

One of the key components of the Group's business strategy is an integrated operating model with appropriately centralized operations and support functions, for example in the supply, product management and design and sales and marketing functions. During 2012 the operating model has been fully implemented. Miguel Definti was employed as the Executive Vice President of the product management and design function as of November 2012.

### Group structure

The group consists of all direct and indirect subsidiaries of Sanitec Corporation, a Finnish limited liability company with business identity code 1955115-2. At the year-end the Group consisted of 48 subsidiaries and had no investments in associated companies or joint ventures.

The Group completed the liquidations of Scandi-Aqualine A/S and Koralle Poland Sp. Z o.o. as well as divestment of Leda S.A.S. in 2012. Additionally, the Group incorporated new French, currently dormant subsidiary Alliages Ceramiques S.A.S.

The parent company of Sanitec Corporation is Sofia IV S.à r.l., a company registered in Luxembourg which, in turn, is fully owned by Sofia III S.à r.l. The parent company of Sofia III S.à r.l. is Sofia II S.à r.l., a company registered in Luxembourg and the ultimate parent company of the Group is Sofia I S.à r.l., a company registered in Luxembourg.

Sofia I S.à r.l. is indirectly owned by private equity fund EQT IV and management of the Group (in total 77.5%, of which management owns a minority share) and the senior and second lien lenders of the previous financing structure of the Group (22.5 %).

### Board of Directors

During the financial period, the members of the Board of the Directors of Sanitec Corporation have been:

Fredrik Cappelen, Chairman
Adrian Barden, member
Caspar Callerström, member
Pekka Lettijeff, member
Ulf Mattsson, member
Jussi Nyrölä, deputy member

### President and CEO

During the financial period, the president and CEO of Sanitec Corporation has been Peter Nilsson.

### Auditor

KPMG Oy Ab with APA Virpi Halonen as the auditor in charge was elected as the auditors of Sanitec Corporation by the annual general meeting of shareholders.

### SHARES

There is one series of shares and they all have equal voting rights and similar rights to the dividends. The shares carry no nominal value. The par value of the shares in accounting is €1.0 per share and the total amount of shares is 1,000,000. The fully paid, registered share capital of Sanitec Corporation is €2,813,142.66.

### RISKS AND BUSINESS UNCERTAINTIES

In the process of production, distribution, sales and marketing of sanitary ceramics and complementary ceramics products the Group is subject to customary market risks, which relate to the supply of materials, demand of products, competition, financial risks, legal environment and other such factors beyond the control of the Group. The management of the Group actively monitors and evaluates such factors to mitigate the risks and to respond appropriately when required.

### OUTLOOK FOR 2013

The macroeconomic uncertainties emerging during the third quarter 2011 continued throughout 2012 with varying impacts in different European markets. The challenges experienced by the financial markets in Europe are creating continued uncertainty in the market and it is difficult to estimate what the direct and indirect implications of this will be.

The net sales are not expected to substantially increase in the financial period 2013. The management of the Group has continued to address necessary actions to improve profitability, reduce costs and improve cash flow.

The Group will continue measures to simplify the Group legal structure, started in 2010. The main purpose is to align the legal structure with commercial structure, reduce complexity and improve efficiency in the administrative processes.

THE BOARD OF DIRECTORS

## CONSOLIDATED STATEMENT OF INCOME

(All amounts in € millions)

| | Note n:o | Period from January 1 - December 31, 2012 | Period from January 1 - December 31, 2011 |
|---|---|---|---|
| NET SALES | 3 | 752.8 | 770.8 |
| Other operating income | 4 | 5.4 | 9.4 |
| Materials and services | | -344.4 | -349.9 |
| Employee benefits | 5 | -209.3 | -222.3 |
| Production for own use | | 1.3 | 1.0 |
| Other operating expenses | 6 | -103.1 | -112.3 |
| Depreciation, amortization and impairment losses | 7 | -29.7 | -29.7 |
| OPERATING PROFIT | | 73.0 | 67.1 |
| Financial income and expenses | 8 | -6.0 | -15.9 |
| PROFIT BEFORE TAXES | | 67.0 | 51.2 |
| Income taxes | 9 | 4.7 | -3.5 |
| PROFIT FOR THE PERIOD | | 71.7 | 47.7 |
| Profit for the period attributable to: | | | |
| Equity holders of the parent company | | 71.7 | 48.7 |
| Non-controlling interest | | — | -1.0 |
| Total | | 71.7 | 47.7 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note n:o | Period from January 1 - December 31, 2012 | Period from January 1 - December 31, 2011 |
|---|---|---|---|
| PROFIT FOR THE PERIOD | | 71.7 | 47.7 |
| Other comprehensive income: | | | |
| Change in translation difference | 14 | 4.7 | -3.1 |
| Cash flow hedges | 17 | 0.3 | — |
| Actuarial gains and losses | 20 | -0.9 | -3.1 |
| Taxes of other comprehensive income | 9 | 0.1 | 1.4 |
| COMPREHENSIVE INCOME FOR THE PERIOD | | 75.9 | 42.9 |
| Comprehensive income for the period attributable to: | | | |
| Equity holders of the parent company | | 75.9 | 43.9 |
| Non-controlling interest | | — | -1.0 |
| Total | | 75.9 | 42.9 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(All amounts in € millions)

| | Note n:o | As at December 31, 2012 | As at December 31, 2011 |
|---|---|---|---|
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Intangible assets | 10 | 7.2 | 8.5 |
| Property, plant and equipment | 10 | 185.0 | 195.0 |
| Deferred tax assets | 9 | 25.2 | 19.1 |
| Interest bearing receivables | | 0.1 | 0.6 |
| Pension assets | 20 | 1.8 | — |
| Other non-current receivables | | — | 0.1 |
| TOTAL NON-CURRENT ASSETS | | 219.3 | 223.3 |
| CURRENT ASSETS | | | |
| Inventories | 11 | 102.1 | 106.3 |
| Interest bearing current receivables | | 4.0 | 3.9 |
| Other current receivables | 12 | 116.5 | 135.0 |
| Cash and cash equivalents | 13 | 215.7 | 161.3 |
| TOTAL CURRENT ASSETS | | 438.3 | 406.5 |
| TOTAL ASSETS | | 657.6 | 629.8 |

| | Note n:o | As at December 31, 2012 | As at December 31, 2011 |
|---|---|---|---|
| EQUITY AND LIABILITIES | 14 | | |
| Share capital | | 2.8 | 2.8 |
| Share premium | | 43.7 | 43.7 |
| Fair value reserve | | 0.3 | |
| Reserve for invested unrestricted equity | | 585.2 | 585.2 |
| Translation differences | | -9.3 | -14.3 |
| Retained earnings | | -379.1 | -449.7 |
| TOTAL EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY | | 243.6 | 167.7 |
| Non-controlling interests | 14 | 0.2 | 0.2 |
| TOTAL EQUITY | | 243.8 | 167.9 |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | 9 | 8.1 | 7.8 |
| Pension provisions | 20 | 29.9 | 28.2 |
| Provisions | 19 | 9.8 | 25.4 |
| Interest-bearing liabilities | 15 | 148.6 | 168.1 |
| TOTAL NON-CURRENT LIABILITIES | | 196.4 | 229.5 |
| CURRENT LIABILITIES | | | |
| Interest-bearing liabilities | 15 | 24.3 | 25.9 |
| Provisions | 19 | 4.4 | 6.9 |
| Other current liabilities | 21 | 188.7 | 199.6 |
| TOTAL CURRENT LIABILITIES | | 217.4 | 232.4 |
| TOTAL EQUITY AND LIABILITIES | | 657.6 | 629.8 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share Capital | Share Premium | Fair value reserve | Reserve for invested unrestricted Equity | Translation differences[(2)] | Retained Earnings | Total | Non-Controlling interests | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| **Equity at January 1 2011** | **2.8** | **43.7** | **—** | **590.5** | **-16.3** | **-478.4** | **142.3** | **1.8** | **144.1** |
| Dividend/return of equity | | | | -5.0 | | | -5.0 | | -5.0 |
| Change in non-controlling interest | | | | | | -12.6 | -12.6 | -0.6 | -13.2 |
| Adjustment to opening balance[(1)] | | | | | | -0.9 | -0.9 | | -0.9 |
| Total comprehensive income | | | | -0.3 | 2.0 | 42.2 | 43.9 | -1.0 | 42.9 |
| **Equity at December 31 2011** | **2.8** | **43.7** | **—** | **585.2** | **-14.3** | **-449.7** | **167.7** | **0.2** | **167.9** |
| Total comprehensive income | | | 0.3 | | 5.0 | 70.6 | 75.9 | | 75.9 |
| **Equity at December 31 2012** | **2.8** | **43.7** | **0.3** | **585.2** | **-9.3** | **-379.1** | **243.6** | **0.2** | **243.8** |

(1) Retained earnings as at December 31, 2011 has been adjusted with €0.9 million pension provisions in Ukraine as a retroactive correction.

(2) Translation difference of €5.0 million at December 31, 2012 (€2.0 million at December 31, 2011) consist of translation difference relating to retained earnings €0.3 million (€4.8 million), reserve for invested unrestricted equity €0.0 million (€0.3 million) and €4.7 million (€-3.1 million) recognized through other comprehensive income.

## CONSOLIDATED CASH FLOW STATEMENT
(All amounts in € millions)

| | Note n:o | Period from January 1 - December 31, 2012 | Period from January 1 - December 31, 2011 |
|---|---|---|---|
| CASH FLOW FROM OPERATING ACTIVITIES: | | | |
| Profit (loss) before taxes for the period | | 67.0 | 51.2 |
| Adjustments: | | | |
| Depreciation, amortization and impairment losses | 7 | 29.7 | 29.7 |
| Unrealized foreign exchange gains and losses | 14 | -2.1 | 2.5 |
| Other non-cash income and expenses | | -1.0 | -3.1 |
| Financial income and expenses | 8 | 8.1 | 13.3 |
| Change in the working capital: | | | |
| Change in current non-interest-bearing receivables | 12 | 20.1 | 18.8 |
| Change in inventories | 11 | 6.4 | 4.5 |
| Change in current non-interest-bearing liabilities | 15 | -18.9 | -41.2 |
| Interests and other financial expenses paid (-) / received (+) | 8 | -10.0 | -16.6 |
| Interests received from operating activities | | 2.4 | 2.1 |
| Income taxes paid (-) / received (+) | | -13.8 | -6.6 |
| CASH FLOW FROM OPERATING ACTIVITIES | | 87.9 | 54.5 |
| CASH FLOW FROM INVESTING ACTIVITIES: | | | |
| Investments of non-controlling interests | 2 | — | -13.1 |
| Investments of intangible and tangible assets | 10 | -13.0 | -23.3 |
| Proceeds from disposal of intangible and tangible assets | 10 | 1.6 | 7.3 |
| Proceeds from disposal of other investments | | — | 3.7 |
| CASH FLOW FROM INVESTING ACTIVITIES | | -11.4 | -25.3 |
| CASH FLOW FINANCING ACTIVITIES: | | | |
| Dividend distribution | 14 | — | -5.0 |
| Proceeds (+) / repayments (-) of current liabilities | | -21.6 | -1.2 |
| Proceeds (+) / repayments (-) of non- current liabilities | | -0.2 | -0.1 |
| CASH FLOW FROM FINANCING ACTIVITIES | | -21.8 | -6.4 |
| Change in cash and cash equivalents | 13 | 54.7 | 22.8 |
| Cash and cash equivalents on January 1 | | 161.3 | 138.5 |
| Effect of exchange rate differences on cash and bank balances | | -0.3 | 0.0 |
| Change in cash and cash equivalents | | 54.7 | 22.8 |
| Cash and cash equivalents on December 31 | | 215.7 | 161.3 |

# Notes to the consolidated financial statements

## 1. ACCOUNTING POLICIES

### Description of business

Sanitec Corporation is a limited company and it is domiciled in Helsinki, Finland. The address of Group Head Office is Kaupintie 2, 00440 Helsinki, Finland.

These financial statements were authorized for issue by the Board of Directors on April 23, 2013.

### Basis of preparation

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU and SIC/IFRIC interpretations as applicable on 31 December, 2012.

The consolidated financial statements are prepared under historical cost convention except for the financial liabilities and assets (including derivative instruments) recognized at fair value through profit or loss, available-for-sale investments and assets and liabilities classified as held-for-sale in accordance with IFRS 5 at the closing date.

Items included in the financial statements of each of the Group's entity are measured using the currency of the primary economic environment in which that entity operates (the functional currency). The consolidated financial statements are presented in euro, which is the Parent Company's functional currency. The presentation is in millions of euro.

### Principles of consolidation

The consolidated financial statements include the parent company and its subsidiaries. In these companies, the parent company holds, on the basis of its shareholdings, more than half of the voting rights directly or through its subsidiaries, or otherwise exercises control.

The companies acquired or established during the financial period have been consolidated from the date, when the Group acquired control. Subsidiaries divested have been included up to the date when the Group lost control. Subsidiaries are consolidated using the acquisition method, according to which the identifiable assets and liabilities of the acquired companies are valued at fair value at the date of acquisition. If the control is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest is re-measured to fair value at the acquisition date and any gains or losses arising from such re-measurement are recognized in profit or loss.

The purchase price less the acquired net identifiable assets and liabilities assumed is recorded as goodwill in the balance sheet. If the purchase price is lower than the fair value of the net assets of the subsidiary acquired, the difference is recorded in profit or loss. The transaction costs relating to the acquisition are expensed as incurred. Acquisitions of non-controlling interests in the subsidiaries that are consolidated in Sanitec Group are accounted for using the proportionate share of ownership method.

Associated companies in which Sanitec has voting rights between 20% and 50% and in which it has significant influence but not control, are consolidated by using the equity method. When Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and no further losses are recognized, unless the Group has legal or constructive obligations or it has made payments on behalf of the associate.

All intra-group transactions, receivables, liabilities, unrealized gains between Group companies and distribution of profits within the Group are eliminated in consolidation. Profit for the period is attributable to the owners of the parent company and to the non-controlling interests. Non-controlling interests are presented as a separate item within the equity.

### Use of estimates in the preparation of the consolidated financial statements

The preparation of the consolidated financial statements in conformity with IFRS requires the Group's management to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of intangible assets, property, plant and equipment; valuation allowances for receivables, inventories and deferred income tax assets; provisions for restructuring of operations; valuation of derivative instruments; and assets and obligations related to employee benefits.

These estimates and assumptions form the basis for judgments of the items in the consolidated financial statements. They are based on historical experience and other justified assumptions that are believed to be reasonable under the circumstances at the end of the reporting period. Development of general economic situation and markets in which the Group operates may affect the variables underlying the estimates and assumptions. Actual results could therefore differ significantly from those estimates.

### Translation of foreign currency items

Transactions in the foreign currencies are translated using the rates of exchange prevailing at the date of transaction. At the end of the financial period monetary assets and liabilities denominated in foreign currencies are valued at the rates prevailing at the reporting date. Exchange gains and losses arising from the transactions in foreign currencies and translation of monetary items are recognized in the profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges.

On consolidation, the statements of comprehensive income of the foreign subsidiaries are translated into Euros by using the average exchange rate for the accounting period. The balance sheets are translated at the year-end exchange rate. Differences resulting from the translation of profit or loss statement and balance sheet are recorded in the other comprehensive income as translation differences and included under translation differences in equity.

### Operating segments

Sanitec Group has only one segment and does not report any segment information in the consolidated financial statements. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the one operating segment, has been identified as President and CEO that makes strategic decisions.

### Revenue recognition

The Group recognizes revenue from product sales, when the customer takes the ownership and risk and rewards. As a principal rule revenue recognition takes place at the date of delivery according to the delivery terms agreed between the customer and the Group. Net sales consist of the gross sales revenues reduced by indirect sales taxes and sales discounts. The Group estimates and records provisions for cash discounts, quantity rebates, sales returns and allowances in the period the sale is reported based on agreements and experience.

Revenues from the rendering of maintenance services and repairs are recognized when the services have been rendered or the work has been carried out.

### Operating profit

IAS 1 Presentation of Financial Statements does not give a definition for operating profit. The Group has defined operating profit as follows: operating profit is the revenue added with other operating income less materials and services, employee benefits, production for own use, other operating expenses, and depreciation, amortization and impairment losses.

Operating profit includes those exchange rate gains and losses that are related to the operative activities of the Group. Financing related exchange rate gains and losses are reported under financial income and expenses.

### Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with the related conditions. Government grants are related mainly to the investments in property, plant and equipment. These grants are deferred in the balance sheet and recognized in the income statement concurrently with the expenses they compensate.

### Other operating income and expenses

Other operating income includes income from activities outside ordinary business, such as rental income and gains and losses from the sale of fixed assets and other long-term investments.

Other operating expenses include expenses not directly related to production, such as expenses for marketing efforts, research and development, if not capitalized, and other expenses related to general administration. Additionally, losses from the disposal of fixed assets and other long-term investments are included within other operating expenses.

### Goodwill and intangible assets

The goodwill arising on a business combination results from the excess of acquisition cost over net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill is allocated to cash generating units and tested annually for impairment or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

Other intangible assets consist of patents and copyrights, trademark and licenses having a finite life, and software. These are measured at historical costs and amortized using the straight-line method over their useful lives. Other separately identifiable intangible assets are recognized in the balance sheet only, if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the value of the asset can be measured reliably. The amortization period of intangible assets is 3-10 years.

Intangible assets with an indefinite useful life such as trademarks or brand names acquired in business combinations are not amortized but they are tested at least annually for impairment. At the balance sheet date Sanitec did not have any intangible assets with indefinite useful life.

Research and development costs are normally expensed as other operating expenses for the financial year they incur. If the criteria for commercial and technical feasibility in accordance with IAS 38 have been met, development costs are capitalized and amortized during the expected economic life of the underlying technology.

### Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gain/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Land and water areas are not depreciated.

Depreciation on plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets according to plan as follows:

| | |
|---|---|
| Buildings | 20—40 years |
| Heavy production machinery and equipment | 10—20 years |
| Light production machinery and equipment | 8—10 years |
| Other machinery and equipment | 3—5 years |
| Land | No depreciation |

Residual values and expected useful lives are reviewed at each balance sheet date and if they differ significantly from previous estimates are adjusted to reflect changes in the expected future economic benefits.

Subsequent improvement costs related to an asset are included in the carrying value of such asset or recognized as a separate asset, as appropriate, only when future economic benefits associated with the costs are probable and the related costs can be separated from normal maintenance costs. Regular maintenance costs are recognized as expenses for the period.

Gains and losses on sales and disposals are included in other operating income and in other operating expenses.

### Impairment of non-financial assets

Intangible assets with indefinite life are not subject to depreciation but are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized whenever the carrying amount of assets or cash-generating unit (the lowest asset level for which there are separately identifiable cash flows) exceeds the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Value in use is determined by reference to discounted future cash flows expected to be generated by the asset.

Impairment losses are recognized in profit or loss. Impairment loss recognized in respect of cash-generating units is first allocated to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of other assets in the group of units on pro rata basis.

In respect of property, plant and equipment and other intangible assets excluding goodwill, impairment losses recognized in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized. An impairment loss relating to goodwill is never reversed.

### Leasing agreements

Leasing agreements are classified either as operating leases or finance leases. Leases of property, plant and equipment, where significant portion of the risks and rewards of ownership have been transferred to Sanitec are classified as finance leases. Finance leases are recognized as assets and liabilities in the balance sheet at commencement of lease term at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments under finance leases are divided into interest expense and installment payment of liability. Property, plant and equipment under finance leases are depreciated over the useful life of the asset or over the lease period, if shorter. At the balance sheet date Sanitec did not have any leasing agreements that should be classified as finance leases.

Leases of property, plant and equipment, where the lessor retains a significant portion of the risks and rewards, are classified as operating leases. Rental payments under operating leases are recognized as expenses when incurred.

### Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out (FIFO) method or average cost method for finished goods and the average cost method for raw materials. Cost includes direct manufacturing, labor and materials, variable overhead and allocable portion of production and project administration overheads. Costs associated with assets produced for internal use are capitalized and depreciated over their estimated useful lives.

## Financial assets and liabilities

Financial instruments are classified in accordance with the IAS 39 to the following groups: financial assets at the fair value through profit or loss, available-for-sale financial assets and loans and receivables. Sanitec has no held-to-maturity investments as of the financial year-end date.

Financial assets at the fair value through profit or loss contain liquid instruments such as commercial papers and derivative assets that do not qualify as hedges in accordance with IAS 39 hedge accounting.

Loans and receivables are non-derivative assets with fixed or determinable payments that are not quoted in an active market. In Sanitec this group contains trade receivables and other loan receivables arising from commercial operations and other current investments such as bank deposits. These items are reported as current or non-current in the balance sheet depending on their maturity. All items in this class are originally measured at cost and provisions for impairments are established, where there is objective evidence that Sanitec cannot collect all amounts due according to the original terms of loans and receivables.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Changes in the fair value of the assets in this category are recognized in the other comprehensive income until the asset is divested or sold, at which time the changes in the fair value are transferred to profit or loss.

## Derivative financial instruments and hedge accounting

Derivative contracts are initially recognized at fair value and continue to be measured at fair value thereafter. Gains and losses arising from measurement at fair value are treated in the accounts in the manner determined by the purpose of the derivative contracts.

When derivative contracts are entered into, the Group designates them as either hedges of the exposure to changes in the fair value of recognized assets or liabilities (fair value hedges), hedges of forecast transactions or firm commitments (cash flow hedges), hedges of net investments in foreign entities or as derivative financial instruments not meeting the hedge accounting criteria in accordance with IAS 39. In the financial periods 2012 and 2011, the group had no hedging in respect of net investments made in foreign entities.

Changes in the fair value of derivatives designated and qualifying as fair value hedges, and which are highly effective, are recorded in the Income Statement, along with any changes in the fair value of the hedged assets or liabilities attributable to the hedged risk.

Changes in the fair value of derivatives designated and qualifying as cash flow hedges, and which are effective, are recognized in the fair value reserve within equity, the movements of which reserve are disclosed in the Consolidated Statement of Comprehensive Income. The cumulative gain or loss of a derivative deferred in equity is transferred to the Income Statement and classified as income or expense in the same period in which the hedged item affects the Income Statement.

When a hedging instrument expires, or is sold or no long qualifies for hedge accounting, the cumulative gain or loss remains in equity until the forecast transaction is realized. However, if the forecast transaction is no longer expected to occur, the cumulative gain or loss accrued in equity is recognized in the income statement.

Derivatives other than those qualifying for hedge accounting belong to the category Financial assets and liabilities at fair value through profit and loss, for which changes in fair value are recorded in full in the income statement.

The fair values of derivatives are determined by using market prices and generally available valuation models. The data and assumptions used in valuation models are based on verifiable market prices.

## Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, deposits held at call with banks and other highly liquid short-term investments with original maturity of three months or less.

## Borrowings

Long-term debt is initially recognized at fair value, net of transaction costs incurred. Debt is classified as current liability unless Sanitec has an unconditional right to defer the settlement of the liability for at least 12 months after the balance sheet date.

## Borrowing costs

The borrowing costs related to property, plant and equipment or other intangible assets that require substantial period of construction are capitalized for the period needed to produce the investment for the intended purpose. Other borrowing costs are recognized in the profit or loss statement for the period, in which they incurred.

## Pensions and other post-employment obligations

The Group has several different pension plans in accordance with local conditions and practices where it operates. The plans are generally funded through payments to insurance companies.

Pension plans are classified as defined contribution plans or defined benefit plans. Payments to defined contribution plans are reported in the income statement as part of personnel expenses in the period, in which employees perform the services providing the entitlement to the respective contributions. The Group has no legal or constructive obligation to pay further compensations, if the pension fund has not adequate assets to pay the employees the benefits in question. All the pension plans that do not meet the above criteria are classified as defined benefit plans.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The liability recognized in the balance sheet in respect of defined benefit plans is the present value of defined benefit obligation at the balance sheet date less the fair value of plan assets, combined with adjustments for unrecognized actuarial gains and losses and past service cost. 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 obligation.

Past service costs are charged immediately to the income statement to the extent that the benefits have vested, and are otherwise recognized on a straight-line basis over the average period until the benefits vest. Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to plans are recognized through OCI in shareholders' equity.

Some Group companies may provide other post-employment benefits. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans.

## Share-based payments

Sanitec has no share-based payments as defined in IFRS 2 during the financial years reported in these consolidated financial statements.

## Assets classified as held-for-sale

Non-current assets and discontinued operations are classified as held-for-sale and stated at the lower of the carrying value or fair value less cost to sell, if their carrying value is recovered principally through a sale transaction rather than through continuing use. The sale should be considered highly probable.

A discontinued operation is a part of the entity that has been divested or classified as being held for sale and represents a separate core business area or geographic operation area.

Sanitec financial statements do not include any non-current assets held-for-sale or any discontinued operation.

### Provisions

Provisions are recognized in the balance sheet, if the Group has a present legal or constructive obligation as a result of a past event, and that it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provisions are related e.g. to the restructuring plans, environmental obligations, tax risks or legal proceedings. Provisions are based on the past experience and best estimates available at the balance sheet date.

The Group's warranty policy provides for coverage of certain products at the date the sale is recorded. The estimated liability is included as a current provision. Changes in the warranty liability are charged against earnings for the period.

### Current and deferred income taxes

The tax expense for the period consists of current and deferred taxes. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively. Current tax on taxable income for the period is determined using the tax rates enacted or which substantially enacted in each country at the end of the report period / at the balance sheet date in the countries where the parent company and its subsidiaries operate and generate taxable income.

Deferred tax assets and liabilities are recognized on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. The amount and probability of the utilization of a tax asset are reviewed at the end of each report period. Management establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. Deferred taxes are measured based on the tax rates enacted or which substantially enacted by the end of the report period /at the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset against each other only when the entity has a legally enforceable right to set off the recognized amounts, and the deferred tax asset and tax liability relate to income taxes levied by the same tax authority.

### Equity and dividends

Ordinary shares are classified as equity.

Dividends proposed by the Board of Directors are not recorded in the financial statements until the shareholders at the Annual General Meeting have approved them. Sanitec Group or the parent company do not hold treasury shares.

## New and amended standards applied in the financial year ended

Sanitec Group has adopted the following new standards and interpretations as from January 1, 2012, none of which had no significant impact on the consolidated financial statements:

Amendments to IFRS 7 'Financial instruments: Disclosures' (effective for financial years beginning on or after July 1, 2011), on transfer of financial assets. The amendments promote transparency in reporting of transfer transactions and risk exposures relating to transfers of financial assets

## Adoption of new and amended IFRS standards

The Group has not yet adopted the following new and amended standards and interpretations already issued by the IASB. The Group will adopt them as of the effective date or, if the is other than the first day of the financial year, from the beginning of the subsequent financial year.

Amendment to IAS 1 'Financial statement presentation' (effective for financial years beginning or after July 1, 2012) regarding other comprehensive income. The amendment requires entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially re-classifiable to profit or loss subsequently.

Amendment to IAS 19 'Employee benefits' (effective for financial years beginning on or after January 1, 2013). These amendments eliminates the corridor approach and calculate finance costs on a net funding basis. The Group has not applied the corridor approach.

IFRS 13 'Fair value measurement' (effective for financial years beginning on or after January 1, 2013). The new standard provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements. The usage of fair value accounting is not extended by the standard but more guidance is provided for the application of fair value accounting where its use is already required or permitted according to other IFRS standards.

Annual improvements to IFRSs 2011 (May 2012) (mainly effective for the financial years beginning on or after January 1, 2013). The amendments are related in total to six issues in the 2009-2011 reporting cycle. Their impacts vary standard by standard but are not significant to the Group.

Amendments to IFRS 7 'Financial instruments: Disclosures' (effective for financial years beginning on or after January 1, 2013), on asset and liability offsetting. The amendment includes new disclosures facilitating the comparison between companies preparing financial statements under IFRS and under US GAAP.

IFRS 10 'Consolidated financial statements' and subsequent amendments (effective in the EU for financial years beginning on or after January 1, 2014). The standard defines principles of control and the application of the principle of control, when establishing the principles for presentation and preparation of consolidated financial statements. The standard also sets out the accounting requirements for the preparation of consolidated financial statements.

IFRS 11 'Joint arrangements' and subsequent amendments, (effective in the EU for financial years beginning on or after January 1, 2014). Joint arrangements are defined into two types focusing on the rights and obligations of the parties rather than the legal form of the arrangement. Proportional consolidation of the joint ventures is no longer allowed.

IFRS 12 'Disclosures of interests in other entities' and subsequent amendments (effective in the EU for financial years beginning on or after January 1, 2014). The standard includes disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

IAS 28 (revised 2011) 'Associated and joint ventures' and subsequent amendments (effective in the EU for financial years beginning on or after January 1, 2014) includes the requirements for associates and joint ventures that have to be equity accounted following the issuance of IFRS 11.

Amendment to IAS 32 'Financial instruments: Presentation' (effective in the EU for financial years beginning on or after January 1, 2014), on asset and liability offsetting. Amendments clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.

IFRS 9 'Financial Instruments' (effective from 1 January 2015 not yet adopted by EU). This standard is a part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial assets. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

## 2. ACQUISITIONS AND DISPOSALS

The Sanitec Group has continued to simplify the legal Group structure to align the structure with commercial structure, reduce complexity and improve efficiency in the administrative processes in 2012. In connection therewith, the Group completed the liquidations of Scandi-Aqualine A/S and Koralle Poland Sp. Z o.o. as well as divestment of Leda S.A.S. in 2012.

On 21st June 2011 the Group acquired the remaining 49 percent of participation interest in Slavuta Holding LLC, a parent company of a Ukrainian ceramic product manufacturer PJSC Slavuta Plant "Budfarfor" and Slavuta Trading LLC. The purchase increased the Group's ownership in Slavuta Holding LLC from 51 percent to 100 percent. The value of non-controlling interests in Slavuta Holding LLC before acquisition totaled to €0.6 million. Acquisition cost, which exceeds the value of the non-controlling interests in the balance sheet at the time of transaction, was recognized directly as deduction of equity.

Impact of business disposals on Group´s assets and liabilities:

(All amounts in € millions)

| | As at December 31, 2012 | As at December 31, 2011 |
|---|---|---|
| Non-current assets | 0.5 | — |
| Inventories | 3.4 | — |
| Other current assets | 4.3 | — |
| Total assets | 8.2 | — |
| Non-current liabilities | 0.9 | — |
| Current liabilities | 4.6 | — |
| Total liabilities | 5.5 | — |

## 3. NET SALES

### Net sales by region

| | Period from January 1 - December 31, 2012 | Period from January 1 - December 31, 2011 |
|---|---|---|
| Central Europe | 215.2 | 219.2 |
| North Europe | 186.2 | 180.0 |
| South Europe | 145.5 | 163.4 |
| East Europe | 128.7 | 126.0 |
| United Kingdom and Ireland | 54.4 | 58.1 |
| Rest of the world | 22.8 | 24.1 |
| Total | 752.8 | 770.8 |

## Net sales by product line

| | Period from January 1 - December 31, 2012 | Period from January 1 - December 31, 2011 |
|---|---|---|
| Ceramics Sanitaryware | 546.5 | 551.7 |
| Complementary Ceramics Products | 206.3 | 219.1 |
| | 752.8 | 770.8 |

## 4. OTHER OPERATING INCOME

### Other operating income

| | Period from January 1 - December 31, 2012 | Period from January 1 - December 31, 2011 |
|---|---|---|
| Gain on sale or disposal of fixed assets | 1.0 | 3.2 |
| Income for bad debt recoveries | 0.6 | 0.3 |
| Sale of scrap | 0.4 | 0.6 |
| Rental income | 0.4 | 0.3 |
| Subsidies received | 0.2 | 0.2 |
| Other income | 2.8 | 4.8 |
| | 5.4 | 9.4 |

## 5. EMPLOYEE BENEFITS

### Personnel expenses

| | Period from January 1 - December 31, 2012 | Period from January 1 - December 31, 2011 |
|---|---|---|
| Salaries and wages | -167.2 | -181.9 |
| Defined contribution plans | -10.5 | -10.5 |
| Defined benefit plans | 1.3 | -0.4 |
| Other personnel expenses | -32.9 | -29.5 |
| | -209.3 | -222.3 |

## 6. OTHER OPERATING EXPENSES

### Other operating expenses

| | Period from January 1 - December 31, 2012 | Period from January 1 - December 31, 2011 |
|---|---|---|
| Sales and marketing costs | -22.1 | -28.4 |
| Rental costs | -14.3 | -15.8 |
| Travelling costs | -10.4 | -10.0 |
| Information technology costs | -7.8 | -8.0 |
| Agency commission | -6.8 | -3.4 |
| Other commissions and fees | -4.9 | -7.4 |
| Administration | -3.1 | -0.6 |
| Credit losses | -1.1 | -2.6 |
| Other operating costs | -32.6 | -36.1 |
| | -103.1 | 112.3 |

### Audit fees

During the period from January 1, 2012 to December 31, 2012, the fees billed to the parent company and its subsidiaries by KPMG Finland, and other member firms of the KPMG network were as follows: audit fees €-0.6 million (€-0.9 million), tax fees €-0.3 million (€-0.4 million) and other fees €-0.1 million (€-0.3 million).

## 7. DEPRECIATION AND AMORTIZATION

### Depreciation and amortization by asset type

| | Period from January 1 - December 31, 2012 | Period from January 1 - December 31, 2011 |
|---|---|---|
| Intangible assets | -2.2 | -1.5 |
| Buildings | -4.4 | -5.2 |
| Machinery and equipment | -22.9 | -22.7 |
| Other tangible assets | -0.2 | -0.3 |
| Total | -29.7 | -29.7 |

No impairment was deemed necessary during the periods reported.

## 8. FINANCIAL INCOME AND EXPENSES

### Financial income

| | Period from January 1 - December 31, 2012 | Period from January 1 - December 31, 2011 |
|---|---|---|
| Interest income | 1.4 | 1.2 |
| Other financial income | 0.2 | 0.3 |
| Net foreign exchange gains | 3.2 | — |
| Total | 4.8 | 1.5 |

### Financial expenses

| | Period from January 1 - December 31, 2012 | Period from January 1 - December 31, 2011 |
|---|---|---|
| Interest expenses | -9.9 | -8.3 |
| Other financial expenses | -0.9 | -3.0 |
| Net foreign exchange losses | — | -6.1 |
| Total | -10.8 | -17.4 |

Interest expense includes €1.0 million (€0.7 million) employee benefits related interest expenses.

## 9. INCOME TAXES AND DEFERRED TAXES

### Income taxes

| | Period from January 1 - December 31, 2012 | Period from January 1 - December 31, 2011 |
|---|---|---|
| Income taxes for the financial period | -5.6 | -6.5 |
| Income taxes for prior periods | 5.1 | -8.0 |
| Change in deferred taxes | 5.2 | 11.0 |
| | 4.7 | -3.5 |

During 2012 income taxes for prior periods included reversal of tax provision related to German tax assessment.

The Group's tax loss carry forwards were €503.0 million as of December 31, 2012 (€589.4 million). Of the total amount, €260.0 million (€290.2 million) were attributable to Sanitec Europe Corporation and Sanitec Corporation as of December 31, 2012. Tax losses of €63.8 million will expire in 2013, €124.9 million in 2014, €78.7 million in 2015, €36.7 million in 2016, €16.7 million in 2017 and €54.7 million after 2018 while €127.5 million has no expiry date.

The Group tax losses of December 31, 2012 include €104.5 million losses that belong to B.V. “De Sphinx”. Due to the changes in the group structure in 2009/2010 the losses of B.V. “De Sphinx” may require an exemption from the Dutch tax authorities.

The Group has recognized deferred tax assets for its tax loss carry forwards to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. The determination was based upon what is probable in each tax jurisdiction.

As of December 31, 2012, retained earnings in foreign subsidiaries consisted mainly of those within European Union countries, Switzerland and Norway. As Sanitec Corporation is able to repatriate such retained earnings tax free, no deferred tax liability on the undistributed earnings in foreign subsidiaries is recognized.

## Deferred tax assets

| | Tax losses carried forward | Property, plant and equipment | Pensions | Provisions | Consolidation entries | Other temporary differences | Total |
|---|---|---|---|---|---|---|---|
| **As at January 1, 2011** | **2.3** | **0.2** | **0.9** | **2.5** | **5.6** | **2.1** | **13.6** |
| Charged to income statement[1] | 10.7 | -0.2 | -0.5 | -1.1 | -4.4 | 0.2 | 4.7 |
| Translation difference | -0.7 | — | — | — | — | -0.1 | -0.8 |
| Charged to comprehensive income statement | — | — | 0.9 | — | — | 0.7 | 1.6 |
| **As at December 31, 2011** | **12.3** | **—** | **1.3** | **1.4** | **1.2** | **2.9** | **19.1** |
| Charged to income statement[2] | 5.3 | 2.1 | -0.3 | -0.3 | — | -1.6 | 5.2 |
| Translation difference | 0.1 | 0.1 | — | 0.1 | — | 0.2 | 0.5 |
| Regrouping | — | 1.2 | — | — | -1.2 | — | — |
| Charged to comprehensive income statement | — | — | 0.4 | — | — | — | 0.4 |
| **As at December 31, 2012** | **17.7** | **3.4** | **1.4** | **1.2** | **—** | **1.5** | **25.2** |

(1) In 2011 €9.6 million of total deferred tax assets recorded for tax losses recognized in income statement are explained by tax losses in Royal Sanitec AB of €36.6 million. The rest of the tax losses recognized in income statement are related to other Sanitec Group companies. The total losses in taxation, for which no deferred tax asset has been recorded amount to €550.2 million as at December 31, 2011.

(2) In 2012 a deferred tax asset of €6.4 million was recorded on the basis of carry forward tax losses of Sanitec Europe Oy. The rest of the changes in the amount tax losses recognized in income statement are related to other Sanitec Group companies. The total losses in taxation, for which no deferred tax asset has been recorded, amounted to €439.5 million as at December 31, 2012.

## Deferred tax liabilities

| | Property, plant and equipment | Consolidation entries | Other temporary differences | Total |
|---|---|---|---|---|
| **As at January 1, 2011** | **5.7** | **7.7** | **0.9** | **14.3** |
| Charged to income statement | -4.8 | -1.3 | -0.2 | -6.3 |
| Charged to comprehensive income statement | — | — | -0.2 | -0.2 |
| **As at December 31, 2011** | **0.9** | **6.4** | **0.5** | **7.8** |
| Charged to income statement | — | — | — | — |
| Charged to comprehensive income statement | — | — | 0.3 | 0.3 |
| **As at December 31, 2012** | **0.9** | **6.4** | **0.8** | **8.1** |

Reconciliation of effective tax rate:

| | Period from January 1 - December 31, 2012 | Period from January 1 - December 31, 2011 |
|---|---|---|
| **Profit before taxes** | **67.0** | **51.2** |
| Tax for the period with domestic tax rate[1] | -16.4 | -13.3 |
| Effect of foreign tax rate | -1.7 | -4.5 |
| Previous period taxes | 5.1 | -8.0 |
| Previously unrecognized tax loss carried forward | 11.4 | 9.6 |
| Change of deferred taxes due to change in tax rate | -1.0 | — |
| Utilization of tax loss carry forwards previously not recognized | 12.0 | 10.8 |
| Tax on non-deductable expenses | -8.0 | -11.1 |
| Tax on non-taxable income | 3.3 | 13.0 |
| | 21.1 | 9.8 |
| Total taxes | 4.7 | -3.5 |

(1) Finnish tax rate is 24.5% in 2012 and 26.0% in 2011.

## 10. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

### Intangible assets

| | Intangible rights | Other long-term expenditure | Assets under construction | Total |
|---|---|---|---|---|
| **Acquisition cost January 1, 2012** | **6.5** | **0.6** | **3.0** | **10.1** |
| Translation difference | 0.3 | -0.1 | — | 0.2 |
| Additions | 0.3 | — | 0.2 | 0.5 |
| Disposals | -1.0 | 1.0 | — | — |
| Reclassification between items | 2.5 | — | -2.5 | — |
| **Acquisition cost December 31, 2012** | **8.6** | **1.5** | **0.7** | **10.8** |
| **Accumulated amortization January 1, 2012** | **-1.4** | **-0.2** | | **-1.6** |
| Translation difference | 0.1 | — | | 0.1 |
| Amortization for the period | -1.8 | -0.4 | | -2.2 |
| Disposals | 0.1 | — | | 0.1 |
| **Accumulated amortization December 31, 2012** | **-3.0** | **-0.6** | | **-3.6** |
| **Carrying value December 31, 2012** | **5.6** | **0.9** | **0.7** | **7.2** |

| | Intangible rights | Other long-term expenditure | Assets under construction | Total |
|---|---|---|---|---|
| **Acquisition cost January 1, 2011** | **7.2** | **0.2** | **2.4** | **9.8** |
| Translation difference | -0.1 | — | — | -0.1 |
| Additions | 0.8 | — | 0.9 | 1.7 |
| Disposals | -2.1 | — | — | -2.1 |
| Reclassification between items | 0.7 | 0.4 | -0.3 | 0.8 |
| **Acquisition cost December 31, 2011** | **6.5** | **0.6** | **3.0** | **10.1** |
| **Accumulated amortization January 1, 2011** | **-2.3** | **-0.1** | | **-2.4** |
| Translation difference | 0.2 | — | | 0.2 |
| Amortization for the period | -1.4 | -0.1 | | -1.5 |
| Disposals | 2.1 | — | | 2.1 |
| **Accumulated amortization and impairment December 31, 2011** | **-1.4** | **-0.2** | | **-1.6** |
| **Carrying value December 31, 2011** | **5.1** | **0.4** | **3.0** | **8.5** |

Intangible rights primarily consists of license rights and computer software.

**Property, plant and equipment**

| | Land | Buildings and constructions | Machinery and equipment | Other tangible assets | Advance payments | Assets under construction | Total |
|---|---|---|---|---|---|---|---|
| **Acquisition cost January 1, 2012** | **17.2** | **103.2** | **171.3** | **7.3** | **0.3** | **2.6** | **301.9** |
| Translation difference | — | 3.8 | 11.8 | — | — | 0.1 | 15.7 |
| Additions | — | 0.7 | 11.6 | 0.3 | — | — | 12.6 |
| Disposals | 0.1 | -1.7 | -14.3 | — | — | -0.1 | -16.0 |
| Reclassification between items | — | 0.2 | -3.1 | — | — | 2.9 | — |
| **Acquisition cost December 31, 2012** | **17.3** | **106.2** | **177.1** | **7.6** | **0.3** | **5.5** | **314.2** |
| **Accumulated depreciation and impairment January 1, 2012** | | **-33.2** | **-67.6** | **-6.1** | | | **-106.9** |
| Translation difference | | -1.3 | -9.1 | | | | -10.4 |
| Depreciation for the period | | -4.4 | -22.9 | -0.2 | | | -27.5 |
| Disposals | | 1.5 | 14.1 | | | | 15.6 |
| **Accumulated depreciation and impairment December 31, 2012** | | **-37.4** | **-85.3** | **-6.3** | | | **-129.2** |
| **Carrying value December 31, 2012** | **17.3** | **68.8** | **91.8** | **1.3** | **0.3** | **5.5** | **185.0** |

| | Land | Buildings and constructions | Machinery and equipment | Other tangible assets | Advance payments | Assets under construction | Total |
|---|---|---|---|---|---|---|---|
| **Acquisition cost January 1, 2011** | **18.1** | **102.7** | **142.9** | **7.1** | **1.4** | **34.4** | **306.6** |
| Translation difference | — | -4.2 | -3.4 | — | — | -1.1 | -8.7 |
| Additions | — | 10.3 | 10.5 | 0.6 | — | — | 21.4 |
| Disposals | -0.9 | -7.9 | -6.9 | -0.4 | — | -0.3 | -16.4 |
| Reclassification between items | — | 2.3 | 28.2 | — | -1.1 | -30.4 | -1.0 |
| **Acquisition cost December 31, 2011** | **17.2** | **103.2** | **171.3** | **7.3** | **0.3** | **2.6** | **301.9** |
| **Accumulated depreciation and impairment January 1, 2011** | | **-35.4** | **-52.4** | **-6.3** | | | **-94.1** |
| Translation difference | | 0.9 | 2.0 | — | | | 2.9 |
| Depreciation for the period | | -5.2 | -22.7 | -0.3 | | | -28.2 |
| Disposals | | 6.5 | 5.5 | 0.5 | | | 12.5 |
| **Accumulated depreciation and impairment December 31, 2011** | | **-33.2** | **-67.6** | **-6.1** | | | **-106.9** |
| **Carrying value December 31, 2011** | **17.2** | **70.0** | **103.7** | **1.2** | **0.3** | **2.6** | **195.0** |

## 11. INVENTORIES

| | As at December 31, 2012 | As at December 31, 2011 |
|---|---|---|
| Materials and supplies | 23.4 | 24.7 |
| Work-in-progress | 10.5 | 9.6 |
| Finished goods | 67.8 | 71.7 |
| Other inventories | 0.4 | 0.3 |
| | 102.1 | 106.3 |

## 12. OTHER CURRENT RECEIVABLES

| | As at December 31, 2012 | As at December 31, 2011 |
|---|---|---|
| Trade receivables | 88.7 | 100.5 |
| Other receivables | 13.4 | 19.6 |
| Income tax receivables | 6.4 | 5.8 |
| Supplier bonuses and supplier related receivables | 1.8 | 2.7 |
| Personnel receivables | 1.1 | 1.2 |
| Rental receivables | 0.8 | 0.7 |
| Other tax receivables | 0.7 | 1.0 |
| Insurance receivables | 0.5 | 0.5 |
| Other financial receivables | 0.5 | 0.1 |
| Interest receivables | 0.1 | 0.1 |
| Other prepaid expenses and accrued income | 2.5 | 2.8 |
| | 116.5 | 135.0 |

The aging structure of the trade receivable after recognition of the bad debt provision is presented in the table below.

### Ageing analysis of trade receivables

| | As at December 31, 2012 | As at December 31, 2011 |
|---|---|---|
| Not overdue | 77.0 | 91.9 |
| Overdue 1-30 days | 8.8 | 6.8 |
| Overdue 31-60 days | 1.5 | 0.3 |
| Overdue 61-90 days | — | 0.1 |
| Overdue > 90 days | 1.4 | 1.4 |
| | 88.7 | 100.5 |

### Trade and other receivables per currency

| | As at December 31, 2012 | As at December 31, 2011 |
|---|---|---|
| EUR | 50.2 | 62.9 |
| GBP | 10.1 | 11.4 |
| SEK | 13.0 | 10.7 |
| NOK | 5.9 | 6.8 |
| PLN | 6.9 | 11.8 |
| UAH | 4.8 | 4.2 |
| Other | 11.2 | 12.3 |
| | 102.1 | 120.1 |

## 13. CASH AND CASH EQUIVALENTS

| | As at December 31, 2012 | As at December 31, 2011 |
|---|---|---|
| Cash at bank | 209.9 | 90.8 |
| Short term deposits | 5.8 | 70.5 |
| | 215.7 | 161.3 |

Money market investments included in cash and cash equivalents are certificates of deposits and commercial papers with a maturity less than three months issued by banks and companies.

## 14. EQUITY AND RETAINED EARNINGS

### Equity movements in 2012

The Group has continued to review and where necessary adjust the capital structure of certain Group companies in 2012.

Change in fair value reserve related to the fair value of derivatives for hedging purposes. The change in the fair value reserve amounted to €0.3 million in year 2012. During financial year 2011 there was no hedge accounting applied in the group.

Translation difference of retained earnings is recognized in other comprehensive income. The amount as at December 31, 2012 is €-0.3 million (€-4.8 million). Translation differences caused by translation of foreign companies' financial statements are included in translation differences. Also exchange rate changes of the intercompany loan agreements that form part of a net investment are recognized in translation differences under equity.

The net income for the accounting period is booked directly in retained earnings. Retained earnings as at December 31, 2011 has been adjusted with €-0.9 million pension provisions in Ukraine, as a retroactive correction.

### Equity movements in 2011

On 21st June 2011 the Group acquired the remaining 49 percent of participation interest in Slavuta Holding LLC, a parent company of a Ukrainian ceramic product manufacturer PJSC Slavuta Plant "Budfarfor" and Slavuta Trading LLC. The purchase increased the Group's ownership in Slavuta Holding LLC from 51 percent to 100 percent. The value of non-controlling interests in Slavuta Holding LLC before acquisition totaled to €0.6 million. In accordance with IFRS 3 requirements, the part of the acquisition cost, which exceeds the value of the non-controlling interests in the balance sheet at the time of transaction, was recognized directly as deduction of equity. Therefore, at the time of acquisition, retained earnings was deducted by €12.6 million.

## 15. LOANS AND INTEREST BEARING LIABILITIES

### Non-Current interest bearing liabilities

| | As at December 31, 2012 | As at December 31, 2011 |
|---|---|---|
| Loans from financial institutions | 0.1 | 0.1 |
| Related party loans | 148.5 | 168.0 |
| | 148.6 | 168.1 |

### Current interest bearing liabilities

| | As at December 31, 2012 | As at December 31, 2011 |
|---|---|---|
| Loans from financial institutions | 24.3 | 25.8 |
| Other interest bearing liabilities | — | 0.1 |
| | 24.3 | 25.9 |

The fair value of financial debt equals to their carrying amount as impact of discounting is not significant.

## Related party loans

On December 31, 2012 Sanitec Group has loans from the parent company Sofia IV S.à r.l. €148.5 million (€168.0 million). Even though the related party loans themselves do not contain covenants, the related party loans are tied contractually to the senior credit facility loan terms, which loan is held by the holding company Sofia III S.à r.l., which is the parent company of Sofia IV S.à r.l. The senior loans contain certain operative restrictions, mandatory prepayment requirements, and financial covenants. The financial covenants include maximum leverage, minimum interest fixed charge coverage ratios, liquidity and restrictions on capital expenditure. These covenants and certain other contractual terms limit the actions of the Group as well. Sofia III S.à r.l. is compliant with covenant requirements as at December 31, 2012.The senior credit facility loans include a term-loan with outstanding nominal amount of €289.9 million (€300.0) as at December 31, 2012. In addition, the holding company Sofia III S.à r.l. has under the senior credit facility agreement a committed € 50.0 million revolving credit facility with maturity date at year 2015. The facility was unutilized as at December 31, 2012. The Group has also ability to utilize this revolving credit facility.

Almost all other loans were related to PJSC Slavuta Plant "Budfarfor", an Ukrainian ceramics manufacturer. As at December 31, 2012 allegedly some financial covenants of the loans worth €23.9 million were not met. The bank did not take any measures as a result of such alleged breaches. After the balance sheet date, a waiver for the potential covenant breaches has been received and certain amendments to the loan agreement have been subsequently agreed. At December 31, 2012 the loan is reported as current liabilities. In addition to the main loans PJSC Slavuta Plant "Budfarfor" has an overdraft facility of €0.5 million of which €0.2 million was drawn as at December 31, 2012. The maturity date for the overdraft is at April 13, 2013.

Interest bearing liabilities by currency

| | As at December 31, 2012 | As at December 31, 2011 |
|---|---|---|
| EUR | 170.8 | 190.4 |
| USD | 1.9 | 3.6 |
| UAH | 0.2 | — |
| | 172.9 | 194.0 |

Average interest rates for borrowings is 4.11%(5.02%) at December 31, 2012.

## Maturity of the liabilities as at December 31, 2012

| | Due less than one year | Due between 1-3 years | Due between 3-5 years | Due beyond 5 years |
|---|---|---|---|---|
| Loans from financial institutions | 24.3 | — | — | — |
| Related party loans | — | — | 148.5 | — |
| Other interest bearing liabilities | — | 0.1 | — | — |
| Derivatives | — | — | — | — |
| Trade payables | 64.8 | — | — | — |
| Other liabilities | 8.2 | — | — | — |
| | 97.3 | 0.1 | 148.5 | — |

## Maturity of the liabilities as at December 31, 2011

| | Due less than one year | Due between 1-3 years | Due between 3-5 years | Due beyond 5 years |
|---|---|---|---|---|
| Loans from financial institutions | 25.8 | — | — | — |
| Related party loans | — | — | 168.0 | — |
| Other interest bearing liabilities | 0.1 | 0.1 | — | — |
| Derivatives | — | — | — | — |
| Trade payables | 67.0 | — | — | — |
| Other liabilities | 11.0 | — | — | — |
| | 103.9 | 0.1 | 168.0 | — |

## 16. FINANCIAL RISK MANAGEMENT

Sanitec financial risk management is conducted according to the Treasury Policy, which is approved by the Board of Directors. The objective of treasury is to secure sufficient funding for operational needs, to provide financial services to Group companies, to minimize the costs of financing, to manage financial risks (currency, interest rate, liquidity and funding, credit and operational treasury risks) and to provide to the management relevant information on the financial position and risk exposures of Sanitec. The Group companies are responsible for hedging their financial risks according to the Treasury Policy and instructions from Group Treasury.

### Liquidity risk

Management aims to maintain an optimal amount of liquidity to fund the business operations of the Group at all times while minimizing interest costs. Liquidity is considered to be the sum of cash and cash equivalents and available committed credit facilities. As of the end of the year 2012, cash and cash equivalents amounted to €215.7 million (€161.3 million) and the aggregate of unutilized overdraft facility was €0.3 million (€0.5 million). In addition, Sanitec group has access to a committed € 50 million revolving credit facility, which was unutilized both at December 31, 2012 and December 31, 2011. Further information on credit facilities is given in note 15 Loans and interest bearing liabilities.

### Credit risk

Group Treasury evaluates and monitors financial counterparty risk. The Group minimizes this risk by limiting its counterparties to a limited number of major banks and financial institutions, by monitoring their performance, and by working within agreed counterparty limits.

Non-financial counterparty risk, i.e. counterparty risk related to customers, is reduced by Group companies, by applying a credit policy, constant monitoring of receivables aging and by credit insurance. Further analysis on aging of trade receivables is presented under note 12 other current receivables.

### Currency risk

Foreign exchange risk is regarded as uncertainty of cash flows and earnings that arises from fluctuations in currency rates. The Group looks at the foreign exchange risks from three angles: transaction risk related to cash flows in other than functional currencies, translation risk related foreign exchange risk associated with consolidation of the Group, and the economic risk related to changes in competitive environment as a result of changes in foreign exchange rates.

Transaction exposure comprises of those foreign exchange exposures that are identified, and that would be affected by future exchange rate movements and have an effect to profit or loss statement. Transaction exposure is defined as all anticipated other than functional currency cash flows during the next 12 months. The Group hedges itself against these risks by matching the foreign currency cash flows to the extent possible and hedging the remaining part with currency derivatives in accordance with Treasury Policy.

Transaction exposure is spread in about 10 currencies and at the reporting date the biggest open exposures were SEK, NOK, UAH, RUB and DKK.

The foreign exchange risk sensitivity analysis according to IFRS 7 for the most important currency pairs has been calculated for the Group's foreign currency nominated financial assets and liabilities, including foreign exchange forward contracts outstanding at the reporting date. The foreign exchange risk sensitivity analysis represents the impact of a change in the foreign exchange rates of 10 percent to the statement of income and to the equity on the balance sheet date. Changes in the fair value reserve are caused by change in value of foreign exchange forwards designated as cash flow hedges. The effects of 10% appreciation in the most significant currency pairs on profit or loss statement and equity are presented in the tables below. The sensitivity analysis is based on the assumption that two months of the 12 months forecasted foreign exchange exposure is recognized in balance sheet.

### As at December 31, 2012

| 10 % strengthening of | against | Profit or loss | Equity |
|---|---|---|---|
| EUR | UAH | -3.3 | — |
| DKK | SEK | 0.3 | -1.1 |
| EUR | NOK | 1.0 | -0.8 |
| EUR | RUB | -0.5 | — |
| RUB | UAH | 0.2 | — |
| EUR | SEK | -1.0 | — |

### As at December 31, 2011

| 10 % strengthening of | against | Profit or loss | Equity |
|---|---|---|---|
| EUR | UAH | -2.3 | — |
| DKK | SEK | 0.7 | — |
| EUR | NOK | 1.1 | — |
| EUR | PLN | 3.1 | — |
| RUB | UAH | 0.2 | — |
| EUR | SEK | 2.4 | — |

Foreign exchange translation exposure arises when the equity of a subsidiary is denominated in currency other than the functional currency of the parent company. The group is not applying hedge accounting to equity exposures.

Economic exposure related to foreign exchange rates means the risk of deteriorating competitive situation due to exchange rate movements, or in other words the economic effect of the currency of costs and revenues affecting both Sanitec and its competitors. The Group is currently not hedging itself for these risks with currency derivatives.

### Interest rate risk

Interest rate risks arise due to interest rate fluctuations, which may increase the borrowing costs of the Group. Sanitec may enter into derivative contracts to reduce these risks. Until the end of 2011 the related party loans had fixed interest rates. As of the end of the year, the Group held no interest rate derivative contracts.

At the reporting date, the interest rate profile of the Group's interest-bearing assets and liabilities is presented in the table below:

**As at December 31, 2012**

| | Fixed rate | Floating rate |
|---|---|---|
| Receivables | — | 4.1 |
| Short term deposits | — | 5.8 |
| Cash & bank | — | 209.9 |
| Current interest bearing liability | — | -24.3 |
| Non-current interest bearing liability | — | -148.6 |
| Net assets/(liabilities) | — | 46.9 |

**As at December 31, 2011**

| | Fixed rate | Floating rate |
|---|---|---|
| Receivables | — | 4.5 |
| Short term deposits | — | 70.5 |
| Cash & bank | — | 90.8 |
| Current interest bearing liability | — | -25.8 |
| Non-current interest bearing liability | -168.2 | — |
| Net assets/(liabilities) | -168.2 | 140.0 |

The basis for the Group level interest rate risk sensitivity analysis is an aggregate Group level interest rate exposure, composed of interest bearing assets and interest bearing liability which are used to hedge the underlying positions. For all interest bearing debt and assets to be fixed during next 12 months a one percentage point (100 basis points) move upwards or downwards in interest rates with all other variables held constant would have the effects before taxes presented in the table below:

| | 2012 | 2011 |
|---|---|---|
| Income statement effect | -/+0.5 | -/+1.4 |

## Commodity risk

Sanitec may use derivatives to hedge its exposure to commodity price fluctuations where appropriate. As of the end of the year, the Group held no commodity derivative contracts.

## Capital management

The Group objectives, when managing capital, are to safeguard the ability to continue as a going concern, safeguard the capacity to fund its operations and take care of its obligations under different business conditions, have an optimal capital structure to reduce the cost of capital, and to maintain possibilities to act on potential investment opportunities.

## 17. DERIVATIVE CONTRACTS

### Foreign currency forward contracts

**As at December 31, 2012**

| | Nominal value | Fair value | | |
|---|---|---|---|---|
| | | Positive | Negative | Net |
| Cash flow hedges | 50.7 | 0.4 | -0.1 | 0.3 |
| Fair value hedges | 8.6 | 0.0 | 0.0 | 0.0 |
| **Total maturity under 1 year** | **59.3** | **0.4** | **-0.1** | **0.3** |

At December 31, 2011 the Group did not have any financial derivatives.

As at December 31, 2012 €0.3 million was recorded from cash flow hedges to fair value reserve in equity. From currency hedges €-0.1 million was recorded with impact to operating profit during the financial year 2012.

At December 31, 2012 Sanitec had forward foreign exchange contracts that are used to hedge foreign exchange transaction exposure. The total nominal value of these contracts was € 59.3 million. At the end of the year 2012 € 0.3 million was recorded from cash flow hedges to fair value reserve in equity. The group has applied hedge accounting in financial year 2012, but not during financial year 2011.

## 18. CLASSIFICATION OF FINANCIAL INSTRUMENTS AND DERIVATIVES AND THEIR CARRYING AMOUNTS AND FAIR VALUES

### Assets

### As at December 31, 2012

| | Financial assets and liabilities at fair value through profit or loss | Loans and receivables | Financial liabilities measured at amortized cost | Derivatives used for hedging | Carrying amount by balance sheet item | Fair value |
|---|---|---|---|---|---|---|
| Non-current receivables | — | 0.1 | — | — | 0.1 | 0.1 |
| Trade receivables | — | 88.7 | — | — | 88.7 | 88.7 |
| Loans receivables | — | 4.0 | — | — | 4.0 | 4.0 |
| Other receivables | — | 13.4 | — | — | 13.4 | 13.4 |
| Derivative assets | — | — | — | 0.4 | 0.4 | 0.4 |
| | — | 106.2 | — | 0.4 | 106.6 | 106.6 |

### Liabilities

### As at December 31, 2012

| | Financial assets and liabilities at fair value through profit or loss | Loans and receivables | Financial liabilities measured at amortized cost | Derivatives used for hedging | Carrying amount by balance sheet item | Fair value |
|---|---|---|---|---|---|---|
| Non-current interest-bearing liabilities | — | — | 148.6 | — | 148.6 | 148.6 |
| Trade Payables | — | 64.8 | — | — | 64.8 | 64.8 |
| Derivative liabilities | — | — | — | 0.1 | 0.1 | 0.1 |
| Current interest-bearing liabilities | — | — | 24.3 | — | 24.3 | 24.3 |
| Other liabilities | — | 8.3 | — | — | 8.3 | 8.3 |
| | — | 73.1 | 172.9 | 0.1 | 246.0 | 246.0 |

### Assets

### As at December 31, 2011

| | Financial assets and liabilities at fair value through profit or loss | Loans and receivables | Financial liabilities measured at amortized cost | Derivatives used for hedging | Carrying amount by balance sheet item | Fair value |
|---|---|---|---|---|---|---|
| Non-current receivables | — | 0.7 | — | — | 0.7 | 0.7 |
| Trade receivables | — | 100.5 | — | — | 100.5 | 100.5 |
| Loan receivables | — | 3.9 | — | — | 3.9 | 3.9 |
| Other receivables | — | 19.6 | — | — | 19.6 | 19.6 |
| Derivative assets | — | — | — | — | — | — |
| | — | 124.7 | — | — | 124.7 | 124.7 |

### Liabilities

### As at December 31, 2011

| | Financial assets and liabilities at fair value through profit or loss | Loans and receivables | Financial liabilities measured at amortized cost | Derivatives used for hedging | Carrying amount by balance sheet item | Fair value |
|---|---|---|---|---|---|---|
| Non-current interest-bearing liabilities | — | — | 168.1 | — | 168.1 | 168.1 |
| Trade Payables | — | 67.0 | — | — | 67.0 | 67.0 |
| Derivative liabilities | — | — | — | — | — | — |
| Current interest-bearing liabilities | — | 11.0 | 25.9 | — | 36.9 | 36.9 |
| | — | 78.0 | 194.0 | — | 272.0 | 272.0 |

At December 31, 2011 the Group did not have any derivatives or other instruments.

The fair value hierarchy of the financial instruments:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

Financial derivatives are valued in line with Level 2.

## 19. PROVISIONS

| | Restructuring provisions | Income tax provisions | Other provisions | Total |
|---|---|---|---|---|
| **As at December 31, 2011** | **10.6** | **17.1** | **4.6** | **32.3** |
| New provision/Addition during the period | 2.0 | | 0.6 | 2.6 |
| Reversal to opening balance | -0.2 | -1.2 | -1.2 | -2.6 |
| Usage during the period | -6.0 | -11.3 | -0.8 | -18.1 |
| **As at December 31, 2012** | **6.4** | **4.6** | **3.2** | **14.2** |
| **Current provisions as at December 31, 2012** | **4.2** | **—** | **0.2** | **4.4** |
| **Non-current provisions as at December 31, 2012** | **2.2** | **4.6** | **3.0** | **9.8** |

## 20. DEFINED BENEFIT PLANS

Sanitec has a number of defined benefit and contribution plans in accordance with local conditions and practices in the countries, in which it operates. The most significant pension plans accounted for as defined benefit plans are in the UK, Germany, Sweden, France and Italy.

Defined benefit plans

| Summary: | As at December 31, 2012 | As at December 31, 2011 |
|---|---|---|
| **Balance sheet obligations** | | |
| Pension benefits[(1)] | 28.1 | 28.2 |

(1) Pension provision as at December 31, 2011 has been adjusted with €0.9 million pension provisions in Ukraine as a retroactive correction.

### Income statement charges

| | | |
|---|---|---|
| **Pension benefits** | -0.6 | -4.0 |

| Actuarial gains/(losses) | As at December 31, 2012 | As at December 31, 2011 |
|---|---|---|
| Actuarial gains/(losses) recognized in the statement of other comprehensive income in the year | -0.9 | -3.1 |
| Cumulative actuarial gains/(losses) recognized in the statement of other comprehensive | -6.0 | -5.1 |

| | As at December 31, 2012 | As at December 31, 2011 |
|---|---|---|
| Present value of defined benefit obligation | 56.0 | 184.3 |
| Fair value of plan assets | 27.9 | 156.1 |
| Deficit in the plan | 28.1 | 28.2 |

Amounts recognized in balance sheet:

| | As at December 31, 2012 | As at December 31, 2011 |
|---|---|---|
| Present value of funded obligations | 44.7 | 170.2 |
| Fair value of plan assets | 27.9 | -156.1 |
| **Funded status** | **16.8** | **14.1** |
| Present value of unfunded obligations | 11.4 | 14.1 |
| Unrecognized past service cost | -0.1 | — |
| Net liability in the balance sheet | 28.1 | 28.2 |

| | As at December 31, 2012 | As at December 31, 2011 |
|---|---|---|
| Pension assets in the balance sheet | 1.8 | — |
| Pension provisions in the balance sheet | 29.9 | 28.2 |
| Net liability in the balance sheet | 28.1 | 28.2 |

Amounts recognized in income statement:

| | Period from January 1 - December 31, 2012 | Period from January 1 - December 31, 2011 |
|---|---|---|
| Current service cost | -0.7 | -1.7 |
| Interest cost | -2.4 | -9.5 |
| Expected return on assets | 1.4 | 9.0 |
| Past service costs | 0.0 | — |
| Curtailments | 2.0 | 1.3 |
| Total costs included in profit and loss | **0.3** | **-0.9** |
| Amounts recognized through other comprehensive income | -0.9 | -3.1 |
| of which actuarial gains / (losses) | -0.9 | 13.7 |
| of which asset ceiling in accordance with IFRIC 14[(2)] | — | -16.8 |
| Total costs from defined benefit plans | **-0.6** | **-4.0** |
| Classification of total cost into operating and non-operating expenses: | | |
| Interest cost | -2.4 | -9.5 |
| Expected return on assets | 1.4 | 9.0 |
| Total non-operating cost included in profit and loss | -1.0 | -0.5 |
| Current service cost | -0.7 | -1.7 |
| Past service cost | 0.0 | — |
| Curtailments | 2.0 | 1.3 |
| Total operating costs included in profit and loss | **1.3** | **-0.4** |

(2) In 2011 the defined pension scheme in the Netherlands was affected by the requirements of IFRIC 14. The net surplus of the plan as at December 31, 2011 totaled to €30.5 million. In 2012 the plan assets and liabilities have been transferred to an independent external insurance company.

The movement in the present value of defined benefit obligations:

| | As at December 31, 2012 | As at December 31, 2011 |
|---|---|---|
| Defined benefit obligation at the beginning of the year | 183.2 | 197.0 |
| Adjustment of obligation[(3)] | -129.7 | 0.9 |
| Current service costs | 0.7 | 1.7 |
| Interest costs | 2.4 | 9.5 |
| Past service costs | 0.0 | — |
| Actuarial (gains) / losses | 2.9 | -14.5 |
| Benefits paid | -1.7 | -10.3 |
| Effect of Acquisitions/Disposals of the liability | -0.6 | — |
| Curtailments and settlements | -2.1 | -1.2 |
| Translation differences | 0.9 | 1.2 |
| Defined benefit obligation at the end of the year | **56.0** | **184.3** |

(3) As at December 31, 2012 Adjustment of obligations relates to the transfer of the defined benefit obligation in B.V. Sphinx. All the assets and liabilities of the pension fund have been transferred to an independent external insurance company. As at December 31, 2011 the adjustment relates to retroactive correction to Ukrainian pension provisions.

The movement in the present value of plan assets:

| | As at December 31, 2012 | As at December 31, 2011 |
|---|---|---|
| Fair value of plan assets at the beginning of the year | 156.1 | 170.9 |
| Adjustment of the assets[(4)] | -132.0 | — |
| Expected return on plan assets | 1.4 | 9.0 |
| Actuarial gains / (losses) | 2.0 | -17.7 |
| Employee contribution | 0.1 | — |
| Contribution from employer | 1.5 | 1.9 |
| Benefits paid | -1.7 | -10.3 |
| Curtailments and settlements | — | — |
| Translation differences | 0.5 | 2.3 |
| Fair value of plan assets at the end of the year | **27.9** | **156.1** |

(4) As at December 31. 2012 Adjustment of assets and relates to the transfer of the defined benefit obligation in B.V. Sphinx. All the assets and liabilities of the pension fund have been transferred to an independent external insurance company.

The major categories of plan assets as weighted percentage of total plan assets:

| | As at December 31, 2012 | As at December 31, 2011 |
|---|---|---|
| Equity instruments (%) | 59 | 9 |
| Debt instruments (%) | 34 | 55 |
| Property (%) | 1 | 0 |
| Money market instruments (%) | 1 | 0 |
| Other assets (%) | 5 | 36 |
| Total (%) | 100 | 100 |

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the end of the reporting period. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

Expected contributions to the defined benefit pension plans in 2013 are estimated to materially be at the same level with year 2012.

The principal actuarial assumptions used as at:

**As at December 31, 2012**

| | GBR | GER | NOR | NL | FRA | ITA | SWE | FIN |
|---|---|---|---|---|---|---|---|---|
| Discount rate (%) | 4.5 | 3.7 | 3.9 | 2.1 | 3.5 | 2.7 | 3.8 | 3.0 |
| Inflation (%) | 3.0 | 2.0 | 1.8 | 2.0 | 4.0 | 2.0 | 2.0 | 2.0 |
| Expected return on plan assets (%) | 5.8 | 3.5 | 3.9 | 0.0 | 3.5 | 0.0 | 0.0 | 3.0 |
| Future salary increase (%) | 4.1 | 0.0 | 3.5 | 2.5 | 2.0 | 2.0 | 3.0 | 3.0 |
| Future pension increase (%) | 2.4 | 1.4 | 0.2 | 2.0 | 2.0 | 1.0 | 2.0 | 0.5 |

**As at December 31, 2011**

| | GBR | GER | NOR | NL | FRA | ITA | SWE | FIN |
|---|---|---|---|---|---|---|---|---|
| Discount rate (%) | 4.7 | 4.5 | 3.8 | 5.7 | 4.0 | 4.8 | 3.8 | 4.6 |
| Inflation (%) | 3.1 | 1.8 | 3.3 | 2.0 | 2.0 | 3.0 | 2.0 | 2.0 |
| Expected return on plan assets (%) | 6.1 | 3.9 | 4.1 | 5.0 | 3.2 | 0.0 | 0.0 | 4.6 |
| Future salary increase (%) | 4.4 | 0.0 | 3.5 | 2.5 | 2.0 | 0.0 | 0.0 | 3.0 |
| Future pension increase (%) | 2.4 | 1.8 | 0.1 | 2.0 | 5.1 | 1.0 | 0.0 | 1.0 |

## 21. OTHER CURRENT LIABILITIES

| | As at December 31, 2012 | As at December 31, 2011 |
|---|---|---|
| Trade payables | 64.8 | 67.0 |
| Customer bonus accruals | 55.3 | 52.4 |
| Personnel costs accruals | 30.0 | 31.1 |
| Warranty costs accruals | 6.5 | 9.3 |
| Income tax payable | 4.4 | 4.4 |
| Other tax payable | 1.1 | 2.3 |
| Financial accruals | 0.4 | 0.5 |
| Advances received | 0.1 | 0.3 |
| Other accruals | 17.8 | 21.2 |
| Other liabilities | 8.3 | 11.1 |
| | 188.7 | 199.6 |

## 22. COMMITMENTS AND CONTINGENT LIABILITIES

The Group had the following commitments and contingent liabilities:

First ranking guarantees and security pledge over the assets of Sanitec Corporation and its certain subsidiaries have been granted in favor of the lenders of Sofia III S.à r.l. As of December 31, 2012 the majority of the Group's fixed assets, receivables, inventory and bank accounts are pledged. The nominal value of all collateral granted by these Group subsidiaries exceeds the combined book value of the loans for which they have been given.

In Ukraine assets and shares of PJSC Slavuta Plant "Budfarfor" are pledged against local credit facilities. At December 31, 2012 the value of pledges given by PJSC Slavuta Plant "Budfarfor" amount to €27.6 million (€23.3 million) and the mortgages amount to €11.3 million (€11.6 million). In addition, Slavuta Holdings LLC has guaranteed the local credit facility and pledged the shares of PJSC Slavuta Plant "Budfarfor". PJSC Slavuta Plant "Budfarfor" has pledged part of the fixed and current assets of the company as second ranking security in favor Finnfund Ltd., for fulfillment of the company's obligations under the € 9.6 million investment facility.

Further information on credit facilities is given in note 15 Loans and interest bearing liabilities.

Sanitec corporation and certain of the Group subsidiaries have granted guarantees as collateral for certain pension liabilities. Those guarantees totaled €7.3 million (€6.8 million) as of December 31, 2012. In addition the Group has €6.8 million (€5.2 million) guarantees for other commitments. Such commitments include but are not limited to Group companies´ rental and customs duties.

The Group had off balance sheet actuarial pension liabilities €0.2 million in subsidiaries located in Finland at December 31, 2011. These off balance sheet liabilities did not exist anymore in December 31, 2012.

## 23. OPERATING LEASES

### Operating lease commitments

| | As at December 31, 2012 | As at December 31, 2011 |
|---|---|---|
| Within one year | 6.4 | 7.1 |
| Between one and five years | 15.3 | 17.7 |
| After five years | 1.5 | 0.8 |
| | 23.2 | 25.6 |

## 24. RELATED PARTY TRANSACTIONS

Related parties are EQT controlled corporations, Sanitec management and other parties in which there is a relationship with Sanitec Group Company.

On December 31, 2012 the Group have loans and interest payable to the parent company Sofia IV S.à r.l. €148.5 million (€168.0 million).

On December 31, 2012, the Group has a liability of €0.4 million (€0.4 million) to Caesar Holding Limited, former ultimate parent company owned by EQT fund IV, relating to transaction costs payable on acquisition of shares.

Remuneration to key management:

| | Period from January 1 - December 31, 2012 | Period from January 1 - December 31, 2011 |
|---|---|---|
| Board members and members of top management team ....... | -2.9 | -3.4 |
| | -2.9 | -3.4 |

In addition to salary, the top management team employees are generally entitled to, with some exceptions, annual bonus of maximum 50-60% of their annual salary in accordance with the Sanitec bonus scheme, annual pensions premiums equal to 15-27.5% of their annual salary, sickness benefits equal to 75-100% of their monthly salary for the first 3-6 months of possible sickness period and a company car.

In case the employment agreements are terminated by the employers, all top management employees with some exception are entitled to at least 12 months' severance pay. Majority of management are bound by non-compete and non-solicit (with respect to customers and other employees) obligations during 12 months after the cessation of their respective employments. The non-compete provisions do not contain any express provision on compensation during the non-compete period.

There are no loans given to or pledges or other commitments given on behalf of the board of directors or Group management as at December 31, 2012.

The Group CEO and other members of the Group management team have a right to retire according to the local legislations.

## 25. LEGAL AND REGULATORY PROCEEDINGS

The European Commission announced its decision to impose a fine for the alleged participation in a price fixing cartel and anticompetitive practices by 17 European bathroom fittings and fixtures manufacturers in 2010. The Group was fined €57.7 million in aggregate, which was paid in full in 2010. The Group has appealed the decision and level of fines imposed. The appeal process is currently pending and under consideration by the court of appeal.

A group of former employees of a French member of the Group are disputing their termination compensation and claiming €7.1 million in additional compensation for past redundancies. The matter is ongoing at the labor court.

Eurocer Industria de Sanitarios S.A. and certain directors of the company are charged for an investigation process by the Portuguese tax and customs authorities resulting from alleged omissions in respect of social security and tax contributions by a service provider company contracted by Eurocer S.A. during 2007-2011. Investigation is so far secret, and no official charges exist.

The Group is subject to local tax audits and re-assessment and related proceedings from time to time. The German tax audit for financial years 2001-2006 completed in December 2012 resulted additional net tax of €7.0 million payable by the Group for which the group had set up a provision. In Italy, the Group is in process of appealing against various material reassessments issued by the local tax authorities for financial years 2004-2007. In Ukraine, decisions and assessments of local tax authorities are contested and appealed by the Group continuously.

In addition, the Group is involved in numerous legal actions, claims and other legal and administrative proceedings that arise out of, or are incidental to, the ordinary course of its business. It is the Group's policy to provide for amounts related to the proceedings if liability is ascertainable with reasonable certainty.

## 26. SHARES IN SUBSIDIARIES

### The Group companies as at December 31, 2012

| | Country | Ownership-% |
|---|---|---|
| Lincoln Land Fünfte B.V.[1] | The Netherlands | 100.0 |
| Sanitec Europe Oy | Finland | 100.0 |
| Sanitec Russia Oy | Finland | 100.0 |
| Sanitec LLC | Russia | 100.0 |
| Leda Holdings S.A.S. | France | 100.0 |
| Ido Bathroom Ltd. | Finland | 100.0 |
| Sanitec Holdings Norway A/S[1] | Norway | 100.0 |
| Porsgrund Bad A/S | Norway | 100.0 |
| Ifö Sanitär AB | Sweden | 100.0 |
| Ifö Sanitär Eesti AS | Estonia | 100.0 |
| Contura Steel AB | Sweden | 100.0 |
| Allia International S.A. | France | 100.0 |
| Allia Holding GmbH.[1] | Germany | 100.0 |
| Sanitec Beteiligungs- und Servicegesellschaft mbH | Germany | 100.0 |
| Varicor S.A.S. | France | 100.0 |
| Varicor GmbH | Germany | 100.0 |
| Allia S.A.S. | France | 100.0 |
| Produits Ceramiques de Touraine S.A. | France | 100.0 |
| Alliages Ceramiques S.A.S. | France | 100.0 |
| B.V. "De Sphinx" (former Koninklijke Sphinx B.V.) | The Netherlands | 100.0 |
| Baduscho Dusch- und Badeeinrichtungen Produktions- und Vertriebsgesellschaft m.b.H. | Austria | 100.0 |
| Bekon Koralle AG | Switzerland | 100.0 |
| Koralle International GmbH | Germany | 94.8 |
| Koralle Sanitärprodukte GmbH | Germany | 100.0 |
| Servico Gesellschaft fur Sanitärtechnik GmbH | Germany | 100.0 |
| Ceravid GmbH | Germany | 100.0 |
| Keramag Keramische Werke AG | Germany | 100.0 |
| Sanitec S.R.O. | Czech Republic | 100.0 |
| Eurocer Industria de Sanitarios S.A. | Portugal | 100.0 |
| Sanitec Kolo Sp. z o.o. (former Sanitec Holding Poland Sp. z.o.o.)[1] | Poland | 100.0 |
| Scan Aqua Sp. z o.o. | Poland | 100.0 |
| Sanitec Ukraine Ltd. | Ukraine | 100.0 |
| Slavuta Holdings LLC | Ukraine | 100.0 |
| PJSC Slavuta Plant "Budfarfor" (former CJSC Slavutskiy Plant Budfarfor) | Ukraine | 99.2 |
| Slavuta Trading LLC | Ukraine | 100.0 |
| Sanitec Holding Italy S.p.A.[1] | Italy | 100.0 |
| Pozzi Ginori S.p.A. | Italy | 100.0 |
| Royal Sanitec AB | Sweden | 100.0 |
| Sanitec UK Ltd. | Great Britain | 100.0 |
| Twyford Pension Trustees Ltd | Great Britain | 100.0 |
| Twyford Holdings Ltd | Great Britain | 100.0 |
| Twyford Bathrooms | Great Britain | 100.0 |
| Twyford Ltd. | Great Britain | 100.0 |
| Twyfords Ltd. | Great Britain | 100.0 |
| Sanitec Trading (Zhongshan) Co. Ltd.[1] | China | 100.0 |
| Sanitec Holding Sweden AB | Sweden | 100.0 |
| Sanitec Trading LLC[1] | Russia | 100.0 |

(1) Parent company shareholding.

## 27. EVENTS AFTER BALANCE SHEET DATE

The Group continues to simplify the legal Group structure and align the commercial Group structure in the ordinary course of business.

At April 2013 PJSC Slavuta Plant "Budfarfor", a subsidiary of the Group received a waiver from the lenders which waived potential covenant breaches as at December 31, 2012 and certain amendments to the loan agreement were agreed.

It has been decided that at the end of April 2013, the Group will settle a loan prepayment to Sofia IV S.a r.l. amounting to €53.7 million.

# Confirmation of the Board of the Directors

The Board of Directors of Sanitec Corporation confirms and certifies that the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the consolidated Group of companies for the period presented in this report.

The profit for the financial period from January 1 to December 31, 2012 was €71.7 million. The total consolidated shareholders' equity was €243.8 million on December 31, 2012.

April 23, 2013

Fredrik Cappelen

Ulf Mattsson

Caspar Callerström

Adrian Barden

Pekka Lettijeff

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## Independent Auditors' Report

## To the Board of Directors of Sanitec Oy

We have audited the accompanying consolidated financial statements of Sanitec Oy and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as at December 31, 2011 and December 31, 2010, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*
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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 our judgment, 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, we consider 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 management, 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 financial position of the Group as at December 31, 2011 and 2010, and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Helsinki, June 29, 2012

KPMG OY AB

Virpi Halonen
*Authorized Public Accountant*

KPMG Oy Ab, a Finnish limited liability company and a member firm
of the KPMG network of independent member firms affiliated with
KPMG International Cooperative ("KPMG International"), a Swiss entity.

Business ID 1805485-9
Domicile Helsinki

# SANITEC OY

## Consolidated financial statements

(In accordance with IFRS)

From January 1, 2011 to December 31, 2011

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# Review of the Board of the Directors

## GROUP STRUCTURE

The parent company of the Group, Sanitec Oy ('Sanitec Corporation' in the following), originally registered in Finland on March 25, 2005, and certain other holding companies were established by the private equity fund EQT IV in order to acquire the shares in Sanitec Europe Corporation. In the transaction closed on April 11, 2005, the ownership of Sanitec Europe Corporation and all the subsidiaries of Sanitec Group were transferred from Sanitec International S.A., the previous parent company of the Group, to the holding companies controlled by Sanitec Corporation. Through this transaction all the operations of Sanitec Group were sold to EQT IV.

The parent company of Sanitec Corporation is Sofia IV S.à r.l., a company registered in Luxembourg. Sofia III S.à r.l. fully owns Sofia IV S.à r.l. The parent company of Sofia III S.à r.l. is Sofia II S.à r.l., a company registered in Luxembourg. The ultimate parent company of the Group is Sofia I S.à r.l., a company registered in Luxembourg, and indirectly owned by the private equity fund EQT IV and management (77.5%) and a lender consortium (22.5 %).

Sofia I S.à r.l. is owned by Sofia Limited Partners which is registered in the Great Britain. Sofia Limited Partners, in turn, is owned by two companies registered in Guernsey and the senior creditors and second lien lenders of the previous financing structure of the Sanitec Group. The Guernsey companies are owned by EQT IV fund.

In July 8th, 2009 Sofia IV S.à r.l. acquired the shares of Sanitec Corporation. In connection with the acquisition, Sofia IV S.à r.l. bought the senior loans, the second lien loans, the shareholder loans and the interest rate swap liabilities from the lenders of Sanitec Group and from the holding companies controlled by EQT IV fund and Sofia III S.à r.l. issued new senior loans with face value of €300 million to the lenders. Also the parent company of Sofia III S.à r.l. injected €115.0 million of share capital and convertible preferred equity certificates to the Sofia III Group.

On 21st June 2011 Sanitec Group has come to an agreement to acquire the remaining 49 percent of shares of Slavuta Holding LLC. The purchase increases Sanitec's ownership of Slavuta Holding from 51 percent to 100 percent of the shares.

During the financial year 2011 Sanitec Service GmbH was merged to Allia Holding GmbH, Sphinx Bathrooms Belgium merged to B.V. "De Sphinx" Maastricht, Sanitec Italia Spa merged to Sanitec Holding Italy Spa, Ifö Sanitär A/S was merged to Porsgrund Bad A/S and Badrum AB was merged to Ifö Sanitär AB. Porsgrund Oy was liquidated to IDO Bathroom Ltd and Keramag Vertriebsgesellschaft, Austria, Keramag Nederland N.V. and Keramag Belgium N.V. were liquidated to Keramag Keramische Werke AG. Sanitec Kolo Sp.Z.o.o. was merged to Sanitec Holding Poland Sp.Z.o.o., which changed the name to Sanitec Kolo Sp.Z.o.o.

## FINANCIAL PERFORMANCE

Net sales of the Group were €770.8 million during the financial year 2011 (€777.3 million during the financial year 2010). Net sales of Central Europe and Benelux amounted to €219.2 million (€200.1 million), North Europe €180.0 million (€191.7 million) and South Europe €163.4 million (€172.0 million). Sales for other regions including export sales amounted to €208.2 million (€213.5 million). Other operating income related mainly to transports costs charged from customers.

Operating expenses totaled €-713.2 million (€-839.0 million) and other operating income €9.4 million (€12.9 million). Operating expenses include personnel expenses of €-222.3 million (€-255.3 million), depreciation, amortization and write downs of €-29.7 million (€-33.9 million), other operating expenses of €-112.3 million (€-184.8 million) as well as material expenses, change in stock and semi-finished goods and production for own use amounting to €-349.9 million (€-366.7 million) and production for own use amounting to €1.0 million (€1.7 million). In comparing other operating expenses with prior year it should be noted that prior year figures includes €57.7 million fine imposed by European Commission as well as a significant amount of restructuring expenses.

Operating profit before depreciation and amortization, i.e. EBITDA, was €96.8 million (€-14.9 million), 12.6% (-1.9%) of net sales. Operating profit in the financial period amounted to €67.1 million (€-48.8 million), 8.7% (-6.3%) of net sales. Operating profit before and after depreciation and amortization has been negatively affected by non-recurring items of €-8.9 million (€-92.0 million).

Financial income and expenses totaled €-15.9 million (€-1.3 million) for the period. Interests paid in cash (net) were €-14.5 million (€-18.4 million) during the financial period. Currency effects amounting to €-6.1 million (€1.5 million) is affecting financial income and expenses during financial period. Other financial income in 2010 includes €11.2 million gain from debt relief.

Income taxes of the financial period were €-3.5 million (€-0.7 million), including change in deferred taxes of €11.0 million (€4.0 million). Income taxes paid in cash were €-6.6 million (€-6.5 million).

Net profit of the period was €47.7 million (€ -50.8 million).

Comprehensive income of the financial period totaled to €42.9 million (€-45.9 million).

## FINANCIAL POSITION

As described above, Sanitec Group was acquired by Sofia IV S.à r.l. on July 8, 2009. In connection with the acquisition, the loans of Sanitec Group and its holding companies were fully reorganized.

Sofia III S.à r.l., the parent company of Sofia IV S.à r.l., was financed through an external loan from a financial institution with a face value of €300.0 million as well as with a convertible preferred equity certificates amounting to €115.0 million provided by Sofia II S.à r.l., the parent company of Sofia III S.à r.l. These loans were lent forward by Sofia III S.à r.l. to Sofia IV S.à r.l. and partially further to Sanitec Group as related party loans.

During 2010 the capitalization of the Group was further changed between the immediate parent company Sofia IV S.à r.l. and Sanitec Group and the amount of shareholder loans was reduced from €387.8 million to €168.0 million.

As at December 31, 2011, the total indebtedness amounted to €194.0 million (€193.5 million as at December 31, 2010), consisting of related party loans of €168.0 million (€168.0 million) and other short-term loans of €26.0 million (€25.5 million) that are mainly used to finance the Ukrainian operations. Cash and cash equivalents were €161.3 million (€138.5 million).

Following the positive operating cash flow in 2011 the net debt of the Group was diminished to €32.7 million (€55.0 million).

See "Evaluation of risk and uncertainties" discussion for interest payments and covenants.

## ACQUISITIONS

Acquisition of shares at €13.1 million consists of purchasing of 49 percent or the remainder of minority interest of Slavuta Holding LLC. The ownership of the shares in Slavuta Holding LLC is subsequently 100% as December 31, 2011.

## CAPITAL EXPENDITURE

Capital expenditure in 2011 amounted to €-23.2 million (€-36.4 million). Sale proceeds from assets and shares generated cash inflow of €11.0 million (€7.8 million) during the financial year.

## RESEARCH AND DEVELOPMENT

Research and development costs are normally expensed as incurred apart from when the asset increases the future economic benefits embodied in the specific asset to which it relates. Research and development costs amounted to €-9.0 million (€-9.5 million) for the financial year.

## PERSONNEL

The total number of employees was 7,096 (7,570) on December 31, 2011. The average number of employees during 2011 was 7,391 (7,860). Salaries and wages of the financial year amounted to €181.3 million (€197.4 million).

## SHARES

1.000.000 shares have been emitted. There is one series of shares and they all have equal voting rights and similar rights to the dividends.

## EVALUATION OF MARKET RISKS AND UNCERTAINTIES

In the process of production, distribution, sales and marketing of bathroom ceramics and bath and shower products the Group is subject to customary market risks, which relate to the supply of materials, demand of products, competition, legal environment and other such factors beyond control of the Group. The management of the Group actively monitors and evaluates such factors to respond appropriately when required.

The main borrowings of the Group are related party loans from Sofia IV S.à r.l., who has borrowed from Sofia III S.à r.l., who in turn has borrowed under a senior credit facility. The related party loans of Sanitec Group and Sofia IV S.à r.l. are linked to the terms and conditions of the senior credit facility taken by Sofia III S.à r.l. This senior credit facility is subject to regularly reported restrictive covenants but according to the credit facility agreement, the covenant restrictions, excluding the liquidity covenant, are not applicable before September 30, 2011. Thus, a negative development of profitability or cash flow may restrict the debt service capability of the Group or may restrict the Group from meeting the covenants in the future.

Under the related party loans the Group has to pay a fixed interest rate until December 31, 2011. After that the interest rate is based on euribor added with margin and thus the Group is exposed to interest rate risk, which will be managed in line with the Group Treasury policy.

The Group is exposed to currency risk through operations in international markets. The Group takes advantage of forward foreign exchange contracts to hedge commercial cash flows and loans in other than functional currencies in line with the Group Treasury policy.

At December 31, 2011 Group did not have any financial derivatives.

## ADMINISTRATION

During the financial period, the members of the Board of the Directors of Sanitec Corporation have been:

Fredrik Cappelen, Chairman
Adrian Barden, member
Caspar Callerström, member
Pekka Lettijeff, member from 22 March
Ulf Mattsson, member
Jussi Nyrölä, deputy member

The president and CEO of Sanitec Corporation has been Peter Nilsson

KPMG was elected as an auditor of the Sanitec Corporation Group by the annual general meeting.

## OUTLOOK FOR 2012

The macroeconomic uncertainties emerging during the third quarter continued during the last quarter. The problems experienced by the financial markets in Europe are creating considerable uncertainty in the market and it is difficult to estimate what the direct and indirect implications of this will be. The Net Sales is not expected to substantially improve coming financial period. The management of Sanitec Group has initiated actions to improve profitability, reduce costs and improve cash flow. Among other measures, the company is exiting poorly performing market segments, and continuously improving productivity in all processes including the reduction of overhead and personnel costs.

## CONSOLIDATED STATEMENT OF INCOME
(All amounts in € millions)

| | Note n:o | Period from January 1 - December 31, 2011 | Period from January 1 - December 31, 2010 |
|---|---|---|---|
| NET SALES | | 770.8 | 777.3 |
| Other operating income | | 9.4 | 12.9 |
| Materials and services | | -349.9 | -366.7 |
| Employee benefits | 3 | -222.3 | -255.3 |
| Production for own use | | 1.0 | 1.7 |
| Other operating expenses | | -112.3 | -184.8 |
| Depreciation, amortization and impairment losses | 6 | -29.7 | -33.9 |
| OPERATING PROFIT | | 67.1 | -48.8 |
| Financial income and expenses | 7 | -15.9 | -1.3 |
| PROFIT (LOSS) BEFORE TAXES | | 51.2 | -50.1 |
| Income taxes | 8 | -3.5 | -0.7 |
| NET PROFIT (LOSS) FOR THE PERIOD | | 47.7 | -50.8 |
| Net profit (loss) for the period attributable to: | | | |
| Equity holders of the parent company | | 48.7 | -51.2 |
| Non-controlling interest | | -1.0 | 0.4 |
| Total | | 47.7 | -50.8 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note n:o | Period from January 1 - December 31, 2011 | Period from January 1 - December 31, 2010 |
|---|---|---|---|
| NET PROFIT (LOSS) FOR THE PERIOD | | 47.7 | -50.8 |
| Other comprehensive income: | | | |
| Change in translation difference[1] | 15 | -3.1 | 6.3 |
| Actuarial gains and losses and effect of asset ceiling | 18 | -3.1 | -2.0 |
| Taxes of other comprehensive income | 8 | 1.4 | 0.6 |
| COMPREHENSIVE INCOME FOR THE PERIOD | | 42.9 | -45.9 |
| Comprehensive income for the period attributable to: | | | |
| Equity holders of the parent company | | 43.9 | -46.3 |
| Non-controlling interest | | -1.0 | 0.4 |
| Total | | 42.9 | -45.9 |

(1) Translation difference of €-3.1 million at December 31, 2011 (€6.3 million at December 31, 2010) consist of translation difference relating to retained earnings €-4.8 million (€-7.5 million), reserve for invested unrestricted equity €-0.3 million (€0.0 million), and other items €2.0 million (€13.8 million).

## STATEMENT OF FINANCIAL POSITION

(All amounts in € millions)

| | Note n:o | As at December 31, 2011 | As at December 31, 2010 | As at January 1, 2010 |
|---|---|---|---|---|
| ASSETS | | | | |
| NON-CURRENT ASSETS | | | | |
| Intangible assets | 9 | 8.5 | 7.4 | 6.7 |
| Property, plant and equipment | 9 | 195.0 | 212.5 | 199.5 |
| Deferred tax assets | 8 | 19.1 | 13.6 | 8.9 |
| Interest bearing receivables | | 0.6 | 1.1 | 1.2 |
| Other non-current receivables | | 0.1 | 4.2 | 7.9 |
| TOTAL NON-CURRENT ASSETS | | 223.3 | 238.8 | 224.2 |
| CURRENT ASSETS | | | | |
| Inventories | 10 | 106.3 | 111.6 | 112.8 |
| Interest bearing current receivables | | 3.9 | 0.5 | 0.8 |
| Other current receivables | 11 | 135.0 | 157.4 | 152.8 |
| Cash and cash equivalents | 12 | 161.3 | 138.5 | 188.2 |
| TOTAL CURRENT ASSETS | | 406.5 | 408.0 | 454.6 |
| TOTAL ASSETS | | 629.8 | 646.9 | 678.9 |

| | Note n:o | As at December 31, 2011 | As at December 31, 2010 | As at January 1, 2010 |
|---|---|---|---|---|
| EQUITY AND LIABILITIES | 13 | | | |
| Share capital | | 2.8 | 2.8 | 262.8 |
| Share premium | | 43.7 | 43.7 | 43.7 |
| Reserve for invested unrestricted equity | | 585.2 | 590.5 | 115.0 |
| Translation differences | | -14.3 | -16.3 | -30.1 |
| Retained earnings | | -448.8 | -478.4 | -418.3 |
| TOTAL EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY | | 168.6 | 142.3 | -26.9 |
| Non-controlling interests | 13 | 0.2 | 1.8 | 1.4 |
| TOTAL EQUITY | | 168.8 | 144.1 | -25.5 |
| NON-CURRENT LIABILITIES | | | | |
| Deferred tax liabilities | 8 | 7.8 | 14.3 | 13.9 |
| Pension obligations | 17, 18 | 27.3 | 26.4 | 27.6 |
| Provisions | 17 | 25.4 | 26.3 | 21.4 |
| Interest bearing liabilities | 14 | 0.1 | 0.2 | 15.0 |
| Other borrowings | 14 | 168.0 | 168.0 | 295.8 |
| TOTAL NON-CURRENT LIABILITIES | | 228.6 | 235.2 | 373.8 |
| CURRENT LIABILITIES | | | | |
| Interest-bearing liabilities | 14 | 25.9 | 25.3 | 94.8 |
| Provisions | 17 | 6.9 | 20.8 | 14.7 |
| Other current liabilities | 19 | 199.6 | 221.5 | 221.1 |
| TOTAL CURRENT LIABILITIES | | 232.4 | 267.6 | 330.6 |
| TOTAL EQUITY AND LIABILITIES | | 629.8 | 646.9 | 678.9 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share Capital | Share Premium | Translation differences | Reserve for invested unrestricted Equity | Retained Earnings | Total | Non-Controlling interests | Total Equity |
|---|---|---|---|---|---|---|---|---|
| **Equity at January 1 2010** | 262.8 | 43.7 | -30.1 | 115.0 | -418.3 | -26.9 | 1.4 | -25.5 |
| Decrease of share capital[1] | -260.0 | | | 260.0 | | — | | — |
| Investments by parent company | | | | 215.5 | | 215.5 | | 215.5 |
| Total comprehensive income | | | 13.8 | | -60.1 | -46.3 | 0.4 | -45.9 |
| **Equity at December 31 2010** | **2.8** | **43.7** | **-16.3** | **590.5** | **-478.4** | **142.3** | **1.8** | **144.1** |
| Dividend/return of equity | | | | -5.0 | | -5.0 | | -5.0 |
| Change in non-controlling interest | | | | | -12.6 | -12.6 | -0.6 | -13.2 |
| Total comprehensive income[2] | | | 2.0 | -0.3 | 42.2 | 43.9 | -1.0 | 42.9 |
| **Equity at December 31 2011** | **2.8** | **43.7** | **-14.3** | **585.2** | **-448.8** | **168.6** | **0.2** | **168.8** |

(1) In August 2010 it was resolved to decrease the share capital of Sanitec Corporation by €260.0 million by transferring the amount in question to the reserve for invested unrestricted equity.

## CONSOLIDATED CASH FLOW STATEMENT
(All amounts in € millions)

| | Note n:o | Period from January 1 - December 31, 2011 | Period from January 1 - December 31, 2010 |
|---|---|---|---|
| CASH FLOW FROM OPERATING ACTIVITIES: | | | |
| Profit (loss) before taxes for the period | | 51.2 | -50.1 |
| Adjustments: | | | |
| Depreciation, amortization and impairment losses | 9 | 29.7 | 33.9 |
| Unrealized foreign exchange gains and losses | 15 | 2.5 | -2.8 |
| Other non-cash income and expenses | | -3.1 | -6.4 |
| Financial income and expenses | 7 | 13.3 | 4.0 |
| Change in the working capital: | | | |
| Change in current non-interest-bearing receivables | 11 | 18.8 | -2.8 |
| Change in inventories | 10 | 4.5 | -0.2 |
| Change in current non-interest-bearing liabilities | 19 | -41.2 | 13.4 |
| Interests and other financial expenses paid (-) / received (+) | 7 | -16.6 | -7,8 |
| Interests received from operating activities | | 2.1 | 0.6 |
| Income taxes paid (-) / received (+) | | -6.6 | -6.6 |
| CASH FLOW FROM OPERATING ACTIVITIES | | 54.5 | -24.8 |
| CASH FLOW FROM INVESTING ACTIVITIES: | | | |
| Investments of non-controlling interests | 2 | -13.1 | 0.0 |
| Investments of intangible and tangible assets | 9 | -23.3 | -36.4 |
| Proceeds from disposal of intangible and tangible assets | 9 | 7.3 | 3.8 |
| Proceeds from disposal of other investments | | 3.7 | 4.0 |
| CASH FLOW FROM INVESTING ACTIVITIES | | -25.3 | -28.6 |
| CASH FLOW FINANCING ACTIVITIES: | | | |
| Dividend distribution | 13 | -5.0 | 0.0 |
| Proceeds (+) / repayments (-) of short-term loans | | -1.2 | 4.9 |
| Proceeds (+) / repayments (-) of long-term loans | | -0.1 | -1.3 |
| CASH FLOW FROM FINANCING ACTIVITIES | | -6.4 | 3.6 |
| Change in cash and cash equivalents | 12 | 22.8 | -49.8 |
| Cash and cash equivalents on January 1 | | 138.5 | 188.2 |
| Effect of exchange rate differences on cash and bank balances | | 0.0 | 0.1 |
| Change in cash and cash equivalents | | 22.8 | -49.8 |
| Cash and cash equivalents on December 31 | | 161.3 | 138.5 |

# Notes to the consolidated financial statements

## 1. ACCOUNTING POLICIES

### Description of business

Sanitec Corporation (the "Parent Company") and its subsidiaries form a multinational group ("Sanitec" or the "Group") engaged in designing, manufacturing and marketing of bathroom ceramics, bath and shower products and bathroom furniture. The Group's production plants are situated in Europe and the sales and marketing network operates globally.

Sanitec Corporation is a limited company and it is domiciled in Helsinki, Finland. The address of Group Head Office is Kaupintie 2, 00440 Helsinki, Finland.

These financial statements were authorized for issue by the Board of Directors on June 29, 2012.

### First-time adoption of IFRS standards

These are the Group's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies introduced in this note have been applied in preparing the financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS balance sheet at January 1, 2010 (the Group's date of transition). In these financial statements Sanitec

- applied the same accounting policies throughout the periods presented
- retrospectively applied all effective IFRS standards as of December 31, 2011 as required; and
- applied certain optional and certain mandatory exceptions as applicable for the first-time IFRS adopters.

Set out below are the applicable IFRS 1 exemptions and exceptions applied in the first consolidated financial statements prepared in accordance with IFRS.

*IFRS exemption options*

### Exemption for business combinations

IFRS 1 provides the option to apply IFRS 3 Business combinations, prospectively from the transition date or from a specific date prior to the transition date. This provides relief from full retrospective application that would require restatement of all business combinations prior to the transition date. Sanitec elected to apply IFRS 3 prospectively to business combinations occurring after its transition date (January 1, 2010). Business combinations occurred prior to transition date have not been restated.

### Exemption for employee benefits

IFRS 1 provides retrospective relief from applying IAS 19, 'Employee benefits', for the recognition of actuarial gains and losses. In line with the exemption, the group elected to recognize all cumulative actuarial gains and losses that existed at its transition date in opening retained earnings for all its employee benefit plans.

### The remaining exemptions

The remaining voluntary exemptions do not apply to Sanitec. These are the following:

- Insurance contracts (IFRS 4), share-based payments (IFRS 2) and leases (IFRIC 4), as such arrangements are not relevant for Sanitec's operation
- Assets and liabilities of the subsidiaries, associates and joint ventures, as only the Group's consolidated financial statements have been prepared in accordance with IFRS standards
- Compound financial instruments, because the group does not have these types of financial instrument as at the date of transition to IFRS

- ➤ Financial assets or intangible assets accounted for under IFRIC 12, as Sanitec has not entered into agreements within the scope of IFRIC 12.
- ➤ Relief to reset cumulative currency translation differences in accordance with IAS 21 to zero in the opening IFRS balance sheet.
- ➤ Retrospective application of short-cut method for liabilities in scope of IFRIC 1

*IFRS mandatory exceptions*

Set out below are the applicable mandatory exceptions in IFRS 1 applied in the first consolidated financial statements prepared in accordance with IFRS.

### Exception for estimates

IFRS estimates as at January 1, 2010 are consistent with the estimates as at the same date made in conformity with Finnish GAAP.

### Exception for non-controlling interests

Sanitec applies the following requirements of IAS 27 Consolidated and separate financial statements, prospectively from the date of transition January 1, 2010:

a. The requirement in IAS 27.28 that total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interest having deficit balance;

b. The requirements in IAS 27.30 and 27.31 for accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control; and

c. The requirements in IAS 27.34-37 for accounting for a loss of control over subsidiary.

The other compulsory exceptions of IFRS 1 have not been applied as these are not relevant to the group:

- ➤ Derecognition of financial assets and financial liabilities
- ➤ Hedge accounting exception

### Basis of presentation

a) These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU and SIC/IFRIC interpretations as applicable on 31 December, 2011.

b) No consolidated financial statements have been prepared at the Sanitec Corporation level in prior financial years. Sanitec Corporation has been reported as part of its parent company Sofia I S.à r.l. consolidated financial statements according to generally accepted accounting standards in Luxemburg.

The financial statements are prepared under historical cost convention except for the financial liabilities and assets recognized at fair value through profit or loss, available-for-sale investments and assets and liabilities classified as held-for-sale in accordance with IFRS 5 at the closing date.

### Principles of consolidation

The consolidated financial statements include the parent company and its subsidiaries. In these companies, the parent company holds, on the basis of its shareholdings, more than half of the voting rights directly or through its subsidiaries, or otherwise exercises control.

The companies acquired during the financial period have been consolidated from the date, when Sanitec acquired control. Subsidiaries divested have been included up to their date of losing control. Subsidiaries are accounted for using the acquisition method, according to which the assets and liabilities of the purchased companies are valued at fair value at the date of acquisition. The purchase price less the acquired net assets is recorded as goodwill in the balance sheet. The transaction costs relating to the acquisition are expensed as incurred. Acquisitions of non-controlling interests in the subsidiaries that are consolidated in Sanitec Group are accounted for using the proportionate share of ownership method.

Associated companies in which Sanitec has voting rights between 20% and 50% and in which it has significant influence but not control over the financial and operating policies, are consolidated by using the equity method. When Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and no further losses are recognized, unless it has legal or constructive obligations or it has made payments on behalf of the associate. At the financial year-end date Sanitec Group consisted of 50 subsidiaries and had no investments in associated companies or joint ventures.

All intercompany transactions, receivables, liabilities, unrealized profits and distribution of profits within the Group are eliminated. Profit for the period is attributable to the owners of the parent company and to the non-controlling interests. Non-controlling interests are presented as a separate item within the equity.

### Operating segments

Sanitec Group has only one segment and does not report any segment information in the consolidated financial statements.

### Foreign currency transactions

The financial statements are presented in Euros, which is the parent company's functional currency and presentation currency of the Group. Items included in the financial statements of each Group's subsidiary are measured by using the currency of the financial environment, where the subsidiary operates.

Transactions in the foreign currencies are recorded at the rates of exchange prevailing at the date of transaction. At the end of financial period, the unsettled balances denominated in foreign currencies are valued at the rates prevailing at the reporting date. Exchange gains and losses arising from the transactions in foreign currencies and translation of monetary items are recognized in the profit or loss.

On consolidation, the profit or loss statements of the foreign subsidiaries are translated into Euros by using the average exchange rate for the accounting period. The balance sheets are translated at the year-end exchange rate. Differences resulting from the translation of profit or loss statement and balance sheets are recorded in the other comprehensive income as translation differences.

### Financial assets and liabilities

Financial instruments are classified in accordance with the IAS 39 to the following groups: financial assets at the fair value through profit or loss, available-for-sale financial assets and loans and receivables. Sanitec has no held-to-maturity investments as of the financial year-end date.

Financial assets at the fair value through profit or loss contain liquid instruments such as commercial papers and derivative assets that do not qualify as hedges in accordance with IAS 39 hedge accounting.

Loans and receivables are non-derivative assets with fixed or determinable payments that are not quoted in an active market. In Sanitec this group contains trade receivables and other loan receivables arising from commercial operations and other current investments such as bank deposits. These items are reported as current or non-current in the balance sheet depending on their maturity. All items in this class are originally measured at cost and provisions for impairments are established, where there is objective evidence that Sanitec cannot collect all amounts due according to the original terms of loans and receivables.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Changes in the fair value of the assets in this category are recognized in the other comprehensive income until the asset is divested or sold, at which time the changes in the fair value are transferred to profit or loss.

### Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, deposits held at call with banks and other highly liquid short-term investments with original maturity of three months or less.

### Borrowings

Long-term debt is initially recognized at fair value, net of transaction costs incurred. Debt is classified as current liability unless Sanitec has an unconditional right to defer the settlement of the liability for at least 12 months after the balance sheet date.

### Borrowing costs

The borrowing costs related to property, plant and equipment or other intangible assets that require substantial period of construction are capitalized for the period needed to produce the investment for the intended purpose. Other borrowing costs are recognized in the profit or loss statement for the period, in which they incurred.

### Goodwill and intangible assets

The goodwill arising on a business combination results from the excess of acquisition cost over net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill is allocated to cash generating units and tested annually for impairment.

Other intangible assets consist of patents and copyrights, licenses, and software. These are measured at historical costs and amortized using the straight-line method over their useful lives. Other separately identifiable intangible assets are recognized in the balance sheet only, if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the value of the asset can be measured reliably. The amortization period of intangible assets is 3-10 years.

Research and development costs are normally expensed as other operating expenses for the financial year they incur. If the criteria for commercial and technical feasibility in accordance with IAS 38 have been met, development costs are capitalized and amortized during the expected economic life of the underlying technology.

### Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment loss, if any. Land and water areas are not depreciated.

Depreciation on plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets according to plan as follows:

| | |
|---|---|
| Buildings | 20—40 years |
| Heavy production machinery and equipment | 10—20 years |
| Light production machinery and equipment | 8—10 years |
| Other machinery and equipment | 3—5 years |
| Land | No depreciation |

Expected useful lives are reviewed at each balance sheet date and if they differ significantly from previous estimates, the remaining depreciation periods are changed accordingly.

Subsequent improvement costs related to an asset are included in the carrying value of such asset or recognized as a separate asset, as appropriate, only when future economic benefits associated with the costs are probable and the related costs can be separated from normal maintenance costs. Regular maintenance costs are recognized as expenses for the period.

Gains and losses on sales and disposals are included in other operating income and in other operating expenses.

### Impairment of non-financial assets

Intangible assets are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized whenever

the carrying amount of assets or cash-generating unit exceeds the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Value in use is determined by reference to discounted future cash flows expected to be generated by the asset. At the balance sheet date Sanitec did not have any intangible assets with indefinite useful life.

Impairment losses are recognized in profit or loss. Impairment loss recognized in respect of cash-generating units is first allocated to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of other assets in the group of units on pro rata basis.

In respect of property, plant and equipment and other intangible assets excluding goodwill, impairment losses recognized in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized. An impairment loss relating to goodwill is never reversed.

### Leasing agreements

Leasing agreements are classified either as operating leases or finance leases. Leases of property, plant and equipment, where substantially all the risks and rewards of ownership have been transferred to Sanitec are classified as finance leases. Finance leases are recognized as assets and liabilities in the balance sheet at commencement of lease term at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments under finance leases are divided into interest expense and installment payment of liability. Property, plant and equipment under finance leases are depreciated over the useful life of the asset or over the lease period, if shorter. At the balance sheet date Sanitec did not have any leasing agreements that should be classified as finance leases.

Leases of property, plant and equipment, where the lessor retains a significant portion of the risks and rewards, are classified as operating leases. Rental payments under operating leases are recognized as expenses when incurred.

### Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out (FIFO) method or average cost method for finished goods and the average cost method for raw materials. Cost includes direct manufacturing, labor and materials, variable overhead and allocable portion of production and project administration overheads. Costs associated with assets produced for internal use are capitalized and depreciated over their estimated useful lives.

### Trade receivable

Trade receivables are recognized at invoice value, less a provision for doubtful accounts. Management considers current information and events regarding the debtors' ability to repay their obligations, and makes a provision against amounts due when it is probable that the full amount will not be collected. Changes in the level of provision are recorded as bad debt expense.

### Pensions

The Group has several different pension plans in accordance with local conditions and practices where it operates. The plans are generally funded through payments to insurance companies.

Pension plans are classified as defined contribution plans or defined benefit plans. Payments to defined contribution plans are reported in the income statement as part of personnel expenses in the period, in which employees perform the services providing the entitlement to the respective contributions. The Group has no legal or constructive obligation to pay further compensations, if the pension fund has not adequate assets to pay the employees the benefits in question. All the pension plans that do not meet the above criteria are classified as defined benefit plans.

The defined benefit obligation is calculated annually by the independent actuaries using the projected unit credit method. The liability recognized in the balance sheet in respect of defined benefit plans is the present value of defined benefit obligation at the balance sheet date less the fair value of plan assets, combined with adjustments for unrecognized actuarial gains and losses and past service cost. Past service costs are charged immediately to the income statement to the extent that the benefits have vested, and are otherwise recognized on a straight-line basis over the average period until the benefits vest. Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to plans are recognized through OCI in shareholders' equity.

### Share-based payments

Sanitec has no share-based payments as defined in IFRS 2 during the financial years reported in these financial statements.

### Assets classified as held-for-sale

Non-current assets and discontinued operations are classified as held-for-sale and stated at the lower of the carrying value or fair value less cost to sell, if their carrying value is recovered principally through a sale transaction rather than through continuing use. The sale should be considered highly probable.

A discontinued operation is a part of the entity that has been divested or classified as being held for sale and represents a separate core business area or geographic operation area.

Sanitec financial statements for 2011 do not include any non-current assets held-for-sale or any discontinued operation.

### Provisions

Provisions are recognized in the balance sheet, if the Group has a present legal or constructive obligation as a result of a past event, and that it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provisions are related e.g. to the restructuring plans, environmental obligations, tax risks or trials. Provisions are based on the past experience and best estimates available at the balance sheet date.

The Group's warranty policy provides for coverage of certain products at the date the sale is recorded. The estimated liability is included as a current provision. Changes in the warranty liability are charged against earnings for the period.

### Current and deferred income taxes

The tax expense for the period consists of current and deferred taxes. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively. Current tax on taxable income for the period is determined using the tax rates enacted or which substantially enacted in each country at the end of the report period / at the balance sheet date in the countries where the parent company and its subsidiaries operate and generate taxable income.

Deferred tax assets and liabilities are recognized on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. The amount and probability of the utilization of a tax asset are reviewed at the end of each report period. Management establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. Deferred taxes are measured based on the tax rates enacted or which substantially enacted by the end of the report period /at the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset against each other only when the entity has a legally enforceable right to set off the recognized amounts, and the deferred tax asset and tax liability relate to income taxes levied by the same tax authority.

### Equity and dividends

Ordinary shares are classified as equity.

Dividends proposed by the Board of Directors are not recorded in the financial statements until the shareholders at the Annual General Meeting have approved them. Sanitec Group or the parent company do not hold treasury shares, nor is the Board of Directors authorized to acquire them.

### Revenue recognition

The Group recognizes revenue from product sales, when the customer takes the ownership and risk and rewards. As a principal rule revenue recognition takes place at the date of delivery according to the delivery terms agreed between the customer and Sanitec. Net sales consist of the gross sales revenues reduced by indirect sales taxes and sales discounts. The Group estimates and records provisions for cash discounts, quantity rebates, sales returns and allowances in the period the sale is reported based on experience.

Revenues from the rendering of maintenance services and repairs are recognized when the services have been rendered or the work has been carried out.

### Operating profit

The Group has defined operating profit as follows: operating profit is the revenue added with other operating income less materials and services, employee benefits, production for own use, other operating expenses, and depreciation, amortization and impairment losses.

Operating profit includes those exchange rate gains and losses that are related to the operative activities of the Group. Financing related exchange rate gains and losses are reported under financial income and expenses.

### Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with the related conditions. Government grants are related mainly to the investments in property, plant and equipment. These grants are deferred in the balance sheet and recognized in the income statement concurrently with the expenses they compensate.

### Other operating income and expenses

Other operating income includes income from activities outside ordinary business, such as rental income and gains and losses from the sale of fixed assets and other long-term investments.

Other operating expenses include expenses not directly related to production, such as expenses for marketing efforts, research and development, if not capitalized, and other expenses related to general administration. Additionally, losses from the disposal of fixed assets and other long-term investments are included within other operating expenses.

## Use of estimates in the preparation of the consolidated financial statements

The preparation of the consolidated financial statements in conformity with IFRS requires the Group's management to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of intangible assets, property, plant and equipment; valuation allowances for receivables, inventories and deferred income tax assets; provisions for restructuring of operations; valuation of derivative instruments; and assets and obligations related to employee benefits. Actual results could differ from those estimates.

## Adoption of new IFRS standards and amendments

Sanitec Group has adopted the following new standards and interpretations as from January 1, 2011:

Improvements to IFRS (May 2010) (mainly effective for the financial years that started on January 1, 2011 or later). The amendments are related in total to seven standards. The improvements mostly address matters of details that have not got a significant impact in practice on preparation of Sanitec Corporation's consolidated financial statements.

Amendments to IAS 24 Related party disclosures (effective for the financial year started on January 1, 2011). These amendments provide partial exemptions for government-related entities and thus are not affecting the preparation of financial statements. The amendment has not significant impact in practice on preparation of Sanitec Corporation's consolidated financial statements.

Amendments to IFRIC 14 The limit on a defined benefit asset, minimum funding requirements and their interaction (effective for the financial year started on January 1, 2011). The amendments apply when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements, permitting the benefit of such an early payment to be recognized as an asset. The amendment has not impact in practice on preparation of Sanitec Corporation's consolidated financial statements.

Amendment to IFRS 1 First-time adoption of International Financial Reporting Standards (effective for the financial year started on July 1, 2010). The amendment provides the same relief to first-time adopters as was given to current users of IFRSs upon adoption of the amendments to IFRS 7. Also clarifies the transition provisions of the amendments to IFRS 7. Sanitec Corporation has applied as first-time IFRS adopter the amendment in preparation of consolidated financial statements.

IFRIC 19 Extinguishing Financial liabilities with equity instruments (effective for the financial year started on July 1, 2010). Requires the extinguishment of a financial liability by the issue of equity instruments to be measured at fair value with the difference between the fair value of the instrument issued and the carrying value of the liability extinguished being recognized in profit or loss. The amendment has not significant impact in practice on preparation of Sanitec Corporation's consolidated financial statements.

Amendment to IAS 32 Financial instruments – Presentation –classification of rights issues. Allows right, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment has not impact in practice on preparation of Sanitec Corporation's consolidated financial statements.

## Application of new and revised IFRS's and IFRIC interpretations

The IASB has published the following standards or interpretations that are not yet effective and that Sanitec has not yet adopted. Sanitec will adopt them as from their effective dates, if the effective date is the same as the beginning of the financial year, or if the effective date is different, they will be adopted as from the beginning of the following financial year.

IFRS 7 (amendment) “Financial instruments: Disclosures” (effective from 1 July 2011). The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets. This amendment does not have any material impact on financial reporting of Sanitec Group. The amendment has not yet been endorsed by EU.

IFRS 7 (amendment) “Financial instruments: Disclosures” (effective from 1 January 2013). The IASB and the FASB issued common disclosure requirements that are intended to help investors and other financial statement users to better assess the effect or potential effect of offsetting arrangements on a company’s financial position. This amendment does not have any material impact on financial reporting of Sanitec Group. The amendment has not yet been endorsed by EU.

IAS 32 (amendment) “Financial instruments: Presentation” (effective from 1 January 2014). The amendments *Offsetting Financial Assets and Financial Liabilities* address inconsistencies in current practice when applying the offsetting criteria in IAS 32. This amendment does not have any material impact on financial reporting of Sanitec Group. The amendment has not yet been endorsed by EU.

IAS 1 “Presentation of items of other comprehensive income” (amendment to IAS1) (effective from 1 July 2012). The amendment changes the grouping of items presented in OCI. Items that would be reclassified to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment has not yet been endorsed by EU.

IAS19 (amendment) “Employee benefits” (effective from 1 January 2011). The impact will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in OCI as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). Sanitec Group is yet to assess the full impact of the amendment. The amendment has not yet been endorsed by EU.

IFRS 9 “Financial Instruments” (effective from 1 January 2015). This standard is a part of a wider project to replace IAS 39 and the later phases will be issued mainly during 2010. New standard provides guidance in respect of classification and measurement of financial instruments. Later phases relate to impairment of financial instruments and hedge accounting. In estimation of Sanitec Group, this standard will not have any material impact on valuation of financial instruments of the Group compared with present IAS 39 but will have some effect on presentation of financial instruments of the Group. This standard has not yet been endorsed by EU.

IFRS 10 “Consolidated financial statements” builds on existing principles by identifying the concept of control as the determining factor in whether the entity should be included within the consolidated financial statemenst of the parent company. The change will not have any material impact on financial reporting of Sanitec Group. The amendment has not yet been endorsed by EU.

IFRS 11 “Joint arrangements” (effective from 1 January 2013). The change will not have any material impact on financial reporting of Sanitec Group. The amendment has not yet been endorsed by EU.

IFRS 12 “Disclosures of interest in other entities” (effective from 1 January 2013). The standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates and/or structured entities. This standard has not yet been endorsed by EU.

IFRS 13 “Fair value measurement” (effective from 1 January 2013). The standard will not have any material impact on financial reporting of Sanitec Group. This standard has not yet been endorsed by EU.

IAS 27 (revised) “Separate financial statements” (effective from 1 January 2013). The standards includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included to new IFRS 10. The amended standard has not yet been endorsed by EU.

IAS 28 (revised) “Associates and joint ventures” (effective from 1 January 2013). The standard include requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The revised standard has not yet been endorsed by EU.

Other changes or amendments to other published IFRS standards and IFRIC's do not have any material impact on financial reporting of Sanitec Group.

## 2. ACQUISITIONS AND DISPOSALS

On 21 June 2011 Sanitec agreed to purchase 49 percent of shares of Slavuta Holding. The purchase price was €13.2 million and Sanitec's ownership of Slavuta Holding increased from 51 percent to 100 percent of the shares. The value of non-controlling interests in Slavuta Holding before acquisition totaled to €0.6 million. In accordance with IFRS 3 requirements, the part of the acquisition cost, which exceeds the value of the non-controlling interests in the balance sheet at the time of transaction, was recognized directly as deduction of equity. Therefore, at the time of acquisition, retained earnings was deducted by €12.6 million. In the financial year 2010 Slavuta Holdings and its subsidiaries had sales €27.0 million and operating profit €1.2 million. Slavuta Holdings manufactures ceramics products in Ukraine.

15 September 2010 Sanitec sold Domino Srl to Certina Holding AG. Domino business consist of selling and manufacturing wellness bathrooms products in Italy with net sales of €18.4 million and operating loss of €3.3 million in financial year 2009. The gain on selling the shares was €2.2 million for the Group.

11 October 2010 Sanitec sold its 60% shares in Moraldo Ltd to the minority shareholder. Moraldo owns 100% of the Russian Joint Venture Noginsky Stroifarfor OOO, production of economy assortment for the Russian market. Noginsky Stroifarfor OOO sales were €3.5 million and operating profit -€2.3 million in year 2009.

Impact of business disposals on Sanitec assets and liabilities

(All amounts in € millions)

| | As at December 31, 2011 | As at December 31, 2010 |
|---|---|---|
| Non-current assets | — | — |
| Inventories | — | 3.9 |
| Other current assets | — | 8.5 |
| Total assets | — | 12.4 |
| Non-current liabilities | — | 4.6 |
| Current liabilities | — | 22.5 |
| Total liabilities | — | 27.1 |

## 3. EMPLOYEE BENEFITS

### Personnel expenses

| | Period from January 1 - December 31, 2011 | Period from January 1 - December 31, 2010 |
|---|---|---|
| Salaries and wages | -181.9 | -214.1 |
| Defined contribution plans | -10.5 | -13.1 |
| Defined benefit plans | -0.4 | -0.7 |
| Other personnel expenses | -29.5 | -27.4 |
| | -222.3 | -255.3 |

## 4. AUDIT FEES

During the period from January 1, 2011 to December 31, 2011, the fees billed to the parent company and its subsidiaries by KPMG Finland, and other member firms of the KPMG network were as follows: audit fees €-0.9 million (€-0.8 million), tax fees €-0.4 million (€-0.6 million) and other fees €-0.3 million (€-0.3 million).

## 5. RESTRUCTURING COSTS

### 2011

Sanitec recognized one time costs of €6.4 million related to factory closures in France (initiated in 2010) and in the UK (completed in 2011).

Other restructuring costs hitting the results during financial year 2011 amount to €2.5 million. These costs are redundancy costs related to previous members of management team, consulting costs to support the process associated with European commission fine imposed on the group in 2010 and other restructuring activities.

### 2010

Sanitec recognized €25.5 million of costs related to closure of ceramic factories in the UK and France.

Sanitec appointed a new group management team in early 2010, which led to severance pay for members of the former management. Related costs are included within the personnel costs and amount to €3.7 million.

Sanitec recognized €3.3 million gain from sale of real estate in France and the Netherlands. The assets sold were land adjacent to factories that were closed before 2010.

Sanitec incurred additional restructuring costs during the financial year 2010 of €8.4 million. These are related to restructuring measures implemented in Sanitec's remaining manufacturing footprint and product portfolio optimizing initiatives.

## 6. DEPRECIATION AND AMORTIZATION

### Depreciation and amortization by asset type

| | Period from January 1 - December 31, 2011 | Period from January 1 - December 31, 2010 |
|---|---|---|
| Intangible assets | -1.5 | -1.6 |
| Buildings | -5.2 | -5.1 |
| Machinery and equipment | -22.7 | -26.9 |
| Other tangible assets | -0.3 | -0.3 |
| Total | -29.7 | -33.9 |

Sanitec had no intangible assets with indefinite useful life at the balance sheet date. No impairment tests were deemed necessary during the periods reported.

## 7. FINANCIAL INCOME AND EXPENSES

### Financial income

| | Period from January 1 - December 31, 2011 | Period from January 1 - December 31, 2010 |
|---|---|---|
| Interest income | 1.2 | 0.6 |
| Other financial income | 0.3 | 11.8 |
| Total | 1.5 | 12.4 |

Other financial income during the period from January 1 – December 31, 2010 includes €11.2 million gain from debt relief. Interest income includes €0.2 million (€0.3 million) employee benefits related interests.

## Financial expenses

| | Period from January 1 - December 31, 2011 | Period from January 1 - December 31, 2010 |
|---|---|---|
| Interest expenses | -8.3 | -12.8 |
| Other financial expenses | -3.0 | -2.4 |
| Net gains and losses from foreign exchange | -6.1 | 1.5 |
| Total | -17.4 | -13.7 |

Interest expense includes €0.7 million (€0.1 million) employee benefits related interest expenses.

## 8. INCOME TAXES AND DEFERRED TAXES

### Income taxes

| | Period from January 1 - December 31, 2011 | Period from January 1 - December 31, 2010 |
|---|---|---|
| Income taxes for the financial period | -6.5 | -3.0 |
| Income taxes for prior periods | -8.0 | -1.7 |
| Change in deferred taxes | 11.0 | 4.0 |
| | -3.5 | -0.7 |

The Group's tax loss carry forwards were €589.4 million as of December 31, 2011 (€671.2 million). Of the total amount, €290.2 million (€319.0 million) were attributable to Sanitec Europe Corporation and Sanitec Corporation as of December 31, 2011. Tax losses of €42.7 million will expire in 2012, €69.5 million in 2013, €136.3 million in 2014, €80.5 million in 2015, €44.4 million in 2016, €16.7 million in 2017 and €54.7 million later while €144.6 million has no expiry date.

### Deferred tax assets 2011

| | As at January 1 | Charged to income statement[1] | Charged in valuation allowance | Charged to comprehensive income statement | As at December 31 |
|---|---|---|---|---|---|
| Tax losses carried forward | 2.3 | 10.7 | -0.7 | — | 12.3 |
| Property, plant and equipment | 0.2 | -0.2 | — | — | — |
| Pensions | 0.9 | -0.5 | — | 0.9 | 1.3 |
| Provisions | 2.5 | -1.1 | — | — | 1.4 |
| Consolidation entries | 5.6 | -4.4 | — | — | 1.2 |
| Other temporary differences | 2.1 | 0.2 | -0.1 | 0.7 | 2.9 |
| Total | 13.6 | 4.7 | -0.8 | 1.6 | 19.1 |

(1) €9.6 million of the total tax losses charged to income statement are explained by tax losses in Royal Sanitec AB of €36.6 million. The rest of the tax losses recognized in income statement are related to other Sanitec Group companies. The total losses in taxation, which are not charged to income statement amount to €550.2 million as at December 31, 2011.

### Deferred tax liabilities 2011

| | As at January 1 | Charged to income statement | Charged to comprehensive income statement | As at December 31 |
|---|---|---|---|---|
| Property, plant and equipment | 5.7 | -4.8 | — | 0.9 |
| Consolidation entries | 7.7 | -1.3 | — | 6.4 |
| Other temporary differences | 0.9 | -0.2 | -0.2 | 0.5 |
| Total | 14.3 | -6.3 | -0.2 | 7.8 |

### Deferred tax assets 2010

| | As at January 1 | Charged to income statement | Charged in valuation allowance | Charged to comprehensive income statement | As at December 31 |
|---|---|---|---|---|---|
| Tax losses carried forward | 1.1 | 1.4 | -0.2 | — | 2.3 |
| Property, plant and equipment | — | 0.2 | — | — | 0.2 |
| Pensions | 1.1 | -0.6 | — | 0.4 | 0.9 |
| Provisions | 0.7 | 1.8 | — | — | 2.5 |
| Consolidation entries | 3.2 | 2.4 | — | — | 5.6 |
| Other temporary differences | 2.8 | -0.8 | -0.1 | 0.2 | 2.1 |
| Total | 8.9 | 4.4 | -0.3 | 0.6 | 13.6 |

### Deferred tax liabilities 2010

| | As at January 1 | Charged to income statement | Charged to comprehensive income statement | As at December 31 |
|---|---|---|---|---|
| Property, plant and equipment | 4.6 | 1.1 | — | 5.7 |
| Consolidation entries | 8.4 | -0.7 | — | 7.7 |
| Other temporary differences | 0.9 | — | — | 0.9 |
| Total | 13.9 | 0.4 | — | 14.3 |

The Group has recognized deferred tax assets for its tax loss carry forwards and has established a valuation allowance against these deferred tax assets. The determination was based upon what is probable in each tax jurisdiction.

As of December 31, 2011, retained earnings in foreign subsidiaries consisted mainly of those within European Union countries, Switzerland and Norway. As Sanitec Corporation is able to repatriate such retained earnings tax free, no deferred tax liability on the undistributed earnings in foreign subsidiaries is recognized.

Reconciliation of effective tax rate:

| | Period from January 1 - December 31, 2011 | Period from January 1 - December 31, 2010 |
|---|---|---|
| PROFIT (LOSS) BEFORE TAXES | 51.2 | -50.1 |
| Tax for the period with domestic tax rate[1] | -13.3 | 13.0 |
| Effect of foreign tax rate | 0.5 | 1.1 |
| Previous period taxes | -8.0 | -1.7 |
| Previously unrecognized tax loss carried forward | 9.6 | — |
| Tax on non-deductable expenses | -26.2 | -23.5 |
| Tax on non-taxable income | 18.9 | 36.7 |
| Other | 15.0 | -26.3 |
| | 9.8 | -13.7 |
| Total taxes | -3.5 | -0.7 |

(1) Finnish tax rate 26.0% in 2011 and 2010.

## 9. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

### Intangible assets

| | Intangible rights | Other long-term expenditure | Assets under construction | Total |
|---|---|---|---|---|
| **Acquisition cost January 1, 2011** | **7.2** | **0.2** | **2.4** | **9.8** |
| Translation difference | -0.1 | — | — | -0.1 |
| Acquisitions | 0.8 | — | 0.9 | 1.7 |
| Disposals | -2.1 | — | — | -2.1 |
| Reclassification between items | 0.7 | 0.4 | -0.3 | 0.8 |
| **Acquisition cost December 31, 2011** | **6.5** | **0.6** | **3.0** | **10.1** |
| **Accumulated amortization January 1, 2011** | **-2.3** | **-0.1** | | **-2.4** |
| Translation difference | 0.2 | — | | 0.2 |
| Amortization for the period | -1.4 | -0.1 | | -1.5 |
| Disposals | 2.1 | — | | 2.1 |
| **Accumulated amortization December 31, 2011** | **-1.4** | **-0.2** | | **-1.6** |
| **Carrying value December 31, 2011** | **5.1** | **0.4** | **3.0** | **8.5** |

| | Intangible rights | Other long-term expenditure | Assets under construction | Total |
|---|---|---|---|---|
| **Acquisition cost January 1, 2010** | **3.9** | **0.2** | **3.4** | **7.5** |
| Translation difference | 0.4 | — | — | 0.4 |
| Acquisitions | 0.9 | — | 1.4 | 2.3 |
| Disposals | -0.5 | — | -0.2 | -0.7 |
| Reclassification between items | 2.5 | — | -2.2 | 0.3 |
| **Acquisition cost December 31, 2010** | **7.2** | **0.2** | **2.4** | **9.8** |
| **Accumulated amortization and impairment January 1, 2010** | **-0.7** | **-0.1** | | **-0.8** |
| Translation difference | -0.3 | — | | -0.3 |
| Amortization for the period | -1.6 | — | | -1.6 |
| Impairment | — | — | | — |
| Disposals | 0.7 | — | | 0.7 |
| Reclassifications | -0.4 | — | | -0.4 |
| **Accumulated amortization and impairment December 31, 2010** | **-2.3** | **-0.1** | | **-2.4** |
| **Carrying value December 31, 2010** | **4.9** | **0.1** | **2.4** | **7.4** |

Intangible rights primarily consists of license rights and computer software.

## Property, plant and equipment

| | Land | Buildings and constructions | Machinery and equipment | Other tangible assets | Advance payments | Assets under construction | Total |
|---|---|---|---|---|---|---|---|
| **Acquisition cost January 1, 2011** | **18.1** | **102.7** | **142.9** | **7.1** | **1.4** | **34.4** | **306.6** |
| Translation difference | — | -4.2 | -3.4 | — | — | -1.1 | -8.7 |
| Acquisitions | — | 10.3 | 10.5 | 0.6 | — | — | 21.4 |
| Disposals | -0.9 | -7.9 | -6.9 | -0.4 | — | -0.3 | -16.4 |
| Reclassification between items | — | 2.3 | 28.2 | — | -1.1 | -30.4 | -1.0 |
| **Acquisition cost December 31, 2011** | **17.2** | **103.2** | **171.3** | **7.3** | **0.3** | **2.6** | **301.9** |
| **Accumulated depreciation and impairment January 1, 2011** | | **-35.4** | **-52.4** | **-6.3** | | | **-94.1** |
| Translation difference | | 0.9 | 2.0 | — | | | 2.9 |
| Depreciation for the period | | -5.2 | -22.7 | -0.2 | | | -28.1 |
| Disposals | | 6.5 | 5.5 | 0.4 | | | 12.4 |
| **Accumulated depreciation and impairment December 31, 2011** | | **-33.2** | **-67.6** | **-6.1** | | | **-106.9** |
| **Carrying value December 31, 2011** | **17.2** | **70.0** | **103.7** | **1.2** | **0.3** | **2.6** | **195.0** |

| | Land | Buildings and constructions | Machinery and equipment | Other tangible assets | Advance payments | Assets under construction | Total |
|---|---|---|---|---|---|---|---|
| **Acquisition cost January 1, 2010** | **18.1** | **103.1** | **150.0** | **8.9** | **0.5** | **29.1** | **309.7** |
| Translation difference | 0.1 | 3.0 | 13.0 | — | — | 2.5 | 18.6 |
| Acquisitions | — | 6.1 | 17.2 | 0.1 | 0.9 | 9.2 | 33.5 |
| Disposals | -0.1 | -9.5 | -42.6 | -1.9 | — | -0.7 | -54.8 |
| Reclassification between items | — | — | 5.3 | — | — | -5.7 | -0.4 |
| **Acquisition cost December 31, 2010** | **18.1** | **102.7** | **142.9** | **7.1** | **1.4** | **34.4** | **306.6** |
| **Accumulated depreciation and impairment January 1, 2010** | | **-37.2** | **-65.0** | **-8.0** | | | **-110.2** |
| Translation difference | | -1.1 | -5.3 | — | | | -6.4 |
| Depreciation for the period | | -5.1 | -26.9 | -0.3 | | | -32.3 |
| Disposals | | 8.0 | 44.8 | 2.0 | | | 54.8 |
| **Accumulated depreciation and impairment December 31, 2010** | | **-35.4** | **-52.4** | **-6.3** | | | **-94.1** |
| **Carrying value December 31, 2010** | **18.1** | **67.3** | **90.5** | **0.8** | **1.4** | **34.4** | **212.5** |

## 10. INVENTORIES

| | As at December 31, 2011 | As at December 31, 2010 | As at January 1, 2010 |
|---|---|---|---|
| Materials and supplies | 24.7 | 26.6 | 28.2 |
| Work-in-progress | 9.6 | 7.8 | 11.6 |
| Finished goods | 71.7 | 76.9 | 72.3 |
| Other inventories | 0.3 | 0.3 | 0.7 |
| | 106.3 | 111.6 | 112.8 |

## 11. OTHER CURRENT RECEIVABLES

| | As at December 31, 2011 | As at December 31, 2010 | As at January 1, 2010 |
|---|---|---|---|
| Trade receivables | 100.5 | 104.3 | 111.4 |
| Other receivables | 19.6 | 36.8 | 27.2 |
| Interest receivables | 0.1 | — | 0.1 |
| Other financial receivables | 0.1 | — | 1.2 |
| Income tax receivables | 5.8 | 6.6 | 2.4 |
| Other tax receivables | 1.0 | 1.8 | 2.3 |
| Rental receivables | 0.7 | 1.5 | 0.3 |
| Insurance receivables | 0.5 | 0.6 | 0.5 |
| Personnel receivables | 1.2 | 0.7 | 1.1 |
| Supplier bonuses and supplier related receivables | 2.7 | 2.3 | 1.3 |
| Other prepaid expenses and accrued income | 2.8 | 2.8 | 5.0 |
| | 135.0 | 157.4 | 152.8 |

The aging structure of the trade receivable after recognition of the bad debt provision is presented in the table below.

### Ageing analysis of trade receivables

| | As at December 31, 2011 | As at December 31, 2010 | As at January 1, 2010 |
|---|---|---|---|
| Not overdue | 91.9 | 91.2 | 92.8 |
| Overdue 1-30 days | 6.8 | 10.6 | 11.7 |
| Overdue 31-60 days | 0.3 | 0.8 | 1.3 |
| Overdue 61-90 days | 0.1 | 0.2 | 0.9 |
| Overdue > 90 days | 1.4 | 1.5 | 4.7 |
| | 100.5 | 104.3 | 111.4 |

### Receivables per currency

| | As at December 31, 2011 | As at December 31, 2010 | As at January 1, 2010 |
|---|---|---|---|
| EUR | 63.9 | 76.2 | 81.1 |
| GBP | 11.4 | 8.1 | 9.3 |
| SEK | 10.7 | 15.6 | 10.3 |
| NOK | 9.8 | 8.2 | 7.1 |
| PLN | 11.8 | 12.1 | 12.4 |
| UAH | 4.2 | 3.4 | 4.8 |
| Other | 12.2 | 18.0 | 14.4 |
| | 124.0 | 140.3 | 139.4 |

Receivables by currency include trade receivables, interest bearing receivables and other current receivables.

## 12. CASH AND CASH EQUIVALENTS

| | As at December 31, 2011 | As at December 31, 2010 | As at January 1, 2010 |
|---|---|---|---|
| Cash at bank | 90.8 | 118.5 | 88.2 |
| Short term deposits | 70.5 | 20.0 | 100.0 |
| | 161.3 | 138.5 | 188.2 |

Money market investments included in cash and cash equivalents are certificates of deposits and commercial papers with a maturity less than three months issued by banks and companies.

## 13. EQUITY AND RETAINED EARNINGS

### Changes in group structure

On 21st June 2011 Sanitec Group has come to an agreement to acquire the remaining 49 percent of shares of Slavuta Holding LLC. The purchase increases Sanitec's ownership of Slavuta Holding from 51 percent to 100 percent of the shares.

During the financial year 2011 Sanitec Service GmbH was merged to Allia Holding GmbH, Sphinx Bathrooms Belgium merged to B.V. "De Sphinx" Maastricht, Sanitec Italia Spa merged to Sanitec Holding Italy Spa, Ifö Sanitär A/S was merged to Porsgrund Bad A/S and Badrum AB was merged to Ifö Sanitär AB. Porsgrund Oy was liquidated to IDO Bathroom Ltd and Keramag Vertriebsgesellschaft, Austria, Keramag Nederland N.V. and Keramag Belgium N.V. were liquidated to Keramag Keramische Werke AG. Sanitec Kolo Sp.Z.o.o. was merged to Sanitec Holding Poland Sp.Z.o.o., which changed the name to Sanitec Kolo Sp.Z.o.o.

### Equity movements

In August 2010 it was resolved to decrease the share capital of Sanitec Corporation by €260.0 million by transferring the amount in question to the reserve for invested unrestricted equity. In 2010 Sanitec Group has continued to strengthen the capital structure of the Group companies. As part of the process Sofia IV S.à r.l. has made investments in the invested unrestricted equity fund of the parent company.

In December 2010 the company has also made a capital injection to its 100 % owned Italian subsidiary.

The par value of the shares of Sanitec Corporation is €1 per share and the total amount of shares is 1,000,000.

Translation difference of retained earnings is recognized in other comprehensive income. The amount as at December 31, 2011 is €-4.8 million (€-7.5 million).

### Nature and purpose of other reserves as stated in the consolidated statement of changes in equity

The total shareholders' equity consists of the share capital, the share premium account, the reserve for invested unrestricted equity, translation differences, and retained earnings. The amount exceeding the accounting par value of shares received by the company in connection with share subscriptions was recorded in share premium account. Translation differences caused by translation of foreign companies' financial statements are included in translation differences. Also exchange rate changes of the intercompany loan agreements that form part of a net investment are recognized in translation differences under equity. The net income for the accounting period is booked directly in retained earnings.

## 14. LOANS AND INTEREST BEARING LIABILITIES

### Non-Current interest bearing liabilities

| | As at December 31, 2011 | As at December 31, 2010 | As at January 1, 2010 |
|---|---|---|---|
| Loans from financial institutions | 0.1 | 0.2 | 15.0 |
| Related party loans | 168.0 | 168.0 | 295.8 |
| | 168.1 | 168.2 | 310.8 |

On December 31, 2011 Sanitec Group have loans and interest payable to the parent company Sofia IV S.à r.l. €168.0 million (€168.0 million). Further information on related party loans is given in footnote 22 Related party transactions.

### Current interest bearing liabilities

| | As at December 31, 2011 | As at December 31, 2010 | As at January 1, 2010 |
|---|---|---|---|
| Loans from financial institutions | 25.8 | 25.2 | 2.8 |
| Related party loans | — | — | 92.0 |
| Other interest bearing liabilities | 0.1 | 0.1 | — |
| | 25.9 | 25.3 | 94.8 |

### Interest bearing liabilities by currency

| | As at December 31, 2011 | As at December 31, 2010 | As at January 1, 2010 |
|---|---|---|---|
| EUR | 190.4 | 191.2 | 401.7 |
| USD | 3.6 | 2.3 | 3.5 |
| UAH | 0.0 | 0.0 | 0.4 |
| | 194.0 | 193.5 | 405.6 |

Average interest rate for borrowings have been 5.02 % (2010 4.02 %, 2009 3.68 %).

The fair value of present borrowings equals to their carrying amount as impact of discounting is not significant.

Even though the related party loans themselves do not contain covenants, the related party loans are tied contractually to the senior credit facility loan terms, which loan is held by the holding company Sofia III S.à r.l. The senior loans contain covenants including maximum leverage, minimum interest fixed charge coverage ratios, liquidity and restrictions on capital expenditure. These covenants and certain other terms limit the actions of Sanitec Group as well. Sofia III S.à r.l. is compliant with covenant requirements as at December 31, 2011.

Almost all other loans were related to PJSC Slavutskiy Plant Budfarfor, which is Ukrainian subsidiary of Sanitec Corporation. As at December 31, 2011 allegedly some financial covenants of the €25.8 million loan were not met. The bank did not take any measures as a result of such alleged breaches and a new loan agreement with new covenant restrictions has been subsequently agreed. At February 29, 2012 PJSC Slavuta Plant Budfarfor made a new loan agreement with the lenders.

According to the new loan agreement the loans are maturing in year 2012-2018. At December 31, 2011 the loan is reported as short-term.

### Maturity of the liabilities as at December 31, 2011

| | Due less than one year | Due between 1-3 years | Due between 3-5 years | Due beyond 5 years |
|---|---|---|---|---|
| Loans from financial institutions | 25.8 | — | — | — |
| Related party loans | — | — | 168.0 | — |
| Other interest bearing liabilities | 0.1 | 0.1 | — | — |
| Derivatives | — | — | — | — |
| Trade payables | 67.0 | — | — | — |
| Other liabilities | 11.0 | — | — | — |
| | 103.9 | 0.1 | 168.0 | — |

### Maturity of the liabilities as at December 31, 2010

| | Due less than one year | Due between 1-3 years | Due between 3-5 years | Due beyond 5 years |
|---|---|---|---|---|
| Loans from financial institutions | 25.2 | — | — | — |
| Related party loans | — | — | — | 168.0 |
| Other interest bearing liabilities | 0.1 | 0.2 | — | — |
| Derivatives | — | — | — | — |
| Trade payables | 58.4 | — | — | — |
| Other liabilities | 32.6 | — | — | — |
| | 116.3 | 0.2 | — | 168.0 |

### Maturity of the liabilities as at January 1, 2010

| | Due less than one year | Due between 1-3 years | Due between 3-5 years | Due beyond 5 years |
|---|---|---|---|---|
| Loans from financial institutions | 2.8 | 6.1 | 8.9 | — |
| Related party loans | 92.0 | 3.2 | — | 292.6 |
| Other interest bearing liabilities | — | — | — | — |
| Derivatives (net) | 0.7 | — | — | — |
| Trade payables | 64.2 | — | — | — |
| Other liabilities | 15.2 | — | — | — |
| | 174.9 | 9.3 | 8.9 | 292.6 |

## 15. FINANCIAL RISK MANAGEMENT

Sanitec financial risk management is conducted according to the Treasury Policy, approved by the Board of Directors. The objective of treasury is to secure sufficient funding for operational needs, to provide financial services to Group companies, to minimize the costs of financing, to manage financial risks (currency, interest rate, liquidity and funding, credit and operational treasury risks) and to provide management relevant information on the financial position and risk exposures of Sanitec. The Group companies are responsible for hedging their financial risks according to the Treasury Policy and instructions from Group Treasury.

### Liquidity risk

Sanitec aims to maintain an optimal amount of liquidity to fund the business operations of the Group at all times while minimizing interest costs. Liquidity is considered to be the sum of cash and cash equivalents and available committed credit facilities. As of the end of the year 2011, the aggregate of unutilized committed revolving credit facility is EUR 50.0 million (€50.0 million) and cash and cash equivalents amounted to €161.3 million (€138.5 million).

## Credit risk

Group Treasury evaluates and monitors financial counterparty risk. The Group minimizes this risk by limiting its counterparties to a limited number of major banks and financial institutions, by monitoring their performance, and by working within agreed counterparty limits.

Non-financial counterparty risk, i.e. counterparty risk related to customers, is reduced by Group companies, by applying a credit policy, constant monitoring of receivables aging and by credit insurance. Further analysis on aging of trade receivables is presented under note 11 other current receivables.

## Currency risk

Foreign exchange risk is regarded as uncertainty of cash flows and earnings that arises from fluctuations in currency rates. The Group looks at the foreign exchange risks from three angles: transaction risk related to cash flows in other than functional currencies, translation risk related foreign exchange risk associated with consolidation of the Group, and the economic risk related to changes in competitive environment as a result of changes in foreign exchange rates.

Transaction exposure comprises of those foreign exchange exposures that are identified, and that would be affected by future exchange rate movements and have an effect to profit or loss statement. Transaction exposure is defined as all anticipated other than functional currency cash flows during the next 12 months. The Group hedges itself against these risks by matching the foreign currency cash flows to the extent possible and hedging the remaining part with currency derivatives in accordance with Treasury Policy. As of the end of the year, the Group held no currency derivative contracts.

Transaction exposure is spread in about 10 currencies and at the reporting date the biggest open exposures were GBP, SEK NOK, UAH, RUB, PLN. The exposures of these currency pairs have been presented in the table below.

SEK foreign exposure arising from foreign exchange movement in EURSEK currency pair

| | As at December 31, 2011 | As at December 31, 2010 | As at January 1, 2010 |
|---|---|---|---|
| FX Exposure from balance sheet items and highly probable cash flows (net amount)(i) | 45.0 | 28.3 | 21.1 |
| FX derivatives not designated in a hedge relationship are carried at fair value through profit or loss(ii) | — | — | -5.3 |
| | 45.3 | 28.3 | 15.8 |

DKK foreign exposure arising from foreign exchange movement in DKKSEK currency pair

| | As at December 31, 2011 | As at December 31, 2010 | As at January 1, 2010 |
|---|---|---|---|
| FX Exposure from balance sheet items and highly probable cash flows (net amount)(i) | 35.2 | 34.5 | 28.8 |
| FX derivatives not designated in a hedge relationship are carried at fair value through profit or loss(ii) | — | — | — |
| | 35.2 | 34.5 | 28.8 |

EUR foreign exposure arising from foreign exchange movement in EURUAH currency pair

| | As at December 31, 2011 | As at December 31, 2010 | As at January 1, 2010 |
|---|---|---|---|
| FX Exposure from balance sheet items and highly probable cash flows (net amount)(i) | -27.1 | -25.1 | -15.4 |
| FX derivatives not designated in a hedge relationship are carried at fair value through profit or loss(ii) | — | — | — |
| | -27.1 | -25.1 | -15.4 |

NOK foreign exposure arising from foreign exchange movement in EURNOK currency pair

| | As at December 31, 2011 | As at December 31, 2010 | As at January 1, 2010 |
|---|---|---|---|
| FX Exposure from balance sheet items and highly probable cash flows (net amount)[(i)] | 26.1 | 4.5 | 19.2 |
| FX derivatives not designated in a hedge relationship are carried at fair value through profit or loss[(ii)] | — | — | — |
| | 26.1 | 4.5 | 19.2 |

PLN foreign exposure arising from foreign exchange movement in EURPLN currency pair

| | As at December 31, 2011 | As at December 31, 2010 | As at January 1, 2010 |
|---|---|---|---|
| FX Exposure from balance sheet items and highly probable cash flows (net amount)[(i)] | 18.0 | 30.4 | 48.8 |
| FX derivatives not designated in a hedge relationship are carried at fair value through profit or loss[(ii)] | — | — | -26.5 |
| | 18.0 | 30.4 | 22.3 |

RUB foreign exposure arising from foreign exchange movement in RUBUAH currency pair

| | As at December 31, 2011 | As at December 31, 2010 | As at January 1, 2010 |
|---|---|---|---|
| FX Exposure from balance sheet items and highly probable cash flows (net amount)[(i)] | — | — | — |
| FX derivatives not designated in a hedge relationship are carried at fair value through profit or loss[(ii)] | 10.6 | 8.1 | 6.2 |
| | 10.6 | 8.1 | 6.2 |

(i) Balance sheet items and highly probable cash flows consist of the underlying operative sales and purchases and also of financial assets and liabilities that are not in the home currency of the reporting entity recorded in the balance sheet.

(ii) FX derivatives not designated in a hedge relationship are carried at fair value through profit or loss.

The foreign exchange risk sensitivity analysis according to IFRS 7 for the most important currency pairs has been calculated for the Group's foreign currency nominated financial assets and liabilities, including foreign exchange forward contracts outstanding at the reporting date. The foreign exchange risk sensitivity analysis represents the impact of a change in the foreign exchange rates of 10 percent to the statement of income and to the equity on the balance sheet date. Changes in the equity are caused by foreign exchange forwards designated in cash flow hedge accounting. The effects of 10% appreciation in the most significant currency pairs on profit or loss and equity are presented in the tables below. The sensitivity analysis is based on the assumption that two month of the 12 months forecasted foreign exchange exposure it recognized in balance sheet.

## As at December 31, 2011

| 10 % strengthening of | against | Profit or loss | Equity |
|---|---|---|---|
| SEK | EUR | 2.5 | — |
| DKK | SEK | 0.7 | — |
| EUR | UAH | -.2.2 | — |
| NOK | EUR | 1.1 | — |
| PLN | EUR | 3.7 | — |
| RUB | UAH | 0.2 | — |

### As at December 31, 2010

| 10 % strengthening of | against | Profit or loss | Equity |
|---|---|---|---|
| SEK | EUR | 0.7 | — |
| DKK | SEK | 0.8 | — |
| EUR | UAH | -.2.2 | — |
| NOK | EUR | -0.5 | — |
| PLN | EUR | 4.3 | — |
| RUB | UAH | 0.1 | — |

### As at January 1, 2010

| 10 % strengthening of | against | Profit or loss | Equity |
|---|---|---|---|
| SEK | EUR | 1.4 | — |
| DKK | SEK | 0.6 | — |
| EUR | UAH | -1.3 | — |
| NOK | EUR | 1.3 | — |
| PLN | EUR | 5.5 | — |
| RUB | UAH | 0.1 | — |

Foreign exchange *translation exposure* arises when the equity of a subsidiary is denominated in currency other than the functional currency of the parent company. Sanitec is not applying hedge accounting to equity exposures. The translation of subsidiaries' balance sheet into euro caused translation differences of €-3.1 million from year 2010 to 2011 and from year 2009 to 2010 €6.3 million to equity.

Economic exposure *related to foreign exchange rates* means the risk of deteriorating competitive situation due to exchange rate movements, or in other words the economic effect of the currency of costs and revenues affecting both Sanitec and its competitors. The Group is currently not hedging itself for these risks, but might use currency derivatives as hedges.

### Interest rate risk

Interest rate risks arise due to interest rate fluctuations, which may increase the borrowing costs of the Group. Sanitec may enter into derivative contracts to reduce these risks. Until the end of 2011 the related party loans had fixed interest rates. As of the end of the year, the Group held no interest rate derivative contracts.

At the reporting date, the interest rate profile of the Group's interest-bearing assets and liabilities is presented in the table below:

### As at December 31, 2011

| | Fixed rate | Floating rate |
|---|---|---|
| Receivables | — | 3.9 |
| Short term deposits | — | 70.5 |
| Cash & bank | — | 90.8 |
| Bank borrowings | — | -25.8 |
| Other borrowings | -168.2 | — |
| Net liabilities | -168.2 | 139.4 |

### As at December 31, 2010

| | Fixed rate | Floating rate |
|---|---|---|
| Receivables | — | 0.5 |
| Short term deposits | — | 20.0 |
| Cash & bank | — | 118.5 |
| Bank borrowings | — | -25.2 |
| Other borrowings | -168.3 | — |
| Net liabilities | -168.3 | 113.8 |

### As at January 1, 2010

| | Fixed rate | Floating rate |
|---|---|---|
| Receivables | — | 0.8 |
| Short term deposits | — | 100.0 |
| Cash & bank | — | 88.2 |
| Bank borrowings | — | -17.8 |
| Other borrowings | -387.9 | — |
| Net liabilities | -387.9 | 171.2 |

The basis for the Group level interest rate risk sensitivity analysis is an aggregate Group level interest rate exposure, composed of interest bearing assets and interest bearing debt which are used to hedge the underlying positions. For all interest bearing debt and assets to be fixed during next 12 months a one percentage point (100 basis points) move upwards or downwards in interest rates with all other variables held constant would have the effects before taxes presented in the table below:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Income statement effect | -/+1.4 | -/+1.1 | -/+1.7 |

### Commodity risk

Sanitec may use derivatives to hedge its exposure to commodity price fluctuations where appropriate. As of the end of the year, the Group held no commodity derivative contracts.

## 16. CLASSIFICATION OF FINANCIAL INSTRUMENTS AND DERIVATIVES AND THEIR CARRYING AMOUNTS AND FAIR VALUES

### As at December 31, 2011

| | Financial assets and liabilities at fair value through profit or loss | Loans and receivables | Financial liabilities measured at amortized cost | Carrying amount by balance sheet item | Fair value |
|---|---|---|---|---|---|
| Non-current receivables | — | 0.7 | — | 0.7 | 0.7 |
| Trade receivables | — | 100.5 | — | 100.5 | 100.5 |
| Loans receivables | — | 3.9 | — | 3.9 | 3.9 |
| Other receivables | — | 19.6 | — | 19.6 | 19.6 |
| Derivative assets | — | — | — | — | — |
| | — | 124.7 | — | 124.7 | 124.7 |

### As at December 31, 2011

| | Financial assets and liabilities at fair value through profit or loss | Loans and receivables | Financial liabilities measured at amortized cost | Carrying amount by balance sheet item | Fair value |
|---|---|---|---|---|---|
| Long term liabilities | — | — | 168.1 | 168.1 | 168.1 |
| Trade Payables | — | 67.0 | — | 67.0 | 67.0 |
| Derivative liabilities | — | — | — | — | — |
| Other current liabilities | — | 11.0 | 25.9 | 36.9 | 36.9 |
| | — | 78.0 | 194.0 | 272.0 | 272.0 |

**As at December 31, 2010**

| | Financial assets and liabilities at fair value through profit or loss | Loans and receivables | Financial liabilities measured at amortized cost | Carrying amount by balance sheet item | Fair value |
|---|---|---|---|---|---|
| Non-current receivables | — | 5.3 | — | 5.4 | 5.4 |
| Trade receivables | — | 104.3 | | 104.3 | 104.3 |
| Loan receivables | — | 0.5 | — | 0.5 | 0.5 |
| Other receivables | — | 36.8 | — | 36.8 | 36.8 |
| Derivative assets | — | — | — | — | — |
| | — | 146.9 | — | 146.9 | 146.9 |

**As at December 31, 2010**

| | Financial assets and liabilities at fair value through profit or loss | Loans and receivables | Financial liabilities measured at amortized cost | Carrying amount by balance sheet item | Fair value |
|---|---|---|---|---|---|
| Long term liabilities | — | — | 168.2 | 168.2 | 168.2 |
| Trade Payables | — | 58.4 | — | 58.4 | 58.4 |
| Derivative liabilities | — | — | — | — | — |
| Other current liabilities | — | 32.6 | 25.3 | 57.9 | 57.9 |
| | — | 91.0 | 193.5 | 284.5 | 284.5 |

**As at January 1, 2010**

| | Financial assets and liabilities at fair value through profit or loss | Loans and receivables | Financial liabilities measured at amortized cost | Carrying amount by balance sheet item | Fair value |
|---|---|---|---|---|---|
| Non-current receivables | — | 9.1 | — | 9.1 | 9.1 |
| Trade receivables | — | 111.4 | | 111.4 | 111.4 |
| Loans receivables | — | 0.8 | — | 0.8 | 0.8 |
| Other receivables | — | 27.2 | — | 27.2 | 27.2 |
| Derivative assets | 0.3 | — | — | 0.3 | 0.3 |
| | 0.3 | 148.5 | — | 148.8 | 148.8 |

**As at January 1, 2010**

| | Financial assets and liabilities at fair value through profit or loss | Loans and receivables | Financial liabilities measured at amortized cost | Carrying amount by balance sheet item | Fair value |
|---|---|---|---|---|---|
| Long term liabilities | — | — | 310.8 | 310.8 | 310.8 |
| Trade Payables | — | 64.2 | — | 64.2 | 64.2 |
| Derivative liabilities | 1.0 | — | — | 1.0 | 1.0 |
| Other current liabilities | — | 15.2 | 94.8 | 110.0 | 110.0 |
| | 1.0 | 79.4 | 405.6 | 485.0 | 485.0 |

At January 1, 2010 Sanitec had forward foreign exchange contracts that are used to hedge internal loans. The contract amounts total €135.2 million. Fair value of the forward assets is €0.3 million and liabilities €1.0 million. The fair values as well as carrying values amount to €-0.7 millions. The maturities of these derivative instruments were less than one month.

At December 31, 2011 or at December 31, 2010 the Group did not have any derivatives or other instruments, which are recognized at fair value through profit or loss

The fair value hierarchy of the financial instruments:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

Financial derivatives are valued in line with Level 2.

Sanitec has not applied hedge accounting during financial years 2011, 2010 or 2009.

## 17. PROVISIONS

### As at December 31, 2011

| | Restructuring provisions | Pension provisions | Income tax provisions | Other provisions | Total |
|---|---|---|---|---|---|
| As at December 31, 2010 | 30.6 | 26.4 | 10.7 | 5.9 | 73.6 |
| New provision/Addition during the period | 3.1 | 1.6 | 6.4 | 0.3 | 11.4 |
| Unwinding of discount | — | -0.5 | — | — | -0.5 |
| Reversal to opening balance | 2.8 | 1.0 | — | -0.6 | 3.2 |
| Usage during the period | -25.9 | -1.2 | — | -1.0 | -28.1 |
| As at December 31, 2011 | 10.6 | 27.3 | 17.1 | 4.6 | 59.6 |
| Short-term provisions as at December 31, 2011 | 5.9 | 0.1 | 0.0 | 0.9 | 6.9 |
| Long-term provisions as at December 31, 2011 | 4.7 | 27.2 | 17.1 | 3.7 | 52.7 |

## 18. DEFINED BENEFIT OBLIGATIONS

Sanitec has a number of defined benefit and contribution plans in accordance with local conditions and practices in the countries, in which operates. The most significant pension plans accounted for as defined contribution plans are located in Finland, France, Sweden, Norway and Ukraine.

### *Defined benefit plans*

Amounts recognized in balance sheet:

| | As at December 31, 2011 | As at December 31, 2010 | As at January 1, 2010 |
|---|---|---|---|
| Present value of funded obligations | 169.0 | 186.0 | 168.6 |
| Fair value of plan assets | -156.0 | -170.9 | -154.1 |
| Funded status | 13.0 | 15.1 | 14.5 |
| Present value of unfunded obligations | 14.1 | 11.0 | 11.2 |
| Unrecognized past service cost | — | — | — |
| Net liability in the balance sheet | 27.1 | 26.1 | 25.7 |

| | As at December 31, 2011 | As at December 31, 2010 | As at January 1, 2010 |
|---|---|---|---|
| Plan assets in the balance sheet | — | — | — |
| Pension obligation in the balance sheet | 27.1 | 26.1 | 25.7 |
| Net liability in the balance sheet | 27.1 | 26.1 | 25.7 |

Actuarial gains and losses and effect of asset ceiling recognized in other comprehensive income:

| | As at December 31, 2011 | As at December 31, 2010 |
|---|---|---|
| Accumulated amount at the beginning of the year | -2.0 | — |
| Recognized during the year | -3.1 | -2.0 |
| Accumulated amount at the end of the year | -5.1 | -2.0 |

Amounts recognized in income statement:

| | Period from January 1 - December 31, 2011 | Period from January 1 - December 31, 2010 |
|---|---|---|
| Current service cost | -1.7 | -0.7 |
| Interest cost | -9.5 | -9.1 |
| Expected return on assets | 9.0 | 9.3 |
| Past service costs | — | — |
| Curtailments | 1.3 | — |
| Total costs included in profit and loss | -0.9 | -0.5 |
| Amounts recognized through other comprehensive income | -3.1 | -2.0 |
| of which actuarial gains / (losses) | 13.7 | -10.6 |
| of which asset ceiling in accordance with IFRIC 14 | -16.8 | 8.6 |
| Total costs from defined benefit plans | -4.0 | -2.5 |
| Classification of total cost into operating and non-operating expenses: | | |
| Interest cost | -9.5 | -9.1 |
| Expected return on assets | 9.0 | 9.3 |
| Total non-operating cost included in profit and loss | -0.5 | 0.2 |
| Current service cost | -1.7 | -0.7 |
| Past service cost | — | — |
| Curtailements | 1.3 | — |
| Total operating costs included in profit and loss | -0.4 | -0.7 |

The defined pension scheme in the Netherlands was affected by the requirements of IFRIC 14. The net surplus of the plan as at December 31, 2011 totaled to €30.5 million, as at December 31, 2010 to €13.7 million, and as at January 1, 2010 to €22.4 million. The net surplus in the opening balance sheet as at January 1, 2010, and the changes in net surplus during the financial years 2010 and 2011 were recognized directly through other comprehensive income in accordance with IFRIC 14 requirements.

The movement in the present value of defined benefit obligations:

| | As at December 31, 2011 | As at December 31, 2010 |
|---|---|---|
| Defined benefit obligation at the beginning of the year | 197.0 | 179.9 |
| Current service costs | 1.7 | 0.7 |
| Interest costs | 9.5 | 9.1 |
| Past service costs | — | -0.1 |
| Actuarial (gains) / losses | -14.5 | 15.5 |
| Benefits paid | -10.3 | -9.6 |
| Curtailments and settlements | -1.2 | — |
| Translation differences | 1.0 | 1.5 |
| Defined benefit obligation at the end of the year | 183.2 | 197.0 |

The movement in the present value of plan assets:

| | As at December 31, 2011 | As at December 31, 2010 |
|---|---|---|
| Fair value of plan assets at the beginning of the year | 170.9 | 154.9 |
| Expected return on plan assets | 9.0 | 9.3 |
| Actuarial gains / (losses) | -17.7 | 13.5 |
| Contributions from employer | 1.9 | 1.9 |
| Benefits paid | -10.3 | -9.6 |
| Curtailments and settlements | — | — |
| Translation differences | 2.3 | 0.9 |
| Fair value of plan assets at the end of the year | 156.1 | 170.9 |

The major categories of plan assets as weighted percentage of total plan assets:

| | As at December 31, 2011 | As at December 31, 2010 | As at January 1, 2010 |
|---|---|---|---|
| Equity instruments (%) | 9.0% | 8.0% | 9.0% |
| Debt instruments (%) | 55.3% | 55.5% | 53.8% |
| Property (%) | 0.2% | 0.2% | 0.0% |
| Money market instruments (%) | 0.2% | 0.2% | 0.0% |
| Other assets (%) | 35.3% | 36.1% | 37.2% |
| Total (%) | 100.0% | 100.0% | 100.0% |

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the end of the reporting period. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

Expected contributions to defined benefit pension plans are estimated to materially be in 2012 at the same level with years 2010 and 2011.

The principal actuarial assumptions used as at December 31:

| | 2011 | 2010 |
|---|---|---|
| **UK** | | |
| Discount rate (%) | 4.7% | 5.3% |
| Inflation (%) | 3.1% | 3.4% |
| Expected return on plan assets (%) | 6.1% | 7.0% |
| Future salary increase (%) | 4.4% | 4.4% |
| Future pension increase (%) | 2.4% | 2.4% |
| **Germany** | | |
| Discount rate (%) | 4.5% | 4.7% |
| Inflation (%) | 1.8% | 1.8% |
| Expected return on plan assets (%) | 3.9% | 4.2% |
| Future salary increase (%)(1) | 0.0% | 0.0% |
| Future pension increase (%) | 1.8% | 1.6% |
| **Norway** | | |
| Discount rate (%) | 3.8% | 3.9% |
| Inflation (%) | 2.0% | 2.5% |
| Expected return on plan assets (%)(2) | 0.0% | 5.4% |
| Future salary increase (%)(1) | 0.0% | 4.0% |
| Future pension increase (%) | 1.3% | 1.3% |
| **The Netherlands** | | |
| Discount rate (%) | 5.7% | 5.0% |
| Inflation (%) | 2.0% | 2.0% |
| Expected return on plan assets (%) | 5.0% | 5.0% |
| Future salary increase (%) | 2.5% | 2.5% |
| Future pension increase (%) | 2.0% | 2.0% |
| **France** | | |
| Discount rate (%) | 4.0% | 4.0% |
| Inflation (%) | 2.0% | 2.0% |
| Expected return on plan assets (%) | 3.2% | 3.6% |
| Future salary increase (%) | 2.0% | 2.0% |
| Future pension increase (%) | 5.1% | 5.1% |
| **Italy** | | |
| Discount rate (%) | 4.8% | 2.3% |
| Inflation (%) | 3.0% | 2.0% |
| Expected return on plan assets (%)(3) | 0.0% | 0.0% |
| Future salary increase (%)(1) | 0.0% | 0.0% |
| Future pension increase (%) | 1.0% | 1.0% |
| **Sweden** | | |
| Discount rate (%) | 3.8% | 3.9% |
| Inflation (%) | 3.3% | 2.9% |
| Expected return on plan assets (%) | 4.1% | 5.4% |
| Future salary increase (%) | 3.5% | 4.0% |
| Future pension increase (%) | 0.1% | 3.0% |

(1) The future salary increase equals to zero, because the pensions are calculated for retired people and pensioners.

(2) No pension assets in the pension scheme for 2011 due to internal mergers.

(3) No pension assets associated with pension scheme in Italy

## 19. OTHER CURRENT LIABILITIES

| | As at December 31, 2011 | As at December 31, 2010 | As at January 1, 2010 |
|---|---|---|---|
| Trade payables | 67.0 | 58.4 | 64.2 |
| Advances received | 0.3 | 0.3 | 0.2 |
| Income tax payable | 4.4 | 3.8 | 4.1 |
| Other tax payable | 2.3 | 2.2 | 2.6 |
| Financial accruals | 0.5 | 1.6 | 6.7 |
| Customer bonus accruals | 52.4 | 57.6 | 57.5 |
| Warranty costs accruals | 9.3 | 11.6 | 12.6 |
| Personnel costs accruals | 31.1 | 31.1 | 31.2 |
| Other accruals | 21.2 | 22.3 | 27.2 |
| Other liabilities | 11.1 | 32.6 | 14.8 |
| | 199.6 | 221.5 | 221.1 |

## 20. COMMITMENTS AND CONTINGENT LIABILITIES

The Group had the following commitments and contingent liabilities:

First ranking guarantees and security pledge over the assets of Sanitec and its certain subsidiaries have been granted in favor of the lenders of Sofia III S.à r.l. As of December 31, 2011 the majority of Sanitec Group's fixed assets, receivables, inventory and bank accounts are pledged.

The nominal value of all collateral granted by these Group subsidiaries exceeds the combined book value of the loans for which they have been given.

In Ukraine assets and shares of PJSC Slavutskiy Plant Budfarfor are pledged against a local credit facility. At December 31, 2011 the value of pledges given by PJSC Slavutskiy Plant Budfarfor amount to €23.3 million (€20.9 million) and the mortgages amount to €11.6 million (€15.9 million). In addition, Slavuta Holdings LLC has guaranteed the local credit facility and pledged the shares of PJSC Slavutskiy Plant Budfarfor.

Sanitec and certain of the Group subsidiaries have granted guarantees as collateral for certain pension liabilities. Those guarantees totaled €6.8 million (€0.9 million) as of December 31, 2011.

Sanitec Group had off balance sheet actuarial pension liabilities €0.2 million in subsidiaries located in Finland.

Following the squeeze-out of the minority shareholders of Keramag Keramische Werke Aktiengesellschaft by Sofia Group in 2008, several minority shareholders are claiming an increase of the squeeze-out cash compensation. If they prevail, the cash compensation for all formerly outstanding shares will have to be increased. The increase will be determined by the court. At this stage, it cannot be assessed, whether there will be any amount payable to minority shareholders and, therefore, no provision has been recognized in the financial statements.

In addition Sanitec Group has €5.2 million (€3.3 million) guarantees for other commitments.

## 21. OPERATING LEASES

### Operating lease commitments

| | As at December 31, 2011 | As at December 31, 2010 |
|---|---|---|
| Within one year | 7.1 | 8.3 |
| Between one and five years | 17.7 | 12.2 |
| After five years | 0.8 | 1.1 |
| | 25.6 | 21.6 |

## 22. RELATED PARTY TRANSACTIONS

Related parties are EQT controlled corporations, Sanitec management and other parties in which there is a special relationship with Sanitec Group Company.

On December 31, 2011 Sanitec Group have loans and interest payable to the parent company Sofia IV S.à r.l. €168.0 million (€168.0 million).

On December 31, 2011, the Group has a liability of €0.4 million to Caesar Holding Limited, former ultimate parent company owned by EQT fund IV, relating to transaction costs payable on acquisition of shares.

Remuneration to key management:

| | Period from January 1 - December 31, 2011 | Period from January 1 - December 31, 2010 |
|---|---|---|
| Board members and members of top management team ....... | -3.4 | -3.4 |
| | -3.4 | -3.4 |

In addition to salary, the top management team employees are generally entitled to, with some exceptions, annual bonus of maximum 50-60% of their annual salary in accordance with the Sanitec bonus scheme, annual pensions premiums equal to 15-27.5% of their annual salary, sickness benefits equal to 75-100% of their monthly salary for the first 3-6 months of possible sickness period and a company car.

All employment agreements contain regulations regarding confidentiality (during and post-employment) and agreement contain regulations regarding IPR to the effect that IPR developed by the employees shall vest in the employing company. In case the employment agreements are terminated by the employers, all top management employees with some exception are entitled to at least 12 months' severance pay. Majority of management are bound by non-compete and non-solicit (with respect to customers and other employees) obligations during 12 months after the cessation of their respective employments. The non-compete provisions do not contain any express provision on compensation during the non-compete period.

There are no loans given to or pledges or other commitments given on behalf of the board of directors or Group management at December 31, 2011.

The Group CEO and other members of the Group management team have a right to retire according to the local legislations.

### *Group structure*

The parent company of the Group, Sanitec Oy ('Sanitec Corporation' in the following), originally registered in Finland on March 25, 2005, and certain other holding companies were established by the private equity fund EQT IV in order to acquire the shares in Sanitec Europe Corporation. In the transaction closed on April 11, 2005, the ownership of Sanitec Europe Corporation and all the subsidiaries of Sanitec Group were transferred from Sanitec International S.A., the previous parent company of the Group, to the holding companies controlled by Sanitec Corporation. Through this transaction all the operations of Sanitec Group were sold to EQT IV.

The parent company of Sanitec Corporation is Sofia IV S.à r.l., a company registered in Luxembourg. Sofia III S.à r.l. fully owns Sofia IV S.à r.l. The parent company of Sofia III S.à r.l. is Sofia III S.à r.l., a company registered in Luxembourg. The ultimate parent company of the Group is Sofia II S.à r.l., a company registered in Luxembourg, and indirectly owned by the private equity fund EQT IV and management (77.5%) and a lender consortium (22.5 %).

In July 8th, 2009 Sofia IV S.à r.l. acquired the shares of Sanitec Corporation. In connection with the acquisition, Sofia IV S.à r.l. bought the senior loans, the second lien loans, the shareholder loans and the interest rate swap liabilities from the lenders of Sanitec Group and from the holding companies controlled by EQT IV fund and Sofia III S.à r.l. issued new senior loans with face value of €300 million to the lenders. Also the parent company of Sofia III S.à r.l. injected €115.0 million of share capital and convertible preferred equity certificates to the Sofia III Group.

## 23. LEGAL AND REGULATORY PROCEEDINGS

The Group is a defendant in numerous lawsuits that arise out of, or are incidental to, the ordinary course of its business. In these legal proceedings, no specifically identified director, or associated company, is a party or named defendant. These lawsuits concern issues such as product liability, labor related matters and personal injury matters. It is the Group's policy to provide for amounts related to these legal matters if liability is ascertainable with reasonable certainty. The Group is not involved in any legal or arbitration proceedings the outcome of which could be expected to have a material effect on the Group's financial position or results of operations.

### *Price fixing cartel case*

On June 23, 2010, the European Commission announced its decision to impose a fine for the alleged participation in a price fixing cartel and anticompetitive practices by 17 European bathroom fittings and fixtures manufacturers, including the Company and certain of its subsidiaries, over a period of 12 years (1992-2004). The behavior of the relevant entities was imputed to Sanitec Europe Oy, which was considered to exercise decisive influence over their conduct during the alleged infringement period. In total, Sanitec Europe Oy, jointly and severally with certain of its subsidiaries, was fined €57.69 million in aggregate, which was paid in full on September 30, 2010. Sanitec Europe Oy and the relevant subsidiaries filed applications appealing the decision and level of fines imposed and the oral hearing took place on May 22, 2012. As a result of the complexity of the case and the number of pending appeals, and taking into account any further appeals, the process is expected to continue during the upcoming years. We cannot be certain that we will not be subject to third party claims in respect of these matters or that we will not be required to make payments in settlement of such claims.

### *Claim brought by PCT former employees*

A group of approximately 87 former employees of one of our production facilities in France, Produit Ceramique de Touraine SA ("PCT"), are disputing their termination compensation and claiming €7.1 million in additional compensation for past redundancies. The matter is ongoing and a first labor court conciliation hearing between the parties in 2011 was unsuccessful. The next hearing is scheduled to take place in September 2012. We consider the risk for additional payments to be remote and believe the court will rule in our favor, so we have therefore not made any provisions for this claim. In addition, a former employee of PCT has presented a claim in the amount of €124,000, which, if successful, could potentially be extended to additional employees dismissed around the same time, although we consider this risk to be remote. PCT has appealed to the Cassation Court and the next hearing is scheduled to take place later in 2012.

### *Dispute with Portuguese supplier*

On November 30, 2010, we entered into a compensation and settlement agreement with a Portuguese supplier regarding costs and damages incurred by us as a result of claims from end-customers in the Nordics and France resulting from defective products (flushing devices and mechanisms, inlet hoses and inner cisterns) supplied by the supplier. As a result of the settlement entered into with the Portuguese supplier, the supplier has paid approximately €750,000 in settlement to us to date. Following this settlement agreement, we have become aware of further defective products produced or delivered by the same supplier which have or may result in damages. We have now undertaken an investigation to review to what extent the supplier's defective products have been used in Sanitec's products and pursuant to this investigation, we reserved sufficient additional amount to cover possible resulting damages. We have reported these losses to our insurance provider and also entered into discussions with the supplier to clear and settle losses and damages which were not included in the settlement agreement.

*Tax disputes*

Some of our companies are currently involved in discussions and disputes with tax authorities regarding deductibility of VAT and other tax payments. In addition, certain of our companies in Germany, Italy and Ukraine are subject to pending tax audits. In Germany, we have made a provision for additional taxes booked in relation to the ongoing audit of KERAMAG AG for the years 2001 to 2006, which is expected to reach final agreement during the summer of 2012. In Italy, Sanitec Holding Italy is currently appealing reassessments of €9.8 million for the years 2005 to 2008 and Sanitec Italia (prior to its merger into Sanitec Holding Italy) is currently appealing reassessments of €3.9 million for the years 2002 to 2005. In Ukraine, an ongoing audit for Budfarfor for the year 2011 is currently in the administrative appeal stage.

## 24. SHARES IN SUBSIDIARIES

### The Group companies as at December 31, 2011

| | Country | Ownership-% |
|---|---|---|
| Lincoln Land Fünfte B.V.[1] | The Netherlands | 100.0 |
| Sanitec Europe Oy | Finland | 100.0 |
| Sanitec Russia Oy | Finland | 100.0 |
| Sanitec LLC | Russia | 100.0 |
| Leda Holdings S.A.S. | France | 100.0 |
| Leda S.A.S. | France | 100.0 |
| Ido Bathroom Ltd. | Finland | 100.0 |
| Sanitec Holdings Norway A/S[1] | Norway | 100.0 |
| Porsgrund Bad A/S | Norway | 100.0 |
| Ifö Sanitär AB | Sweden | 100.0 |
| Scandi-aqualine A/S | Denmark | 100.0 |
| Ifö Sanitär Eesti AS | Estonia | 100.0 |
| Fastighets AB Bro-Mö | Sweden | 100.0 |
| Allia International S.A. | France | 100.0 |
| Allia Holding GmbH.[1] | Germany | 100.0 |
| Sanitec Beteiligungs- und Servicegesellschaft mbH | Germany | 100.0 |
| Varicor S.A.S. | France | 100.0 |
| Varicor GmbH | Germany | 100.0 |
| Allia S.A.S. | France | 100.0 |
| Produits Ceramiques de Touraine S.A. | France | 100.0 |
| B.V. "De Sphinx" (former Koninklijke Sphinx B.V.) | The Netherlands | 100.0 |
| Baduscho Dusch- und Badeeinrichtungen Produktions- und Vertriebsgesellschaft m.b.H. | Austria | 100.0 |
| Bekon Koralle AG | Switzerland | 100.0 |
| Koralle Sp. z o.o. | Poland | 100.0 |
| Koralle International GmbH | Germany | 94.8 |
| Koralle Sanitärprodukte GmbH | Germany | 100.0 |
| Servico Gesellschaft fur Sanitärtechnik GmbH | Germany | 100.0 |
| Ceravid GmbH | Germany | 100.0 |
| Keramag Keramische Werke AG | Germany | 100.0 |
| Sanitec S.R.O. | Czech Republic | 100.0 |
| Eurocer Industria de Sanitarios S.A. | Portugal | 100.0 |
| Sanitec Kolo Sp. z o.o. (former Sanitec Holding Poland Sp. z.o.o.)[1] | Poland | 100.0 |
| Scan Aqua Sp. z o.o. | Poland | 100.0 |
| Sanitec Ukraine Ltd. | Ukraine | 100.0 |
| Slavuta Holdings LLC | Ukraine | 100.0 |
| PJSC Slavuta Plant Budfarfor (former CJSC Slavutskiy Plant Budfarfor) | Ukraine | 99.0 |
| Slavuta Trading LLC | Ukraine | 100.0 |
| Sanitec Holding Italy S.p.A.[1] | Italy | 100.0 |
| Pozzi Ginori S.p.A. | Italy | 100.0 |
| Royal Sanitec AB | Sweden | 100.0 |
| Sanitec UK Ltd. | Great Britain | 100.0 |
| Twyford Pension Trustees Ltd | Great Britain | 100.0 |
| Twyford Holdings Ltd | Great Britain | 100.0 |
| Twyford Bathrooms | Great Britain | 100.0 |
| Twyford Ltd. | Great Britain | 100.0 |
| Twyfords Ltd. | Great Britain | 100.0 |
| Sphinx Bathrooms Ltd. | Great Britain | 100.0 |
| Sanitec Trading (Zhongshan) Co. Ltd.[1] | China | 100.0 |
| Sanitec Holding Sweden AB | Sweden | 100.0 |
| Sanitec Trading LLC[1] | Russia | 100.0 |

(1) Parent company shareholding.

## 25. EVENTS AFTER BALANCE SHEET DATE

At February 2012 PJSC Slavuta Plant Budfarfor, a subsidiary of Sanitec made a new loan agreement with the lenders because allegedly some financial covenants of the €25.8 million loan were not met at December 31, 2011.

At the end of April 2012, Sanitec Group settled a loan repayment to Sofia IV amounting to €14.0 million. After the repayment the loans to Sofia IV amount to €154.0 million.

# Confirmation of the Board of the Directors

The Board of Directors of Sanitec Corporation confirms and certifies that the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the consolidated Group of companies for the period presented in this report.

The consolidated net loss for the financial period from January 1 to December 31, 2011 was €47.7 million. The total consolidated shareholders' equity was €168.8 million on December 31, 2011.

THE BOARD OF DIRECTORS

Helsinki June 29, 2012

Fredrik Cappelen

Ulf Mattsson

Caspar Callerström

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