IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS ("QIBs") WITHIN THE MEANING OF RULE 144A ("RULE 144A") UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT"), OR (2) PERSONS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT) AND WHO ARE OUTSIDE THE UNITED STATES IN ACCORDANCE WITH REGULATION S ("REGULATION S") UNDER THE U.S. SECURITIES ACT (AND, IF INVESTORS ARE RESIDENT IN A MEMBER STATE OF THE EUROPEAN ECONOMIC AREA, NOT A RETAIL INVESTOR).

IMPORTANT: You must read the following before continuing. The following applies to the preliminary offering memorandum following this notice (the "**Offering Memorandum**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Memorandum. In accessing the Offering Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access. The Offering Memorandum has been prepared in connection with the proposed offering and sale of the securities described therein. The Offering Memorandum and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT, IN WHOLE OR IN PART, IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE U.S. SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS OFFERING MEMORANDUM CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED TO, AND WILL NOT BE ABLE TO, PURCHASE ANY OF THE NOTES.

Confirmation of your representation: In order to be eligible to view the Offering Memorandum or make an investment decision with respect to the securities described therein, investors must be either (1) QIBs or (2) persons who are not U.S. persons (as defined in Regulation S) and who are outside the United States in an offshore transaction outside the United States in reliance on Regulation S; provided that investors resident in a member state of the European Economic Area (the "**EEA**") are not retail investors (as defined herein). The Offering Memorandum is being sent at your request. By accepting the e-mail or other electronic transmission and accessing the Offering Memorandum, you shall be deemed to have represented to each of the Initial Purchasers (as defined in the attached Offering Memorandum), being the senders of the Offering Memorandum, that:

(1) you consent to delivery of such Offering Memorandum by electronic transmission; and

(2) either:

 (a) you and any customers you represent are QIBs; or

 (b) (i) you and any customers you represent are not U.S. persons and (ii) the e-mail address that you gave us and to which the electronic transmission has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any state of the United States or the District of Columbia; and

(3) if you are resident in a member state of the EEA, you are not a retail investor.

Prospective purchasers that are QIBs are hereby notified that the seller of the securities will be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act pursuant to Rule 144A.

Professional investors and ECPs (as defined below) only target market: Solely for the purposes of the product approval process of the Manufacturers, as defined in the Purchase Agreement (as defined herein), the target market assessment in respect of the securities described in this Offering Memorandum has led to the conclusion that: (i) the target market for such securities is eligible counterparties ("**ECPs**") and professional clients only, each as defined in Directive 2014/65/EU, as amended ("**MiFID II**"); and (ii) all channels for distribution of such securities to ECPs and professional clients are appropriate. Any person subsequently offering, selling or recommending such securities (a "**Distributor**") should take into consideration the Manufacturers' target market assessment; however, a Distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of such securities (by either adopting or refining the Manufacturers' target market assessment) and determining appropriate distribution channels.

Prohibition of sales to EEA (as defined herein) retail investors: The securities described in the attached Offering Memorandum are not intended to be offered, sold or otherwise made available to and should not be made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II); or (ii) a customer within the meaning of Directive 2016/97/EU, as amended (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014, as amended (the "**PRIIPs Regulation**"), for offering or selling the securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

You are reminded that the Offering Memorandum has been delivered to you on the basis that you are a person into whose possession the Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver the Offering Memorandum to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Initial Purchasers (as defined in the attached Offering Memorandum) or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Initial Purchasers or such affiliate on behalf of the respective Issuer in such jurisdiction. Under no circumstances shall the Offering Memorandum constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

No person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000) received by it in connection with the issue or sale of the securities other than in circumstances in which Section 21(1) of the Financial Services and Markets Act 2000 does not apply to us.

The Offering Memorandum has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Initial Purchasers, any person who controls the Initial Purchasers, the Issuer, the Group (each term, as defined in the attached Offering Memorandum), any of their respective directors, officers, employees or agents or affiliates of the foregoing entities or persons, accepts any liability or responsibility whatsoever in respect of any difference between the Offering Memorandum distributed to you in electronic form and the hard copy version available to you on request from the Initial Purchasers.

SUBJECT TO COMPLETION, DATED October 29, 2018

PRELIMINARY OFFERING MEMORANDUM

STRICTLY CONFIDENTIAL
NOT FOR GENERAL DISTRIBUTION
IN THE UNITED STATES

VICTORIA PLC

Victoria PLC

€450,000,000 % Senior Secured Notes due 2023

Victoria PLC, a public limited company incorporated under the laws of England and Wales (the "**Issuer**"), is offering (the "**Offering**") €450,000,000 aggregate principal amount of its % Senior Secured Notes due 2023 (the "**Notes**"). The Notes will be issued pursuant to an indenture (the "**Indenture**") to be dated on or about , 2018 (the "**Issue Date**"), among, *inter alios*, the Issuer, HSBC Corporate Trustee Company (UK) Limited, as trustee (the "**Trustee**"), and Barclays Bank PLC, as security agent (the "**Security Agent**").

Interest on the Notes will accrue from the Issue Date, payable semi-annually in arrears on and of each year, commencing on , 2019. The Notes will mature on , 2023. The Issuer may redeem the Notes in whole or in part at any time on or after , 2020 at the redemption prices set forth in this preliminary offering memorandum (the "**Offering Memorandum**"). At any time prior to , 2020, the Issuer will be entitled, at its option, to redeem all or a portion of the Notes at a redemption price equal to 100% of the principal amount of such Notes, plus accrued and unpaid interest and additional amounts, if any, plus a "make-whole" premium, as described in this Offering Memorandum. Prior to , 2020, the Issuer may redeem on one or more occasions up to 40% of the original aggregate principal amount of the Notes (including any Additional Notes (as defined herein)) using the net proceeds from certain equity offerings at a redemption price equal to % of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any, to the date of redemption; provided that at least 50% of the original aggregate principal amount of the Notes (including any Additional Notes) remains outstanding after the redemption. Prior to , 2020, the Issuer may redeem up to 10% of the original aggregate principal amount of the Notes (including any Additional Notes) during each 12-month period commencing on the Issue Date at its option, from time to time, at a redemption price equal to 103% of the principal amount of the Notes redeemed, plus accrued and unpaid interest and additional amounts, if any. The Issuer may also redeem all, but not less than all, of the Notes at a price equal to 100% of the principal amount of such Notes, plus accrued and unpaid interest and additional amounts, if any, upon the occurrence of certain changes in applicable tax law. In addition, in connection with certain tender offers for the Notes, if holders of not less than 90% in aggregate principal amount of the Notes, validly tender and do not withdraw such Notes in such tender offer and the Issuer, or any third party making such a tender offer in lieu of the Issuer, purchases all of the Notes validly tendered and not withdrawn by such holders, the Issuer or such third party will have the right to redeem the Notes that remain outstanding in whole, but not in part, following such purchase at a price equal to the price offered to each other holder of such Notes. See "*Description of the Notes—Optional Redemption*." Upon the occurrence of certain defined events constituting a change of control or upon certain asset sales, each holder of Notes may require the Issuer to repurchase all or a portion of the Notes at the purchase prices set forth in this Offering Memorandum. See "*Description of the Notes—Change of Control*" and "*—Limitation on Asset Sales*."

The Notes will be the senior obligation of the Issuer and, on the Issue Date, will be guaranteed on a senior basis (the "**Guarantees**" and, each, a "**Guarantee**") by certain subsidiaries of the Issuer (collectively, the "**Guarantors**," and each of them, a "**Guarantor**"). Subject to the terms of the security documents, the Notes and the Guarantees will be secured on a first-priority basis by security interests over certain shares and assets of the Issuer and the Guarantors (collectively, the "**Collateral**"). The Notes and the Guarantees will rank *pari passu* in right of payment with any existing and future indebtedness of the Issuer or the relevant Guarantor that is not expressly subordinated in right of payment to the Notes or the Guarantees, as applicable, including debt incurred under the New Revolving Credit Facility Agreement (as defined herein), and will rank senior in right of payment to any existing and future debt that is expressly subordinated in right of payment. The Notes and the Guarantees will be effectively subordinated to all of the existing and future indebtedness of the Issuer and the Guarantors that is secured by property or assets that do not also secure the Notes and the Guarantees, to the extent of the value of such property and assets securing such indebtedness. The Notes and the Guarantees will be structurally subordinated to all existing and future indebtedness and other liabilities (including trade payables) of subsidiaries that do not provide Guarantees. Pursuant to the terms of the Intercreditor Agreement (as defined herein), in the event of a distressed disposal of the Collateral or an enforcement of the security interests over the Collateral, creditors under the Amended and Restated Revolving Credit Facility Agreement and certain hedging obligations, if any, will be repaid with the proceeds from the enforcement of the Collateral in priority to the Notes. The security interests in the Collateral may be released under certain circumstances. Subject to the terms of the Indenture governing the Notes and the Intercreditor Agreement, the Collateral may be pledged to secure future indebtedness. The Guarantees may be released in certain circumstances. The validity and enforceability of the Guarantees and the security and the liability of the Guarantors and security providers will be subject to the limitations described in "*Limitations on Validity and Enforceability of the Security and the Guarantees and Certain Insolvency Law Considerations*."

There is currently no public market for the Notes. Application has been made to the London Stock Exchange for the Notes to be admitted to the London Stock Exchange's International Securities Market (the "**Exchange**"). The Exchange is not a regulated market pursuant to the provisions of Directive 2014/65/EU. There can be no assurance that the Notes will be listed on the Exchange, that such permission to deal in the Notes will be granted or that such listing will be maintained. Settlement of the Notes is not conditional on such admission. The Exchange is a market designated for professional investors. Securities admitted to trading on the Exchange are not admitted to the Official List of the United Kingdom Listing Authority. The London Stock Exchange has not approved or verified the contents of this Offering Memorandum.

The Notes will be issued in the form of one or more global notes in book-entry form. The Issuer expects that the Notes will be deposited and registered in the name of a nominee for a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**") on or about the Issue Date. Interests in a global note will be exchangeable for the relevant definitive Notes only in certain limited circumstances. See "*Book-Entry; Delivery and Form*."

Investing in the Notes involves a high degree of risk. See "*Risk Factors*" beginning on page 33.

Issue Price: % plus accrued and unpaid interest, if any, from the Issue Date

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"), or the securities laws of any other jurisdiction, and may not be offered or sold within the United States or to, or for the account or benefit of U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. In the United States, this offering is being made only to "qualified institutional buyers" (as defined in Rule 144A under the U.S. Securities Act) in compliance with Rule 144A under the U.S. Securities Act ("Rule 144A"). You are hereby notified that the Initial Purchasers (as defined herein) 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. Outside of the United States, this offering is being made to non-U.S. persons in offshore transactions in reliance on Regulation S under the U.S. Securities Act ("Regulation S"). See "*Plan of Distribution*" and "*Notice to Investors*" for additional information about eligible offerees and resale restrictions.

Joint Global Coordinators and Joint Bookrunners

Barclays **HSBC**

Joint Bookrunner

NatWest Markets

The date of this Offering Memorandum is , 2018.

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IMPORTANT INFORMATION ABOUT THIS OFFERING MEMORANDUM

This Offering Memorandum is a confidential document that the Issuer (together with its subsidiaries, "**we**," "**us**" or "**our**") is providing only to prospective purchasers of the Notes. You should read this Offering Memorandum before making a decision whether to purchase any Notes. You must not:

- use this Offering Memorandum for any other purpose;
- make copies of any part of this Offering Memorandum or give a copy of it to any other person; or
- disclose any information in this Offering Memorandum to any other person, other than a person retained to advise you in connection with the purchase of the Notes.

This Offering Memorandum does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation. No action has been, or will be, taken to permit a public offering in any jurisdiction where action would be required for that purpose. Accordingly, the Notes may not be offered or sold, directly or indirectly, and this Offering Memorandum may not be distributed in any jurisdiction except in accordance with the legal requirements applicable in such jurisdiction. You must comply with all laws applicable in any jurisdiction in which you buy, offer or sell the Notes or possess or distribute this Offering Memorandum, and you must obtain all applicable consents and approvals. Neither we nor the Initial Purchasers (as defined below) shall have any responsibility for any of the foregoing legal requirements.

The Offering is being made in reliance on (i) an exemption from registration under the U.S. Securities Act for an offer and sale of securities that does not involve a public offering and (ii) a transaction pursuant to Regulation S that is not subject to the registration requirements of the U.S. Securities Act. The Notes have not been and will not be registered under the U.S. Securities Act, or with any securities regulatory authority of any other jurisdiction. If you purchase the Notes, you will be deemed to have made certain acknowledgments, representations and warranties as detailed under "*Notice to Investors*." 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 pursuant to registration or exemption therefrom. You may be required to bear the financial risk of an investment in the Notes for an indefinite period. Neither we nor the Initial Purchasers are making an offer to sell the Notes in any jurisdiction where the offer and sale of the Notes is prohibited.

None of the U.S. Securities and Exchange Commission (the "**SEC**"), any U.S. state securities commission, non-U.S. securities authority or other authority has approved or disapproved of the Notes or determined if this Offering Memorandum is truthful or complete. Any representation to the contrary is a criminal offense.

In making an investment decision, prospective purchasers of the Notes must rely on their own examination of the Issuer and the terms of the Offering Memorandum, including the merits and risks involved. In addition, neither the Issuer nor any Initial Purchaser nor any of the Issuer's or its respective representatives is making any representation to you regarding the legality of an investment in the Notes, and you should not construe anything in this offering memorandum as legal, business or tax advice. In accordance with normal and accepted market practice, neither the Trustee (as defined below), the Security Agent (as defined below), the Paying Agent (as defined below), the Registrar (as defined below), nor the Transfer Agent (as defined below) is responsible for the contents of this offering memorandum or expresses any opinion as to the merits of the Notes under this offering memorandum. You should consult your own advisors as to legal, business, tax, financial and related aspects of an investment in the Notes. You must comply with all laws applicable in any jurisdiction in which you buy, offer or sell the Notes and you must obtain all applicable consents and approvals; neither the Issuer nor the Initial Purchasers shall have any responsibility for any of the foregoing legal requirements.

The information contained in this Offering Memorandum is as of the date hereof. Neither the delivery of this Offering Memorandum at any time after the date of publication nor any subsequent commitment to purchase Notes shall, under any circumstances, create an implication that there has been no change in the information set forth in this Offering Memorandum or in the Issuer since the date of this Offering Memorandum.

Barclays Bank PLC, HSBC Bank plc and NatWest Markets Plc (each an "**Initial Purchaser**" and, collectively, the "**Initial Purchasers**") make no representation or warranty, express or implied, as to, and assume no responsibility for, the accuracy or completeness of the information contained in this Offering

Memorandum. Nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise or representation by the Initial Purchasers as to the past, the present or the future.

The information set out in relation to sections of this Offering Memorandum describing clearing and settlement arrangements, including in the "*Description of the Notes*" and "*Book-Entry; Delivery and Form*," is subject to a change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream currently in effect. While we accept responsibility for accurately summarizing the information concerning Euroclear or Clearstream, we accept no further responsibility in respect of such information.

By receiving this Offering Memorandum, you acknowledge that you have had an opportunity to request from the Issuer for review, and that you have received, all additional information you deem necessary to verify the accuracy and completeness of the information contained in this offering memorandum. You also 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 to invest in the Notes.

We reserve the right to withdraw this Offering at any time. We and the Initial Purchasers may reject any offer to purchase the Notes in whole or in part for any reason or for no reason, sell less than the entire principal amount of the Notes offered hereby or allocate to any purchaser less than all of the Notes for which it has subscribed. The Initial Purchasers and certain of their respective related entities may acquire, for their own accounts, a portion of the Notes.

The Issuer has applied to the London Stock Exchange for the Notes to be admitted to the London Stock Exchange's International Securities Market (the "**Exchange**"). The Issuer cannot guarantee that its application for admission to the Exchange will be approved or permission to deal in the Notes will be granted as of the settlement date for the Notes or at any time thereafter, and settlement of the Notes is not conditioned on obtaining this listing.

IN CONNECTION WITH THIS OFFERING, HSBC BANK PLC (THE "STABILIZING MANAGER") (OR PERSONS ACTING ON ITS BEHALF) MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL OTHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, NO ASSURANCE CAN BE GIVEN THAT THE STABILIZING MANAGER (OR PERSONS ACTING ON ITS BEHALF) WILL UNDERTAKE STABILIZATION ACTION. ANY STABILIZATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THIS OFFERING IS MADE AND, IF BEGUN, MAY BE DISCONTINUED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 CALENDAR DAYS AFTER THE ISSUE DATE AND 60 CALENDAR DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILIZATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILIZING MANAGER (OR PERSONS ACTING ON ITS BEHALF) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "*PLAN OF DISTRIBUTION*."

Notice to investors in the United States

This Offering is being made in the United States in reliance upon an exemption from registration under the 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 acknowledgments, representations and agreements. See "*Notice to Investor*s."

This Offering Memorandum is being provided (1) to U.S. investors that we reasonably believe to be "qualified institutional buyers" ("**QIBs**") in reliance on Rule 144A 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 Securities Act. The Notes described in this Offering Memorandum have not been registered with, recommended by or approved by 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 in the United States.

Notice to certain investors

Professional Investors and eligible counterparties ("ECPs") Only Target Market. Solely for the purposes of each Manufacturer's (as defined in the Purchase Agreement (as defined herein)) product approval process, the target market assessment in respect of the Notes described in this Offering Memorandum has led ECPs to the conclusion that: (i) the target market for such Notes is ECPs and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of such Notes to ECPs and professional clients are appropriate. Any Distributor should take into consideration the Manufacturers' target market assessment; however, a Distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of such Notes (by either adopting or refining the Manufacturers' target market assessment) and determining appropriate distribution channels.

Prohibition of Sales to EEA Retail Investors. The Notes are not intended to be offered or sold to and should not be offered or sold to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2016/97/EU (as amended, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**"). No key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared. Offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Australia. This Offering Memorandum is not, and is not intended to be, a disclosure document within the meaning of the *Corporations Act 2001* (Cth) of Australia ("**Australian Corporations Act**"). No action has been taken by the Issuer or the Initial Purchasers that would permit a public offering of the Notes in Australia. This Offering Memorandum has not been, and no prospectus or other disclosure document (as defined in the Australian Corporations Act) in relation to the Notes has been or will be, lodged with the Australian Securities and Investments Commission ("**ASIC**"). Accordingly, no offer or invitation for applications for the issue, sale or purchase of the Notes may be made in Australia (including an offer or invitation which is received by a person in Australia) and no draft, preliminary or definitive prospectus, offering circular, disclosure document, advertisement or other offering material relating to the Notes may be distributed or published in Australia unless:

- the aggregate consideration payable on acceptance of the offer or invitation by each offeree or invitee is at least AUD $500,000 (or its equivalent in other currencies, but disregarding moneys lent by the offeror or its associates) or the offer or invitation otherwise does not require disclosure to investors in accordance with Parts 6D.2 or 7.9 of the Australian Corporations Act;
- such action does not require any document to be lodged with ASIC or any other regulatory authority in Australia;
- the offer or invitation is not made to a person who is a "retail client" within the meaning of section 761G of the Australian Corporations Act; and
- the offer, invitation or distribution complies with all applicable laws, regulations and directives in Australia relating to the offer, sale and resale of the Notes in Australia and in the jurisdiction in which such offer, sale and resale occurs.

You have been sent this offering circular on the basis that, amongst other matters, if you are a resident of Australia, you are a wholesale client for the purposes of section 761G of the Australian Corporations Act or otherwise a person to whom disclosure is not required under Part 6D.2 or Chapter 7 of the Australian Corporations Act.

Spain. The Offering has not been registered with the *Comisión Nacional del Mercado de Valores* and therefore the Notes may not be offered, sold, resold or distributed in Spain, except in circumstances which do not qualify as a public offer of securities in Spain in accordance with article 35 of the Securities Market Act ("*Real Decreto Legislativo 4/2015, de 23 de octubre, por el que se aprueba el texto refundido de la Ley del Mercado de Valores*" *tal y como ha sido modificado por el "Real Decreto Ley 14/2018, de 28 de septiembre, por el que se modifica el texto refundido de la Ley de Mercado de Valores para adaptarla al paquete MiFID II"*), as amended and restated from time to time, 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*"), as amended and restated from time to time, or without complying with all legal and regulatory requirements under the Spanish Securities Market Act or any regulations created thereunder which may be in force from time to time.

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

PRESENTATION OF FINANCIAL INFORMATION

Historical Financial Data

We present in this Offering Memorandum the historical financial information listed below (together, the "**Historical Financial Statements**").

The Issuer

The Issuer is a public limited company incorporated under the laws of England and Wales. The Issuer was incorporated as Victoria Carpet Holdings PLC on December 1, 1933, changing its name to Victoria PLC on July 14, 1997. The Issuer is a holding company and has no business operations of its own. The only significant assets of the Issuer are shares in its direct and indirect subsidiaries and certain intercompany loans. For further information, see "*Summary—Corporate and Financing Structure*."

We prepare our financial statements on the basis of a 52-week or 53-week financial period. For the purposes of this Offering Memorandum, we refer to the 52 weeks ended March 31, 2018 as the "**2018 financial year**," the 52 weeks ended April 1, 2017 as the "**2017 financial year**" and the 53 weeks ended April 2, 2016 as the "**2016 financial year**." Both the 2018 and the 2017 financial years were 52-week periods, and the 2016 financial year was a 53-week period. Consequently, unless otherwise indicated, our results for the 2016 financial year include an additional week of trading, which affects the comparability of our results of operations between periods, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Comparability of Our Financial Results*."

This Offering Memorandum includes the following consolidated financial statements of the Victoria Group:

- the audited consolidated financial statements, including the notes thereto, of the Victoria Group as of and for the 53 weeks ended April 2, 2016 (the "**2016 Group Financial Statements**");
- the audited consolidated financial statements, including the notes thereto, of the Victoria Group as of and for the 52 weeks ended April 1, 2017 (the "**2017 Group Financial Statements**");
- the audited consolidated financial statements, including the notes thereto, of the Victoria Group as of and for the 52 weeks ended March 31, 2018 (the "**2018 Group Financial Statements**"); and
- the unaudited interim consolidated financial statements, including the notes thereto, of the Victoria Group as of and for the 13 weeks ended June 30, 2018, which includes comparative financial information as of and for the 13 weeks ended July 1, 2017 (the "**Unaudited Group Interim Financial Statements**").

The 2016 Group Financial Statements, the 2017 Group Financial Statements and the 2018 Group Financial Statements are herein collectively referred to as the "**Audited Consolidated Group Financial Statements.**" The Audited Consolidated Group Financial Statements, together with the Unaudited Group Interim Financial Statements, are herein collectively referred to as the "**Consolidated Group Financial Statements**."

The Audited Consolidated Group Financial Statements have been audited by Grant Thornton UK LLP and have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (the "**IASB**") and adopted by the European Union ("**IFRS**"). Our Unaudited Group Interim Financial Statements included herein and the accompanying notes thereto as of and for the 13 weeks ended June 30, 2018, including the comparative financial statements for the 13 weeks ended July 1, 2017, have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting.

This Offering Memorandum also includes unaudited consolidated financial information for the 52 weeks ended June 30, 2018. This financial data is unaudited and has been calculated by adding (i) the audited consolidated financial information for the 52 weeks ended March 31, 2018 and (ii) the unaudited interim consolidated financial information for the 13 weeks ended June 30, 2018 and then subtracting (iii) the unaudited interim consolidated financial information for the 13 weeks ended July 1, 2017. The unaudited financial information for the 52 weeks ended June 30, 2018 has been prepared solely for the purpose of this Offering Memorandum, is not prepared in the ordinary course of our financial reporting and has not been audited or reviewed. The unaudited financial information for the 52 weeks ended June 30, 2018 presented herein is not required by or presented in accordance with IFRS or any other generally accepted accounting principles. The unaudited financial information for the 52 weeks ended June 30, 2018 is not necessarily indicative of the results that may be expected for any future period and should not be used as the basis for or prediction of an annualized calculation.

The Consolidated Group Financial Statements included elsewhere in this Offering Memorandum should be read in conjunction with the relevant notes thereto. Unless otherwise indicated, all financial information contained in this Offering Memorandum with respect to the Victoria Group has been prepared in accordance with IFRS.

Keraben Grupo, S.A.U. ("Keraben")

Keraben is a joint stock company incorporated under the laws of Spain. Keraben was incorporated as Gres de Nules, S.A. on March 2, 1974, changing its name to Keraben Grupo, S.A.U. on October 8, 2009. Keraben was acquired by the Victoria Group on November 16, 2017 and, thereafter, its results have been consolidated with those of the Victoria Group.

This Offering Memorandum includes the following financial statements (together, the "**Keraben Financial Statements**"):

- the English language translation of the audited financial statements, including the notes thereto, of Keraben as of and for the year ended December 31, 2015 (the "**2015 Keraben Financial Statements**");
- the English language translation of the audited financial statements, including the notes thereto, of Keraben as of and for the year ended December 31, 2016 (the "**2016 Keraben Financial Statements**"); and
- the English language translation of the audited financial statements, including the notes thereto, of Keraben as of and for the year ended December 31, 2017 (the "**2017 Keraben Financial Statements**").

The Keraben Financial Statements have been prepared in accordance with Spanish GAAP (as defined in "*Certain Definitions*") and in the Spanish language and audited by Keraben's statutory auditor for the periods given, Deloitte, S.L., as set forth in their audit report, an English translation of which is included elsewhere in this Offering Memorandum. See "*—Summary of Certain Differences between Spanish GAAP and IFRS*."

Changes in accounting policies

In preparing the 2016 Keraben Financial Statements, Keraben reclassified certain comparative information for the financial year ended December 31, 2015 as a result of the entry into force of Royal Decree 602 of December 2, 2016, which modified Spanish GAAP from January 1, 2016 and primarily impacted the entry and valuation of intangible assets. Except as otherwise indicated in this Offering Memorandum, we present and discuss the restated financial information for the year ended December 31, 2015 in the 2016 Keraben Financial Statements included elsewhere in this Offering Memorandum rather than the financial information as reported in the 2015 Keraben Financial Statements. For additional information on the accounting change and restatement, see note 2-e to the 2016 Keraben Financial Statements.

Cerámica Saloni, S.A.U.

Saloni is a joint stock company incorporated under the laws of Spain. Saloni was incorporated on November 27, 1971. Saloni was acquired by the Victoria Group on August 7, 2018.

This Offering Memorandum includes the following consolidated financial statements of Saloni (together, the "**Saloni Financial Statements**"):

- the audited consolidated financial statements, including the notes thereto, of Saloni as of and for the year ended December 31, 2017, prepared in accordance with Spanish GAAP (the "**Saloni Consolidated Financial Statements**"); and
- the unaudited interim consolidated financial statements, including the notes thereto, of Saloni as of and for the six months ended June 30, 2018, which includes comparative financial information as of and for the six months ended June 30, 2017, prepared in accordance with Spanish GAAP (the "**Saloni Interim Financial Statements**").

The Saloni Consolidated Financial Statements have been prepared in accordance with Spanish GAAP and audited by Saloni's historical independent auditor, KPMG Auditores, S.L. The Saloni Interim Financial Statements have been reviewed by KPMG Auditores, S.L.

This Offering Memorandum also includes Saloni's unaudited financial data for the 12 months ended June 30, 2018. This financial data is unaudited and has been calculated by adding (i) the consolidated financial information for the year ended December 31, 2017 and (ii) the unaudited consolidated interim financial information for the six months ended June 30, 2018 and then subtracting (iii) the unaudited consolidated interim financial information for the six months ended June 30, 2017. The unaudited financial information for the 12 months ended June 30, 2018 has been prepared solely for the purpose of this Offering Memorandum, is not prepared in the ordinary course of our financial reporting and has not been audited or reviewed. The unaudited financial information for the 12 months ended June 30, 2018 presented herein is not required by or presented in accordance with IFRS or any other generally accepted accounting principles. The unaudited financial information for the 12 months ended June 30, 2018 is not necessarily indicative of the results that may be expected for the year ended December 31, 2018 and should not be used as the basis for or prediction of an annualized calculation.

Pro Forma Financial Information

This Offering Memorandum includes certain unaudited *pro forma* condensed consolidated financial information (the "**Unaudited *Pro Forma* Condensed Consolidated Financial Information"**) including our:

- unaudited *pro forma* condensed consolidated income statement for the 52 weeks ended June 30, 2018, which gives effect to our acquisitions of Keraben and Saloni as if they had occurred on July 2, 2017; and
- unaudited *pro forma* condensed consolidated balance sheet as of June 30, 2018, which gives effect to our acquisition of Saloni as if it had occurred on June 30, 2018.

We present the Unaudited *Pro Forma* Condensed Consolidated Financial Information to illustrate the estimated impact of the Spanish Acquisitions on our historical consolidated financial position and results of operations, as if all such transactions had occurred on the dates indicated. The *pro forma* adjustments are described in more detail in the section entitled "*Unaudited* Pro Forma *Condensed Consolidated Financial Information*." The Unaudited *Pro Forma* Condensed Consolidated Financial Information does not reflect the effect of the acquisitions of Millennium or Serra, neither of which are considered material to the Victoria Group after giving *pro forma* effect to the Spanish Acquisitions.

The Unaudited *Pro Forma* Condensed Consolidated Financial Information described above is based on available information and certain assumptions that we believe are reasonable. The Unaudited *Pro Forma* Condensed Consolidated Financial Information is presented for information purposes only and is not intended to represent or be indicative of the financial condition or results of operations that we would have reported had the transactions described above actually occurred during the periods and as of the dates presented, and the Unaudited *Pro Forma* Condensed Consolidated Financial Information does not purport to project our results of operations or financial condition for any future period. Our actual results may differ significantly from those reflected in the Unaudited *Pro Forma* Condensed Consolidated Financial Information for a number of reasons, including, but not limited to, differences in assumptions used to prepare the Unaudited *Pro Forma* Condensed Consolidated Financial Information. The Unaudited *Pro Forma* Condensed Consolidated Financial Information has not been prepared in accordance with the requirements of Regulation S-X of the U.S. Securities Act, the Prospectus Directive, IFRS or any other generally accepted accounting standards. Neither the assumptions underlying the pro forma adjustments nor the resulting Unaudited *Pro Forma* Condensed Consolidated Financial Information have been audited or reviewed. See "*Unaudited* Pro Forma *Condensed Consolidated Financial Information*" for the basis of preparation of the Unaudited *Pro Forma* Condensed Consolidated Financial Information.

The Unaudited *Pro Forma* Condensed Consolidated Financial Information should be read in conjunction with "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the Historical Financial Information included elsewhere in this Offering Memorandum.

As Adjusted Financial Information

This Offering Memorandum includes unaudited financial information, presented on an as adjusted basis, to illustrate the effect the Offering would have had on certain of our financial results for the 52 weeks ended June 30, 2018 or on our financial position as of June 30, 2018, as applicable.

The unaudited as adjusted financial information is for informational purposes only and is not intended to represent or to be indicative of the consolidated results of operations or financial position we would have reported had the Offering been completed as of June 30, 2018, in the case of our as adjusted debt, as adjusted cash and cash equivalents and as adjusted net debt, and as of July 2, 2017, in the case of our as adjusted interest expense. The unaudited as adjusted financial information should not be taken as indicative of our future consolidated results of operations or financial position. Our historical results may not be indicative of our future results following completion of the Offering. The unaudited as adjusted financial information has not been prepared in accordance with IFRS or any other generally accepted accounting standards.

The unaudited as adjusted financial information should be read in conjunction with the information contained in "*Use of Proceeds*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the Historical Financial Information included elsewhere in this Offering Memorandum.

Non-IFRS and Non-Spanish GAAP Measures

This Offering Memorandum contains certain financial measures and ratios, including Underlying EBITDA, Underlying EBITDA margin, *Pro Forma* Revenue, *Pro Forma* EBITDA, Adjusted *Pro Forma* Revenue, Adjusted *Pro Forma* EBITDA, Adjusted *Pro Forma* EBITDA margin, Operating Cash Flow before interest, tax and exceptional items, Operating Cash Flow Conversion, Underlying Operating Profit, Free Cash Flow before exceptional items and Underlying movement in net working capital that are not required by, or presented in accordance with IFRS or Spanish GAAP (the "**Non-GAAP Measures**").

We present these Non-GAAP Measures because they are measures our management use to assess operating performance, and we believe that they and similar measures are widely used in our industry as a means of evaluating a company's operating performance and financing structure, and because we believe they present helpful comparisons of financial performance between periods by excluding the distorting effect of certain non-recurring items. These measures may not be comparable to other similarly titled measures of other companies and are not measurements under IFRS standards, Spanish GAAP or other generally accepted accounting principles. The Non-GAAP Measures are not measurements of our performance or liquidity under IFRS or Spanish GAAP and should not be considered as alternatives to operating profit or profit from continuing operations or any other performance measures derived in accordance with IFRS or Spanish GAAP or as alternatives to cash flow from operating, investing or financing activities. We define these Non-GAAP Measures as follows:

- Underlying EBITDA consists of earnings before interest, tax, depreciation, amortization and exceptional items (as discussed in "*Management's Discussion and Analysis of Financial Condition and Results of Operations*");
- Underlying EBITDA margin consists of Underlying EBITDA divided by revenue;
- *Pro Forma* Revenue consists of revenue adjusted to give *pro forma* effect to the Spanish Acquisitions;
- *Pro Forma* EBITDA consists of earnings before interest, tax, depreciation, amortization and exceptional items (as described in "*Management's Discussion and Analysis of Financial Condition and Results of Operations*") presented on a *pro forma* basis, giving effect to the Spanish Acquisitions;
- Adjusted *Pro Forma Revenue* consists of revenue adjusted to give *pro forma* effect to the Spanish Acquisitions, further adjusted for the acquisitions of Serra and Sanicova;
- Adjusted *Pro Forma* EBITDA consists of *Pro Forma* EBITDA as further adjusted to give effect to our acquisition of Sanicova, certain normalization adjustments to the EBITDA contribution of Saloni and Sanicova, our acquisition of Serra, the effect of a planned installation of a new manufacturing line at Serra's production facility and the business interruption due to a roof collapse under heavy snow at our South Wales factory in March 2018;
- Adjusted *Pro Forma* EBITDA margin consists of Adjusted *Pro Forma* EBITDA divided by Adjusted *Pro Forma Revenue*;
- Operating Cash Flow before interest, tax and exceptional items consists of Underlying EBITDA before non-cash items and after Underlying movement in net working capital;
- Operating Cash Flow Conversion consists of Operating Cash Flow before interest, tax and exceptional items divided by Underlying EBITDA;

- Underlying Operating Profit consists of operating profit before the impact of exceptional items and amortization of acquired intangibles;
- Free Cash Flow before exceptional items consists of Operating Cash Flow before interest, tax and exceptional items after interest paid, income tax paid, maintenance capital expenditure and proceeds from fixed asset disposals; and
- Underlying movement in net working capital consists of movements in working capital before the impact of exceptional items.

Underlying EBITDA, *Pro Forma* EBITDA and Adjusted *Pro Forma* EBITDA may be defined differently from the corresponding terms under the Indenture. Underlying EBITDA, *Pro Forma* EBITDA and Adjusted *Pro Forma* EBITDA have limitations as analytical tools, and you should not consider them in isolation. Some of the limitations of Underlying EBITDA, *Pro Forma* EBITDA and Adjusted *Pro Forma* EBITDA are:

- they do not reflect our cash expenditures or future requirements for capital investments or contractual commitments;
- they do not reflect changes in, or cash requirements for, our working capital needs;
- they do not reflect the significant interest expense, or the cash requirements necessary, to service interest or principal payments on our debt;
- they do not reflect any cash income taxes that we may be required to pay;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often need to be replaced in the future and Underlying EBITDA, *Pro Forma* EBITDA and Adjusted *Pro Forma* EBITDA do not reflect any cash requirements that would be required to make such replacements;
- they do not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of our ongoing operations; and
- other companies in our industry may calculate these measures differently from the way we do, limiting their usefulness as comparative measures.

Because of these limitations, Underlying EBITDA, *Pro Forma* EBITDA and Adjusted *Pro Forma* EBITDA should not be considered as measures of discretionary cash available to us to invest in the growth of our business or as measures of cash that will be available to us to meet our obligations. You should compensate for these limitations by relying primarily on our IFRS or Spanish GAAP results, as applicable, and using these Non-GAAP Measures only to supplement your evaluation of our performance.

Rounding

Certain numerical figures set out in this Offering Memorandum, including financial information 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 information set forth in "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Keraben Management's Discussion and Analysis of Financial Condition and Results of Operations*" are calculated using the rounded numerical data in the narrative description thereof.

PRESENTATION OF INDUSTRY AND MARKET DATA

In this Offering Memorandum, we rely on and refer to information regarding our business and the various markets or regions in which we operate and compete. The market data and certain economic and industry data and forecasts used in this Offering Memorandum were obtained from publicly available information and independent industry publications. In particular, certain information has been derived from Global Flooring Market, 8th Edition, January 2017 published by The Freedonia Group (the "**Freedonia Report**").

The Freedonia Report includes data obtained from its own research as well as data derived from industry reports and publicly available information.

Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but that there can be no assurance as to the accuracy and completeness of such information. We believe that these industry publications are reliable, but we have not independently verified any of the data from third-party sources. Forecasts and other forward-looking information obtained from these sources are subject to the same qualifications and uncertainties as the other forward-looking statements in this Offering Memorandum.

We cannot assure you that any of the assumptions underlying any statements regarding the flooring industry are accurate or correctly reflect our position in the industry. Market data and statistics are inherently predictive and speculative and are not necessarily reflective of actual market conditions. Such statistics are based on market research, which itself is based on sampling and subjective judgments by both the researchers and the respondents, including judgments about what types of products and transactions should be included in the relevant market. In addition, the value of comparisons of statistics for different markets is limited by many factors, including that (i) the markets are defined differently, (ii) the underlying information was gathered by different methods and (iii) different assumptions were applied in compiling the data. Accordingly, the market statistics included in this Offering Memorandum should be viewed with caution and no representation or warranty is given by any person, including us or the Initial Purchasers, as to their accuracy.

Certain statements in this Offering Memorandum regarding the flooring industry are not based on published statistical data or information obtained from independent third-parties, but are based solely on our experience, our estimates, and our own investigation of market conditions at the time of this Offering Memorandum. We cannot assure you that any of these studies or estimates are accurate, and none of our internal surveys or information have been verified by any independent sources. While we are not aware of any misstatements regarding our estimates presented herein, our estimates involve risks, assumptions and uncertainties and are subject to change based on various factors, including those discussed under the heading "*Risk Factors*" in this Offering Memorandum.

CERTAIN DEFINITIONS

In this Offering Memorandum, the following words and expressions have the following meanings, unless the context otherwise requires or unless otherwise so defined. In particular, capitalized terms set forth and used in the sections entitled "*Description of Certain Financing Arrangements*" and "*Description of the Notes*" may have different meanings from the meanings given to such terms used elsewhere in this Offering Memorandum.

"Acquisitions"	The Spanish Acquisitions, together with our acquisition of Serra;
"Amended and Restated Revolving Credit Facility Agreement"	The Bridge and Revolving Credit Facility Agreement as amended and restated by the Amendment and Restatement Agreement;
"Amendment and Restatement Agreement"	The amendment and restatement agreement in respect of the Bridge and Revolving Credit Facility Agreement dated on or about the date of this Offering Memorandum, with such amendments expected to become effective on or about the Issue Date;
"Australian dollars", "AUD", "AUD$"	Australian dollars, the currency of the Commonwealth of Australia;
"Avalon"	Avalon B.V.;
"BGF Loan"	The unsecured loan facility established under an agreement entered into by Victoria PLC with the Business Growth Fund in the aggregate principal amount of £10 million, which matures in 2021 and further described in "*Description of Certain Other Financing Arrangements*";
"Bridge and Revolving Credit Facility Agreement"	The bridge facility and revolving credit facility agreement governing the Bridge Facility entered into on August 5, 2018 in connection with our acquisition of Saloni, as amended, restated and modified, from time to time, among, *inter alios*, Victoria PLC, as borrower, HSBC Bank plc and Barclays Bank PLC, as lenders, and Barclays Bank PLC, as agent and as security agent and further described in "*Description of Certain Financing Arrangements—New Revolving Credit Facility*";
"Bridge Facility"	The €445.0 million senior secured bridge facility under the Bridge and Revolving Credit Facility Agreement, which is expected to be repaid in full on the Issue Date with the proceeds of the Offering;
"Collateral"	The collateral securing the Notes on the Issue Date, as further described in "*Description of the Notes—Security*";
"Continental Europe"	Europe excluding the United Kingdom;
"Dunlop" or "Dunlop Flooring"	Dunlop Flooring, incorporated under the laws of Australia as Primary Flooring Pty Ltd;
"Equity Placement"	The placement of new ordinary shares by Victoria PLC raising gross proceeds of approximately £60.5 million in connection with our acquisition of Saloni;

"euro" or "€"	Euro, the currency of the member states of the European Union participating in the European Monetary Union;
"Exchange"	The International Securities Market of the London Stock Exchange;
"Ezi Floor"	Ezi Floor Limited;
"GrassInc"	GrassInc. B.V.;
"Group," "Victoria Group," "we," "us" and "our"	The Issuer and its subsidiaries;
"Guarantees"	The guarantees of the Notes to be granted by the Guarantors on the Issue Date;
"Guarantors"	Victoria Midco Holdings Limited, Victoria Carpets Limited, Westex (Carpets) Limited, Abingdon Flooring Limited, Interfloor Limited, View Logistics Limited, The Victoria Carpet Company Proprietary Limited, Quest Flooring Pty Ltd, Primary Flooring Pty Ltd, Keraben Grupo, S.A.U. and Cerámica Saloni, S.A.U.;
"IFRS"	International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board as adopted by the European Union;
"Indenture"	The indenture governing the Notes to be entered into on the Issue Date among, *inter alios*, the Issuer, the Guarantors named therein and the Trustee;
"Initial Purchasers"	Collectively, Barclays Bank PLC, HSBC Bank plc and NatWest Markets Plc;
"Intercreditor Agreement"	The intercreditor agreement entered into on August 5, 2018, among, *inter alios*, the Issuer and Barclays Bank PLC as initial facility agent and security agent, as amended from time to time, including in connection with the Offering, with such amendments expected to become effective on or about the Issue Date. The Trustee is expected to accede to the Intercreditor Agreement on or about the Issue Date;
"Interfloor" or "Interfloor Group"	Interfloor Group Limited and its subsidiaries;
"Issue Date"	On or about , 2018, the date on which the Notes will be delivered in book-entry form through a common depositary for Euroclear and Clearstream;
"Issuer"	Victoria PLC, a public limited company incorporated under the laws of England and Wales;
"Keraben"	Keraben Grupo, S.A.U.;
"Legacy Revolving Credit Facility"	The multi-currency revolving credit facility established under the agreement entered into on April 10, 2015, among, *inter alios*, Victoria PLC as borrower and Barclays Bank PLC as agent and security agent, as amended and restated from time to time, which was repaid and cancelled following the closing of the acquisition of Saloni;
"Midlands Distribution Center"	The Group distribution center in Kidderminster, England;

"Millennium"	Millennium Weavers Europe N.V.;
"New Revolving Credit Facility"	£60.0 million (equivalent) super senior revolving credit facility established under the Amended and Restated Revolving Credit Facility Agreement and further described in "*Description of Certain Financing Arrangements—New Revolving Credit Facility*";
"Notes"	The €450.0 million aggregate principal amount of % Senior Secured Notes due 2023 offered hereby;
"pounds sterling", "GBP", "Sterling" or "£"	Pounds sterling, the currency of the United Kingdom of Great Britain and Northern Ireland;
"Saloni"	Cerámica Saloni, S.A.U. and its consolidated subsidiaries;
"Saloni Legacy Indebtedness"	The outstanding borrowings of Saloni prior to the Acquisition;
"Sanicova"	Sanicova, S.L.U.;
"Security Documents"	Those agreements entered into on or prior to the Issue Date among, *inter alios*, the Security Agent named therein, the Issuer and the Guarantors creating or purporting to create security interests in the Collateral. See "*Description of the Notes—Security—Security Documents*;
"Serra"	Ceramiche Serra S.p.A.;
"Southern Distribution Center"	The Group distribution center in Hemel Hempstead, England;
"Spanish Acquisitions"	Our acquisitions of: (a) 100% of the share capital of Saloni, which completed on August 7, 2018; and (b) 100% of the share capital of Keraben, which completed on November 16, 2017;
"Spanish GAAP"	The Spanish General Chart of Accounts approved by Royal Decree 1514/2007 and the Rules for the Preparation of Consolidated Annual Accounts approved by Royal Decree 1159/2010 and subsequent amendments applicable to Keraben and Saloni in Spain;
"Transactions"	Has the meaning ascribed to it in "*Summary—The Transactions*";
"UK & Europe"	Our United Kingdom and Continental Europe operating segment;
"U.S. dollars", "USD", "US$" or "$"	U.S. dollars, the currency of the United States of America;
"U.S. Exchange Act"	The U.S. Securities Exchange Act of 1932, as amended;
"U.S. Securities Act"	The U.S. Securities Act of 1933, as amended; and
"Whitestone"	Whitestone Carpets Holdings Limited.

EXCHANGE RATE INFORMATION

The following tables set forth, for the periods set forth below, the high, low, average and period end Bloomberg Composite Rate (London) expressed as pounds sterling per $1.00 and pounds sterling 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 ask 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. Neither we nor the Initial Purchasers represent that the pound sterling amounts referred to below could be or could have been converted into U.S. dollars or euro at any particular rate indicated or any other rate.

	Pounds sterling per 1.00 dollar			
	High	**Low**	**Average(1)**	**Period end**
Year				
2015	0.6827	0.6298	0.6545	0.6787
2016	0.8226	0.6753	0.7407	0.8106
2017	0.8285	0.7362	0.7767	0.7395
	High	**Low**	**Average(2)**	**Period end**
Month				
January 2018	0.7407	0.7015	0.7242	0.7050
February 2018	0.7253	0.7028	0.7161	0.7253
March 2018	0.7280	0.7030	0.7156	0.7125
April 2018	0.7264	0.6981	0.7105	0.7264
May 2018	0.7552	0.7339	0.7427	0.7523
June 2018	0.7637	0.7455	0.7526	0.7579
July 2018	0.7699	0.7540	0.7598	0.7618
August 2018	0.7874	0.7623	0.7767	0.7716
September 2018	0.7780	0.7550	0.7658	0.7668
October 2018 (through October 25, 2018)	0.7762	0.7570	0.7649	0.7798

(1) The average of the exchange rates on the last business day of each month during the relevant period.

(2) The average of the exchange rates on each business day during the relevant period.

The Bloomberg Composite Rate (London) on October 25, 2018 was £0.7798 per $1.00.

	Pounds sterling per 1.00 euro			
	High	**Low**	**Average(1)**	**Period end**
Year				
2015	0.7860	0.6947	0.7264	0.7375
2016	0.9105	0.7329	0.8192	0.8545
2017	0.9295	0.8356	0.8764	0.8889
	High	**Low**	**Average(2)**	**Period end**
Month				
January 2018	0.8913	0.8729	0.8828	0.8753
February 2018	0.8909	0.8769	0.8842	0.8856
March 2018	0.8940	0.8722	0.8827	0.8782
April 2018	0.8791	0.8644	0.8724	0.8791
May 2018	0.8832	0.8718	0.8779	0.8780
June 2018	0.8851	0.8736	0.8788	0.8851
July 2018	0.8936	0.8823	0.8877	0.8917
August 2018	0.9092	0.8895	0.8969	0.8947
September 2018	0.9018	0.8876	0.8931	0.8905
October 2018 (through October 25, 2018)	0.8898	0.8734	0.8810	0.8866

(1) The average of the exchange rates on the last business day of each month during the relevant period.

(2) The average of the exchange rates on each business day during the relevant period.

The Bloomberg Composite Rate (London) on October 25, 2018 was £0.8866 per €1.00.

The above rates may differ from the actual rates used in the preparation of the financial information appearing in this Offering Memorandum. Our inclusion of these exchange rates is not meant to suggest that the U.S. dollar or euro amounts actually represent such pounds sterling amounts or that such amounts could have been converted into pounds sterling at any particular rate, if at all. For a discussion of the impact of the exchange rate fluctuations on our financial condition and results of operations, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations*."

FORWARD-LOOKING STATEMENTS

This Offering Memorandum includes "forward-looking statements," within the meaning of the U.S. securities laws and certain other jurisdictions, based on our current expectations and projections about future events, including statements under the headings "*Presentation of Industry and Market Data*," "*Summary*," "*Risk Factors*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," "*Business*" and other sections.

All statements other than statements of historical facts included in this Offering Memorandum, including, without limitation, statements regarding our future financial position, risks and uncertainties related to our business, strategy, capital expenditures, projected costs and our plans and objectives for future operations, may be deemed to be forward-looking statements. These forward-looking statements are subject to a number of risks and uncertainties, including those identified under the "*Risk Factors*" section in this Offering Memorandum. These include, but are not limited to:

- our ability to successfully anticipate consumer preferences and trends within the flooring industry;
- high competition in the flooring industry;
- the reproduction of our designs and innovations by competitors and customers;
- whether consumers choose alternative flooring solutions over our products;
- the impact of our acquisitions and expansions into new markets as well as our ability to integrate them into the Group;
- economic conditions, particularly to the extent such conditions impact consumer confidence and the residential and commercial renovation and construction end-markets;
- fluctuations in the pricing of raw materials;
- the failure of or significant disruptions to our information systems and software;
- the failure to comply with data protection regulation;
- complete or partial uninsured losses;
- fluctuations in currency exchange rates;
- our ability to attract new customers and retain existing customers as a result of disruptions to the production or delivery of our products;
- our ability to attract and retain senior management and other key employees;
- significant damage to any of our facilities resulting in a production disruption;
- manufacturing defects or liability claims and ensuing adverse publicity;
- adverse changes in environmental and other regulatory regimes;
- our ability to comply with environmental and other regulations and obtain government permits and approvals;
- the withdrawal of the United Kingdom from the European Union;
- increased costs of labor, labor disputes, work stoppages or union organizing activity which could have a negative impact on our operations;
- our lack of formal purchase arrangements with a substantial majority of our customers;
- changes in tax rates, tax liabilities or tax accounting rules;
- our reliance on third party performance of supply and distribution services;
- potential future regulatory restrictions and/or compliance risks involving antitrust, anti-money laundering, anti-bribery and anti-corruption laws;
- compliance risks related to export control laws and regulations; and
- other risks associated with the Notes and our structure discussed under "*Risk Factors*."

Words such as "anticipate," "believe," "could," "estimate," "expect," "forecast," "intend," "may," "might," "plan," "possible," "project," "should," "suggest," "target," "will," "would" and similar expressions or the negatives of these expressions are intended to identify forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct.

We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate, may differ materially from those made in or suggested by the forward-looking statements contained in this Offering Memorandum. In addition, even if our results of operations, financial condition and liquidity, 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.

Any forward-looking statement that we make in this Offering Memorandum speaks only as of the date on which it is made, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

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. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, you should not place undue reliance on forward-looking statements as a prediction of actual results. We urge you to read the sections of this Offering Memorandum entitled "*Presentation of Industry and Market Data*," "*Summary*," "*Risk Factors*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Business*" for a more complete discussion of the factors that could affect our future performance and the markets in which we operate.

TRADEMARKS AND TRADE NAMES

We own or have rights to trademarks or trade names that we use in conjunction with the operation of our businesses. Each trademark, trade name or service mark of any other company appearing in this Offering Memorandum is the property of its respective holder.

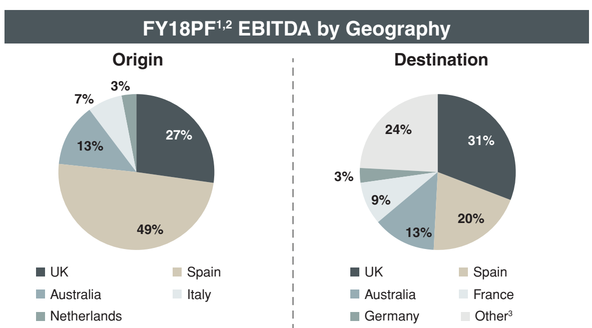
SUMMARY

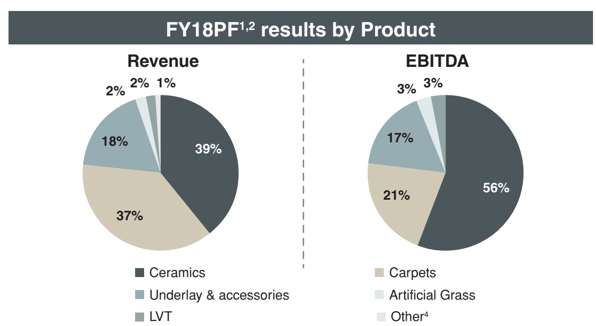
This summary highlights selected information about us and about this Offering contained elsewhere in this Offering Memorandum. The following summary is not complete and does not contain all the information you should consider before investing in the Notes. The following summary should be read in conjunction with, and is qualified in its entirety by, the more detailed information included elsewhere in this Offering Memorandum. Before making an investment decision, you should read this entire Offering Memorandum carefully, including the Historical Financial Statements and the notes thereto and the other financial information contained in this Offering Memorandum, as well as the risks described under "Risk Factors" and the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Keraben Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business." Certain defined terms used herein are defined elsewhere in this Offering Memorandum.

Overview

We are a leading designer, manufacturer and distributor of innovative flooring products across the United Kingdom, Continental Europe and Australia, established in 1895 and publicly listed since 1963. We are the largest carpet manufacturer in the United Kingdom, the second largest carpet manufacturer in Australia and the largest flooring underlay manufacturer in both countries, in each case by volume. We are also a leading Continental European ceramic tile manufacturer. We manufacture and supply a range of carpet, ceramic tiles, flooring underlay, luxury vinyl tile ("**LVT**"), artificial grass and flooring accessories. The majority of our products are for residential use and are sold through our retail customer base. We primarily target mid- to upper-market product segments of the flooring industry as well as certain niche product segments. For the 52 weeks ended June 30, 2018, we generated £630.6 million of Adjusted *Pro Forma* Revenue and £111.7 million of Adjusted *Pro Forma* EBITDA (17.7% Adjusted *Pro Forma* EBITDA margin). While we have grown over this period largely through strategic acquisitions, like-for-like growth was 2.8%, 4.6% and 1.6% (adjusted for the restructuring of certain UK operations and the impact of a weather-related business interruption).

We offer a diversified product portfolio of flooring products, both in terms of product category and target price point. Although originally focused on soft-flooring offerings, we have gained scale in the large and fragmented flooring industry through a combination of acquisitions and organic initiatives to become a major competitor in both the soft- and hard flooring markets. The following charts set forth our *Pro Forma* Revenue and *Pro Forma* EBITDA by geography and product segment for the 2018 financial year.





(1) *Pro forma* for the Acquisitions.

(2) This split assumes a consistent margin on sales across all geographies and for each business unit.

(3) Other includes, among others, Italy (1.6%), Netherlands (1.6%), Romania (1.6%), Poland (1.1%), Hungary (0.9%), Ireland (0.8%) and New Zealand (0.7%).

(4) Other includes Carpet tiles (1.0%) and Wood (0.3%).

We have a strong and long-standing presence in the UK carpet industry. To build on this competitive advantage, we expanded into the complementary flooring underlay market by adding flooring underlay operations in both the United Kingdom and Australia in 2015 and 2016. This was achieved through the acquisitions of Interfloor in 2015 and Ezi Floor in 2016, flooring underlay manufacturers based in the United Kingdom, and the 2016 acquisition of Dunlop, a flooring underlay manufacturer based in Australia. In response to robust growth in demand for artificial grass, we further expanded into the artificial grass market through our acquisitions of GrassInc and Avalon in the Netherlands in 2017. Most recently, we entered the ceramic flooring segment in Continental Europe through our acquisitions of Serra (Italy) and Keraben (Spain) in 2017, and of Saloni (Spain) in 2018.

We have a highly successful multi-brand strategy with over 30 brands encompassing mid- to upper-priced products. These include 14 carpet brands covering a broad range of wool and synthetic products, such as Victoria, Whitestone Weavers, StainFree and Quest; Westex and Hugh Mackay, two of our premium carpet brands; Duralay, Dunlop and Tredaire, leading and innovative flooring underlay brands; Keraben and Saloni, mid- to upper-market ceramic flooring brands; Distinctive and Heartridge, under which we sell high-end LVT products; and GrassInc and Avalon, under which we sell artificial grass products for a wide range of applications, including parks, sports grounds, lawns and indoor applications.

We benefit from economies of scale through our consolidated manufacturing facilities in the United Kingdom, Belgium, the Netherlands, Spain, Italy and Australia. Our business is selectively vertically integrated, comprising three components: (i) the design and specification of the majority of our products; (ii) the manufacturing of the substantial majority of our products, with limited outsourcing in circumstances in which doing so is financially and operationally beneficial; and (iii) the distribution of our products based on their product category and customer proposition, which maximizes the turnover of our inventory and product efficiency. We believe that this balanced approach to vertical integration creates robust margins and increases our competitive advantage in our target markets. We believe we have competitive advantages in the markets in which we operate, including our design capabilities, large-scale and efficient in-house manufacturing facilities and our long-standing direct relationships with retailers across all operating businesses.

We operate nine manufacturing sites in the United Kingdom and Continental Europe and five manufacturing sites in Australia. Our integrated in-house capabilities allow us to operate our production facilities flexibly, varying production levels as appropriate, while maintaining a low fixed cost base, high efficiency and rigorous quality control. Where advantageous to do so, we have consolidated the design, manufacturing and distribution of certain of our products.

Our core markets are the United Kingdom, Continental Europe and Australia, where we employ over 3,000 people across more than 20 sites. The largest end-market for our products is the improvement and repair ("**I&R**") end-market, and, therefore, our business is less exposed to the economic cycles that otherwise commonly affect the smaller, cyclical construction end-market. We sell the substantial majority of our products in the same geographical segments in which they are manufactured, placing us in close proximity to our customer bases across core markets. Our relationships with our customers, the thousands of flooring retailers and small number of distributors and direct sales customers we supply across the United Kingdom, Continental Europe and Australia, are central to our success. We primarily sell directly to retailers. In the United Kingdom alone, our 3,000-plus customers range from independent retailers to distributors and large format chains. Some of these relationships, across operating geographies, are multi-generational and we believe the strength and depth of these relationships represent a significant competitive advantage. When coupled with our recent expansion, these relationships allow us to offer a broad range of products to our customers and further our cross-selling opportunities. We benefit from a large, diverse customer base with limited concentration. For the 2018 financial year, our top ten customers constituted approximately 15% of our *Pro Forma* Revenue, with our largest customer constituting approximately 4% of our *Pro Forma* Revenue.

Our Competitive Strengths

Market-leading business with an efficient global footprint

We have built a market-leading business across our core markets with a wide product range and global production and distribution capabilities. We are the largest carpet manufacturer in the United Kingdom, with approximately 9% market share, the second largest carpet manufacturer in Australia, with approximately 7% market share, and the largest flooring underlay manufacturer in both jurisdictions, in each case by volume. We are also a leading Continental European ceramic tile manufacturer in the mid- to upper-market ceramic flooring segment by volume, with approximately 5% market share.

We manufacture a broad range of innovative products, which we distribute to leading retailers and wholesalers across commercial and residential end-markets globally. The Group is headquartered in the United Kingdom, with operations across the United Kingdom, Spain, Italy, the Netherlands, Belgium and Australia, employing over 3,000 people at more than 20 sites, including highly automated, flexible and efficient manufacturing facilities. Our production sites across the United Kingdom, Continental Europe and Australia enable us to service demand in local as well as nearby markets. Through our recent acquisitions of Keraben and Saloni in Spain, Serra in Italy, GrassInc and Avalon in the Netherlands and Millennium in Belgium, we have increased our distribution of revenues across Continental Europe while maintaining our efficient margin strategy.

We have increased efficiencies across our business by consolidating production in locations with excess capacity while rationalizing our manufacturing footprint. At the same time, we enhanced our logistics capabilities in the United Kingdom, which is our largest geographical segment. In 2017, we began the reorganization of our United Kingdom manufacturing footprint and logistics operations to improve productivity, manufacturing capacity and customer service. This process included the closure of our Kidderminster factory, which we completed in September 2017, and the ongoing relocation of our distribution center in the Midlands. Closure of the Kidderminster factory resulted in our United Kingdom carpet production being shared between two factories located in Yorkshire and South Wales. We anticipate that further efficiency gains will be made from the completed opening of our Southern Distribution Center near London, servicing all of our brands, and the potential for a further new distribution center in northern England.

We believe that our market-leading positions across our key end-markets, together with our wide product range and our global distribution capabilities allow us to closely track and adapt to customer behavior while adjusting our production levels to match demand. Specifically, as a result of our presence in multiple product segments, our vertical integration and significant contacts across retailers, we are able to receive substantial feedback as to end-consumer trends in design and supply volumes on a timely basis.

Stable flooring market dominated by the less cyclical improvement and repair end-market

The United Kingdom, Continental European and Australian flooring markets are stable, mature and attractive end-markets. Our core markets, the United Kingdom, Continental Europe and Australia, are expected to undergo stable economic growth in the coming years. According to the Freedonia Report, this economic growth is expected to translate into increased overall demand in the flooring industry across our core markets. The combined United Kingdom, Continental European and Australian flooring market is forecast to grow at a compound annual growth rate ("**CAGR**") of approximately 1.2% between 2015 and 2020, with the I&R end-market forecast to grow at a CAGR of approximately 1.8% over the same period. The hard-flooring market is expected to experience the most substantial growth in the flooring industry. Demand for resilient flooring (consisting primarily of vinyl, rubber and linoleum) is expected to grow at a CAGR of approximately 3.0%, followed by non-resilient flooring (consisting primarily of ceramic, laminate and wood) at a CAGR of approximately 3.5%. The non-resilient flooring market is expected to grow at a particularly robust pace in Australia, a market characterized by a large building and construction sector, a high standard of living and positive macroeconomic environment, at a CAGR of approximately 3.6% between 2015 and 2020. We believe that our rapid and successful expansion into the hard-flooring market in Continental Europe, as well as our sizeable presence in Australia supported by our current optimization initiatives, collectively enable us to defend our position and take advantage of these growth trends.

In addition to the stable growth forecast for the flooring industry generally, our business benefits specifically from our focus on the I&R end-market. The I&R end-market in the United Kingdom and Continental Europe is approximately four to five times larger than the new construction end-market and has limited dependence on new construction activity. Demand for new flooring in the new construction end-market tends to lag overall growth in new construction and is typically more volatile than the I&R end-market due to the cyclical nature of new construction activity. Conversely, the I&R end-market, which is driven by consistent wear-and-tear damage and the desire to upgrade the appearance of existing homes, is characterized by greater price inelasticity and is typically less susceptible to business cycles. Based on the composition of our customer base, we believe that over 80% of our revenues are generated from the I&R end-market.

Established market position in an industry with high barriers to entry

Over the course of our operating history, we have developed sufficient scale, expertise and breadth of product offering to succeed notwithstanding the significant barriers to entry in the flooring industry. We believe this business model would be difficult to replicate due to the following structural barriers to entry:

- **Fragmented customer base:** Our broad customer base is dominated by independent retailers, with whom we enjoy long-standing and, we believe, mutually beneficial relationships;

- **Strength of brands:** We have a diverse portfolio of over 30 brands that we believe enjoy strong recognition with customers;
- **Globally priced key raw materials costs:** Raw materials constitute the majority of our cost of production. Our primary raw materials are synthetic yarn, clay, natural gas, polyurethane foam and trim and rubber, which have relatively consistent global pricing. As a result, we are able to keep certain of our costs competitive with low-cost international manufacturers looking to distribute their products within our geographical segments;
- **Difficulty in transport of products:** Carpets are large, non-palletized goods and ceramic tiles are heavy, making both products difficult and expensive to transport. High transportation costs are another barrier preventing low-cost international manufacturers from distributing their products within our geographical segments. We sell the substantial majority of our products in the same geographical segments in which they are manufactured, which minimizes our transportation costs;
- **Difficulty in contract manufacturing:** Long production runs are required in our industry in order to enable cost-effective manufacturing. As a result, contract manufacturing is not a feasible alternative to the owned production capabilities that we have; and
- **Capital barriers and technical expertise:** New entrants seeking to establish operations locally would face significant up-front capital costs and a scarcity of technical and production expertise.

We believe these barriers to entry protect our business from both the threat of inexpensive, international imports as well as new entrants to our local markets.

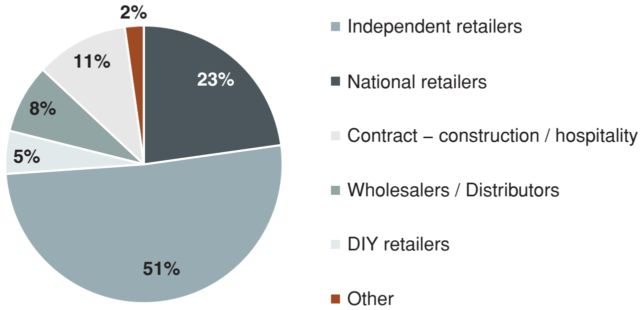
Highly diversified business across products, geographies and customers

We have a diverse product portfolio consisting of wool and synthetic broadloom carpets, ceramic tiles, laminate, flooring underlay, LVT and other hardwood flooring products, artificial grass, carpet tiles and flooring accessories. These products are spread across over 30 brands. Notably, while we have sought to selectively expand our product portfolio, we have strategically elected not to enter into product markets characterized by low margins and high price competition, such as linoleum. We primarily target the mid- to upper markets and employ a commercially focused product development process to proactively manage our margins. Our design, quality control, production and cost control processes inform one another and are designed to yield product specifications that align with our target customers' price points while optimizing margins.

Our customer relationships and manufacturing flexibility also aid diversification of our product portfolio. Our close relationships with our customers provide us with valuable feedback and enable us to adapt to changes in end-customer preferences. We are also able to avoid large-scale product warehousing because of our ability to rapidly scale production on short notice, allowing us to maintain lean inventory levels which further aid product diversification.

The evolution of our product range has been targeted and deliberate, underpinned by selective acquisitions through which we have increased production flexibility and our product and geographical diversification. As a result of this careful expansion, we are not overly dependent on any particular product segment, with ceramic flooring products, carpet products and flooring underlay constituting 39%, 37% and 18% of our revenue for the 2018 financial year after giving *pro forma* effect to the Acquisitions. Additionally, we are not unduly dependent on any particular brand (with Keraben constituting the largest proportion of our sales at 18.3%) or geographical segment and have the flexibility to produce and serve multiple geographies and shift production as needed based on fluctuations in demand. After giving *pro forma* effect to the Acquisitions, 60.6% of our revenue by origin was generated outside of the United Kingdom for the 2018 financial year.

Through our portfolio of over 30 brands, we offer a broad, differentiated and regularly evolving product portfolio for a variety of end-markets, including residential, office and hospitality and leisure. The breadth of these offerings provide us with a diverse customer base consisting of independent retailers, national retailers, Do-It-Yourself ("**DIY**") retailers and buying groups, with over 3,000 customers in the United Kingdom, over 2,000 customers in Continental Europe and approximately 800 customers in Australia. These retailers are highly diversified across specialist, non-specialist, general and DIY sales channels. The chart below sets forth our customer distribution by sales channel through the 2018 financial year, *pro forma* for the Acquisitions.



Significantly, the vast majority of our products are sold directly to independent flooring retailers rather than third-party distributors, which we believe drives brand loyalty and long-term relationships. Our involvement in the supply chain tends to end at distribution, with products rarely being sold directly to consumers, optimizing margins. Unlike some of our competitors, a minority of our revenue is generated from large retail chains. Approximately 55% of our revenue comes from independent retailers (including DIY retailers) while approximately 25% comes from large retail chains. Additionally, in the 2018 financial year, no customer represented more than 4% of our revenue with our largest ten customers accounting for approximately 15% of our revenue.

We believe that the breadth of our product offering and the diversity of our revenue streams support the resilience of our business and that our sales of products across a number of attractive flooring segments increases our cross-selling opportunities, visibility and pricing power. We further believe that our wide product offering, expansive geographic footprint and diverse base of customers strengthen our position as a leading designer, manufacturer and distributor of innovative flooring products while positioning us for future growth.

Low operational gearing through a flexible cost base and low capital expenditure requirements

We benefit from low operational gearing, with 54% of our costs (46% of our cost base as a percentage of our revenues) for the 2018 financial year (*pro forma* for the Acquisitions) varying directly with revenue. A further 31% of our costs (26% of our cost base as a percentage of revenues) for the 2018 financial year (*pro forma* for the Acquisitions) is semi-variable, with the ability to adapt within a few months. We have been able to maintain this low operational gearing despite being a manufacturing business by automating certain processes and because our equipment generally has a very long useful life. We also benefit from multiple production sites with the flexibility, capacity and cost structure to vary production levels, enabling our business to maintain efficiency in favorable markets and resilience through the more challenging parts of the business cycle.

Further, as much of our plant and equipment is relatively inexpensive and can be replaced on a modular basis, our business requires a limited amount of maintenance capital expenditures relative to our cash flows. Of our capital expenditures for the 2018 financial year, £14.1 million related to maintenance and £15.2 million related to growth. While our maintenance capital expenditures have increased on an absolute basis over the last three years, our maintenance capital expenditures as a percentage of our total revenue remained relatively stable, at 4.0%, 3.3% and 3.3% for the 2016, 2017 and 2018 financial years, respectively.

Strong financial performance with resilience through economic downturns

We were resilient throughout the financial crisis, increasing revenue in each of 2006–2011. Our focus on the less cyclical I&R end-market made us less susceptible to the worst effects of the financial crisis, during which time consumers opted for less expensive forms of home improvement. While we shifted our sales mix to lower than average selling prices in order to protect sales volumes, we were able to utilize our flexible cost base to maintain our margins.

Since the financial crisis, we have expanded our product portfolio, developed a more efficient production footprint and introduced better inventory management. We now offer an expanded product portfolio and have shifted from a pure carpeting business to a hard and soft-flooring group, with a range of carpet, ceramic tiles, flooring underlay, LVT and artificial grass products. As a result of our increased scale through acquisitions and various operational initiatives, we also possess a more efficient production footprint and better inventory management. We believe that these changes have strengthened our underlying business and leave us poised to capitalize on the more favorable macroeconomic backdrop, especially as we have also diversified geographically in both manufacturing and sales without over-exposure to any single geographic market.

Since the change in our management in 2012, we have experienced a period of accelerated growth coupled with improvements in EBITDA margins, increasing from 7.2% in the 52 weeks ended March 29, 2014 (the "**2014 financial year**") to 15.2% in the 2018 financial year. These increases began with a restructuring in the 52 weeks ended March 30, 2013 (the "**2013 financial year**") that included a one-off stock rationalization and mill consolidation to reduce excess capacity. Further, we have maintained consistently high Operating Cash Flow Conversion of 99.4%, 95.4% and 99.7% in the 2018, 2017 and 2016 financial years, respectively. This strong free cash flow generation has allowed us to de-lever following new acquisitions, and has been supported by relatively limited working capital requirements and stable capital expenditures that have grown in proportion to the growth in our business since 2014.

We remain committed to continuing margin growth in our existing businesses. In 2017, we began the reorganization of our UK manufacturing footprint and logistics operations to improve productivity, manufacturing capacity and customer service. This process included the closure of our Kidderminster factory, which we completed in September 2017, and the ongoing relocation of our distribution center in the Midlands. Closure of the Kidderminster factory resulted in our UK carpet production being shared between two factories located in Yorkshire and South Wales. We anticipate that further efficiency gains will be made from the completed opening of our Southern Distribution Center near London, servicing all of our brands, and the potential for a further new distribution center in northern England.

In line with this focus, we announced our intention to rationalize our flooring underlay production facilities in Sydney and Melbourne, Australia, which we acquired in January 2017 and plan to concentrate production in a single facility in the second half of 2019. We acquired these two facilities in Sydney and Melbourne through our purchase of Dunlop Flooring in January 2017. We have decided to concentrate our manufacturing activity at our existing Sydney site while closing the site near Melbourne. Together with an investment of approximately AUD $2.1 million in new technology, this initiative is expected to improve raw material processing, finishing and packaging at the Sydney site. This combination of rationalization and investment are intended to increase our operational agility and result in a more efficient and productive operation.

Proven acquisition track record and ability to realize synergies

Since 2013, we have participated in the consolidation of a highly fragmented industry and believe we have built a reputation as a credible acquirer. Though we aim to maximize the realization of synergies following an acquisition, our strategy is primarily focused on acquiring high-quality, high-margin targets that we intend to operate as stand-alone propositions. We seek to acquire businesses that are growing and profitable, with high-quality facilities and products as well as competitive advantages in production and distribution. Our acquisition targets generally possess sustainable above-average margins and are led by committed and capable management teams. We believe this focus on stand-alone business value allows us to minimize our downside acquisition risk while maintaining room for synergistic upside potential.

Since the change in Group management in 2013, we have made 13 acquisitions, including the recent acquisitions of Keraben, Serra and Saloni. Over this period, our Underlying EBITDA has grown from £2.3 million in the 2013 financial year to £64.7 million in the 2018 financial year, and, after giving effect to the Acquisitions, our Adjusted *Pro Forma* EBITDA in the 52 weeks ended June 30, 2018 was £111.7 million.

Our increased scale through acquisitions has given us significant opportunities for margin improvement. We possess better buying power for raw materials and have consolidated our manufacturing, distribution, warehousing and logistics capacity. Additionally, the acquisition of production capacity and development of distribution facilities in close proximity to our clients is also a competitive advantage, as the high levels of customer dispersion typical in the flooring industry can generate substantial distribution costs. Our strategically located distribution facilities allow us to minimize these costs and access customers in a timely and cost-effective manner. Through our increased scale, we have also been able to rationalize product lines, improve working capital management through SKU reduction and take advantage of cross-selling products through new distribution channels. As a result of the above, our acquisition strategy has resulted in realized margin synergies, as evidenced by the increase in our Underlying EBITDA margin from 3.3% in the 2013 financial year to 15.2% in the 2018 financial year.

We have a long history of creativity and innovation in the flooring industry, both technical and aesthetic, and we are well-positioned to develop, together with our customers, design concepts and create innovative products that are tailored to consumers' tastes and preferences. Our strategic acquisitions in the ceramic tile and artificial grass segments position us to continue to offer products tailored to a contemporary audience. We continue to introduce new product collections every year to meet consumer preferences and trends.

Experienced management team with proven track record of sustainable value creation

We have a strong and experienced management team that has positioned us for continued growth and development. Geoffrey Wilding, responsible for our rapid and successful expansion, joined the Group as Executive Chairman in 2012 and drives overall Group strategy. The 2018 financial year was Philippe Hamers' first full year as our Chief Executive Officer. Mr. Hamers has over 25 years of experience in the flooring industry, most recently chairing Europe's largest carpet manufacturing operation before assuming his role with us.

We operate a "team of teams" structure that minimizes cost friction and red tape, while capitalizing on local expertise and allowing organic local strategies to flourish. Our global operating strategy is generated centrally by Group-level management, including budgeting, capital expenditure planning and cross-business operations. Complementing our Group-level strategy, we maintain a decentralized structure with Managing Directors responsible for the day-to-day management of each of our core operating businesses. Within the limits of our overall strategy and objectives, each Managing Director develops their own strategy and tactics (reviewed by the Board) to deliver their targets.

Our management team has a strong track record of identifying value-accretive acquisition targets, integrating the acquired companies and identifying and achieving synergies. In selectively growing our operations, we look for mature businesses with modern, well-invested production facilities, committed management teams, established distribution channels and competitive advantages in the relevant target market. Once a business has been acquired, we have historically been able to deliver significant production and purchasing synergies, which continue to drive growth in operating margins and improved like-for-like performance, as evidenced by five consecutive years of increasing EBITDA margins.

Importantly, we are focused on retaining the management teams at our operating business level, a strategy that has proved successful for the Group. We have retained nearly all members of management in post-acquisition earn-out periods and, out of the 13 acquisitions made by the Group since 2013, seven are either post earn-out or did not have an earn-out period. In addition, our divisional management teams have extensive experience in the flooring industry and we believe that their collective industry knowledge, technical expertise, and customer and supplier relationships will enable them to continue to grow our business and execute our strategies.

Strategy

Continue to generate sustainable organic top-line growth in selected product segments

Our growth since 2013 has created a consolidated platform in carpeting, flooring underlay, flooring accessories, ceramic flooring and LVT products. While the Group has grown over this period largely through strategic acquisitions, like-for-like growth was 2.8%, 4.6% and 1.6% (adjusted for operations and the impact of a weather-related business interruption) for the 2016, 2017 and 2018 financial years, respectively. We intend to continue to utilize our platform in order to defend our market position, develop new products, and leverage our distribution channels to drive organic top-line growth.

When investing in our organic development, we target product segments in which we benefit from existing high margins and where we can increase operational efficiencies. For example, we benefit from high margins in our ceramic flooring segments, and have planned investments in Keraben to increase ceramic production capacity. These investments include the development of a new production plant anticipated to begin production in 2020, the installation of new clay atomizers in floor and wall plants designed to increase clay reception capacity and the installation of new inkjet printing machines for wall and floor pressing and glazing processes. Additionally, in the 2018 financial year we completed the rationalization of our UK manufacturing footprint by closing our Kidderminster factory, with our UK carpet manufacturing now being shared between factories located in Yorkshire and South Wales. We recently announced a similar initiative in Australia, which will result in the consolidation of our two flooring underlay factories into a single, enlarged facility located in Sydney. We have also strengthened our UK logistics network, including through the establishment of our new Southern Distribution Center and the relocation of our Midlands distribution center. We intend to continue refining the multi-site operation of this distribution network. In addition to optimizing our cost base, these initiatives are a competitive advantage as they allow our customers to distribute their products more efficiently, which we believe will drive increased sales.

While our primary focus is on sales to retailers and the I&R market, we also aim to grow our contract offering directly to end-market consumers, particularly within the hospitality and leisure and construction end-markets. Though our Whitestone operating business currently services clients within these end-markets, we have identified these end-markets as targets for organic expansion as our existing presence is minimal. In light of our growing ceramic tile and LVT product offerings, we have begun designing and creating products specifically for these product segments with our sales teams concentrating marketing efforts in these areas.

We are also making targeted investments into new product development and associated marketing materials, aided by our selective acquisitions in new strategic areas in which we believe there is superior and sustainable market growth and high margins. For example, we have expanded into the attractive Continental European ceramic flooring industry with our acquisitions of Keraben, Saloni and Serra. Non-resilient flooring, mostly consisting of the ceramic flooring segment, remains the most popular flooring solution across Continental Europe. Additionally, our acquisitions of GrassInc and Avalon give us a foothold in the rapidly expanding global artificial grass industry. We believe there are large, underpenetrated markets for these and other products and we intend to leverage the scale of our footprint and our diverse distribution channels in order to capitalize on these opportunities.

Acquisitive growth to realize margin-driving synergies and integration

Since 2013, we have become a consolidator in a highly fragmented industry and have built a reputation as a disciplined and credible acquirer. Through a combination of acquisitions and organic initiatives, the Group has grown from having Underlying EBITDA of £2.3 million in the 2013 financial year to Adjusted *Pro Forma* EBITDA of £111.7 million in the 52 weeks ended June 30, 2018.

This growth supports our belief that the flooring market is suitable for further consolidation. Manufacturing in our industry is characterized by many small, inefficient and privately owned manufacturers; for example, there are over 250 manufacturers in the United Kingdom and Continental Europe. The 20 largest flooring producers globally only represented approximately 12% of global revenues in 2015. Further, we are generally insulated from large-scale competition within the United Kingdom and Continental Europe as the largest global manufacturers operate in the United States.

Small manufacturers offer potential economies of scale, stable backgrounds and typically operate in the I&R end-market, which is less sensitive to economic cycles. Most carpet manufacturers trade at or below net asset value and, therefore, incumbent owners are often keen to exit. With many retiring owners lacking a succession plan, we are seen as an ideal buyer among few buying players in the market. We are constantly sourcing new opportunities for acquisitive growth and aim to make two-to-three high-quality, complementary acquisitions per year.

The acquisition origination process begins with a long list of market participants. Our policy is to avoid acquiring turnarounds, so we only invest in currently profitable and cash-generative businesses. After months of contact with the target's management, and due diligence on the target's operating sites and financials, we consider commercial and cultural fit, possible synergies and terms of the possible acquisition. In addition to our focus on well-run businesses with strong management teams, we stress contingent structuring of consideration, to motivate the target and to share downside risk. With strong, rational adherence to our acquisition strategy, we have been able to limit our downside risk.

Our consistent growth through acquisitions has allowed us to use our scale to drive operating margins. After an acquisition, we maintain the target's customer-facing teams, such as design, branding, sales and marketing. This feet-on-the-ground approach allows for product and brand differentiation while simultaneously maintaining responsiveness to dynamic customer demand. At the same time, operational integration drives the realization of cost-savings synergies in procurement, production, logistics and IT. These initiatives result in better buying terms with suppliers of raw materials, better working capital management through SKU reduction and rationalization of product lines and manufacturing assets. Importantly, our acquisition strategy creates the potential for further future consolidation of manufacturing capacity. We are able to realize depot, fleet and load consolidation for a more efficient logistical process. More efficient retail network relationships created through consolidation also yield commercial synergies such as product bundling and cross-selling while further driving sales growth and SKU reduction.

Generate free cash flow to enable de-leveraging

A hallmark of a successful flooring business is its generation of free cash flow and high cash conversion rates. These are due to the longevity of flooring manufacturing plants, the relatively low capital requirements of those plants, relatively inelastic demand, and price inelasticity. When coupled with our synergistic acquisitions, we have consistently been able to consolidate production capability, increasing utilization, reducing SKUs, increasing stock turnover and establishing favorable trading terms with suppliers and customers. Together, these elements have the effect of further increasing our free cash flow. High free cash flow, in turn, allows us to rapidly de-lever.

Although much of our historical growth has been through acquisitions, we have successfully maintained stable net leverage. Maintaining low leverage ensures the long-term health of the Group and gives us headroom for further acquisitions. While we expect our *pro forma* senior net leverage to increase to 3.0x after giving effect to the Transactions, we intend to return to historical leverage levels in the near future.

History

We were established in 1895 as a carpet manufacturing business and have grown to an international scale in subsequent years. We have been publicly listed since 1963, moving from the London Stock Exchange's Main Market to its AIM Market in 2013. When Geoffrey Wilding joined as Executive Chairman in 2012, a new board was appointed to conduct a full strategic review of the Group. In 2014, Mr. Wilding acquired a controlling stake in the Group. Since our formation, we have grown beyond our initial soft-flooring offerings and gained scale through acquisitions in the fragmented flooring industry diversifying both by product and geography.

Since 2013, we have made 13 acquisitions across the United Kingdom, Continental Europe and Australia to become a global player in the flooring industry. In late 2017, we expanded our position in Continental Europe, with the acquisition of Serra in Italy and Keraben in Spain. Both Serra and Keraben are Continental European hard flooring manufacturers. Also, in early 2017, in response to the robust growth of the artificial grass market, we gained artificial grass-manufacturing capability through our acquisitions of GrassInc and Avalon in the Netherlands. We have additionally acquired the business and assets of Millennium in 2017, a carpet distribution business based in Belgium, further enhancing our presence in the UK high-volume market. Most recently, in August 2018, we further increased our presence in the Continental European hard flooring market with our acquisition of Saloni, a Spanish ceramic tile manufacturer.

In 2013, Victoria Carpets Limited, one of our core historic operating subsidiaries, was awarded the Queen's Royal Warrant and further supplied the red carpet for the wedding of Prince William and Catherine Middleton, Duke and Duchess of Cambridge.

The Transactions

On August 7, 2018, we acquired the business and assets of Saloni, a Spanish ceramic tile manufacturer with significant presence in the Continental European ceramic flooring industry. In connection with our acquisition of Saloni, we entered into the Bridge and Revolving Credit Facility Agreement, which provided for term borrowings under the Bridge Facility of €445.0 million as well as aggregate multi-currency borrowings of up to an equivalent of £60.0 million. We used drawings under the Bridge Facility, together with the proceeds of the Equity Placement: (i) to fund the consideration payable for our acquisition of Saloni on August 7, 2018, (ii) to repay the Saloni Legacy Indebtedness, (iii) to repay the amounts drawn under the Legacy Revolving Credit Facility and other existing indebtedness of the Victoria Group; and (iv) for general corporate purposes.

In connection with our entry into the Bridge and Revolving Credit Facility Agreement, we repaid and cancelled the Legacy Revolving Credit Facility. On or about the Issue Date, the New Revolving Credit Facility will be secured on a first-priority basis by the Collateral and certain of the Issuer's subsidiaries will accede as guarantors. The Intercreditor Agreement and the Bridge and Revolving Credit Facility

Agreement will be amended and restated on or about the Issue Date by way of the Amendment and Restatement Agreement.

We refer to the Acquisitions, the Equity Placement, the refinancing of the Saloni Legacy Indebtedness, the refinancing of the Legacy Revolving Credit Facility and other existing indebtedness of the Group, the Offering and the refinancing of the Bridge Facility as the "Transactions." See "*Use of Proceeds*," "*Capitalization*" and "*Description of the Notes*."

Use of Proceeds

We estimate that the aggregate gross proceeds of the Offering will be €450.0 million. On the Issue Date, we will use the proceeds of the Offering to repay the Bridge Facility and, together with cash on hand, pay the fees and expenses in connection with the Offering. See "*—The Transactions*" and "*Use of Proceeds*."

The following table illustrates the estimated sources and uses of funds in connection with the Offering. Actual amounts may vary from estimated amounts depending on several factors, including differences from our estimates of fees, expenses and commissions. For descriptions of our current and anticipated indebtedness following the offering of the Notes and the use of proceeds therefrom, see "*Description of Certain Financing Arrangements*" and "*Capitalization*."

Sources	(£ million)[1]	Uses	(£ million)
Notes offered hereby	398.3	Repayment of Bridge Facility[2]	393.9
Cash on hand	3.0	Estimated fees, expenses and commissions[3]	7.4
Total Sources	**401.3**	**Total Uses**	**401.3**

(1) We have translated certain euro amounts into pounds sterling at the rate of €1.1297 = £1.00, which was the exchange rate quoted by Bloomberg as of October 25, 2018. You should not view such translations as a representation that such pound sterling amounts actually represent such euro amounts, or could be or could have been converted into pounds sterling at the rate indicated or at any other rate, on such date or any other date. Assumes issuance at par.

(2) Does not reflect accrued interest from the closing of the acquisition of Saloni to the Issue Date, which will be paid with cash on hand.

(3) Represents underwriting fees and commissions, other estimated transaction costs and professional fees and expenses to be paid in connection with the Transactions.

Recent Developments

The following information relating to our performance for the 13 weeks ended September 29, 2018 is derived from our internal management accounts for the months of July, August and September 2018. This information has been prepared by management. It has not been audited, reviewed, verified or subject to any procedures by our auditors, and you should not place undue reliance on it. Because this information is preliminary, it is subject to change and those changes could be material. See "Forward-Looking Statements" and "Risk Factors" for a discussion of certain of the factors that could affect our future performance and results of operation.

For the 13 weeks ended September 29, 2018, we have continued to grow our Group sales in a challenging market, with like-for-like revenue growth of approximately 3% as compared with the equivalent period during the prior year. Notwithstanding this revenue growth, our strategy of focusing on driving sales volume in the current market has resulted in some downward pressure on our operating margins during this period.

UK & Europe

In soft flooring, which excludes ceramic tiles, we have maintained our strategy of focusing our product mix on competitive products, lowering average selling prices and driving sales volume. As a result, sales have grown organically at a rate of approximately 5% as compared with the equivalent period during the prior year.

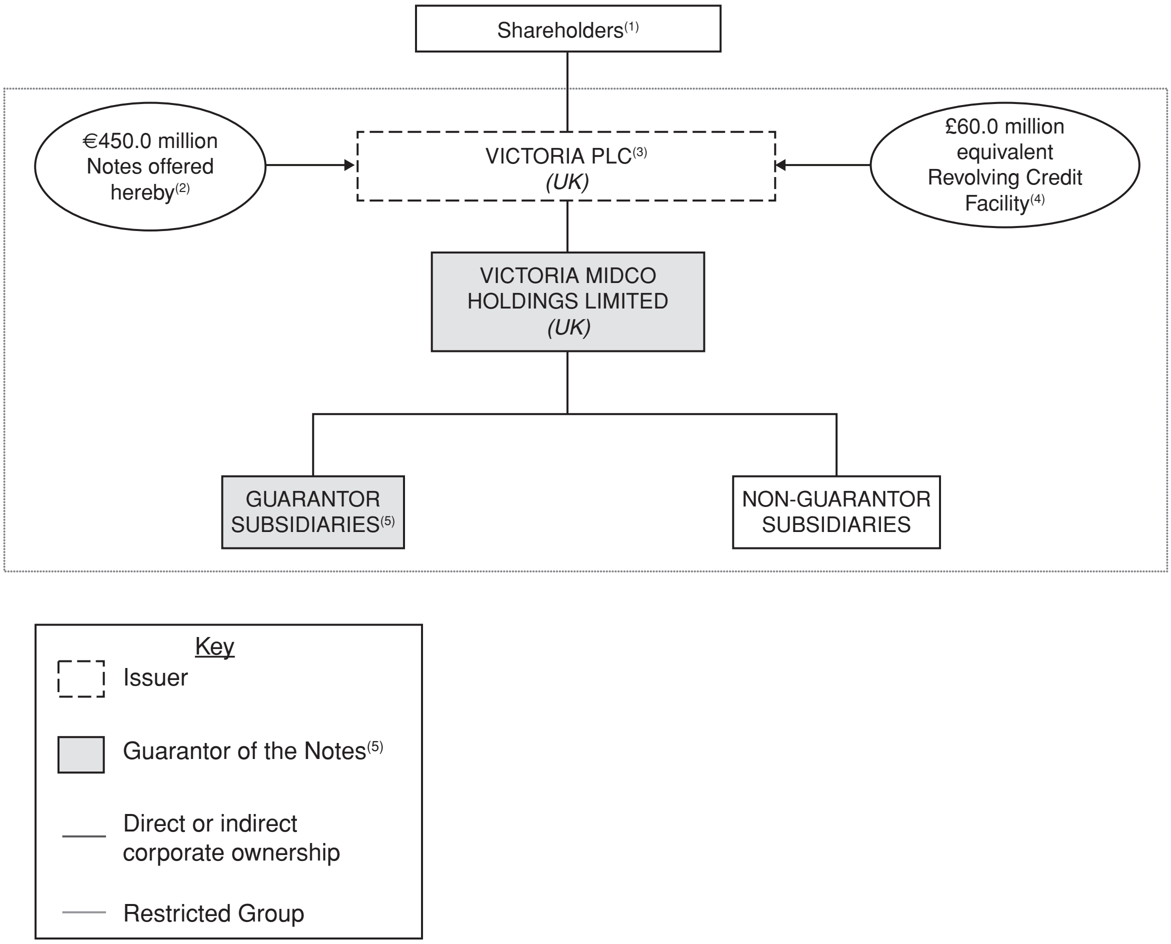
In hard flooring, since our acquisition of Saloni in August 2018, we have identified a number of operational synergies between Keraben and Saloni that we are in the process of implementing. Further, since Serra commenced the manufacturing of new porcelain products in June, we have seen positive customer uptake. Nevertheless, this sector has experienced an increase in pricing pressure since the start of the current financial year, which has had a marginal impact on overall sales growth and margins.

Australia

The Australia segment, which represented approximately 18% of our *Pro Forma* Revenue for the 2018 financial year, has experienced marginally slower performance, with sales declining by approximately 1.5% as compared with the equivalent period during the prior year.

CORPORATE AND FINANCING STRUCTURE

The following chart illustrates our simplified corporate structure and principal indebtedness after giving *pro forma* effect to the Transactions, as described under "*Use of Proceeds*". For a summary of the debt obligations referred to in this chart, see "*Description of Certain Financing Arrangements*," "*Description of the Notes*" and "*Capitalization*." This chart does not include all of our subsidiaries or all of our debt obligations.



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(1) Victoria PLC is a public limited company listed on the AIM market of the London Stock Exchange. As of October 9, 2018, through Camden Holdings Limited, our Executive Chairman, Geoffrey Wilding, was Victoria PLC's second largest shareholder with 17.10% of its share capital, after Invesco Limited which holds 19.25% of its share capital. Other shareholders account for the remainder of the shares, none of which have a shareholding greater than ten percent.

(2) The Notes will be senior obligations of the Issuer and will rank *pari passu* in right of payment with any of the Issuer's existing and future senior indebtedness that is not expressly subordinated in right of payment to the Notes, including obligations under the New Revolving Credit Facility, and will rank senior in right of payment to any existing and future debt that is expressly subordinated in right of payment. The Notes will be effectively subordinated to all of the existing and future indebtedness of the Issuer that is secured by property or assets that do not also secure the Notes, to the extent of the value of such property and assets securing such indebtedness. The Notes will be structurally subordinated to all existing and future indebtedness and other liabilities (including trade payables) of subsidiaries that do not provide Guarantees. Subject to the terms of the security documents, the Notes and the Guarantees will be secured by (i) a first priority share charge (or, in the case of Spain, pledge) over all of the issued share capital of the Guarantors incorporated in England and Wales (which, in the case of Victoria Midco Holdings Limited, will include only its ordinary shares), Australia and Spain; (ii) first priority fixed and floating charge over substantially all of the present and future assets of the Issuer and the Guarantors incorporated in England and Wales; and (iii) a first priority charge over substantially all of the present and future assets of the Guarantors incorporated in Australia. Pursuant to the terms of the Intercreditor Agreement, creditors under the Amended and Restated Revolving Credit Facility Agreement will be repaid with proceeds from the enforcement of the Collateral in priority to the Notes. The Notes will be guaranteed by the Guarantors and secured on a first-priority basis by the Collateral on or about the Issue Date. See "*Description of Certain Financing Arrangements*" and "*Description of the Notes—Security*."

(3) Victoria PLC, a public limited company incorporated under the laws of England and Wales is the ultimate holding company for the Group and is the Issuer of the Notes. On the Issue Date, we will use the proceeds of the Offering to repay the Bridge Facility and, together with cash on hand, pay the fees and expenses in connection with the Offering. We used drawings under the Bridge Facility, together with the proceeds of the Equity Placement: (i) to fund the consideration payable for our acquisition

of Saloni on August 7, 2018, (ii) to repay the Saloni Legacy Indebtedness, (iii) to repay the amounts drawn under the Legacy Revolving Credit Facility and other existing indebtedness of the Victoria Group; and (iv) for general corporate purposes. See "—*The Transactions*," "*Use of Proceeds*" and "*Description of Certain Financing Arrangements*."

(4) On or about the Issue Date, the Amended and Restated Revolving Credit Facility Agreement will become effective, providing for aggregate multi-currency borrowings of up to £60.0 million equivalent under the New Revolving Credit Facility. We expect that the New Revolving Credit Facility will be undrawn on the Issue Date. On or about the Issue Date, the New Revolving Credit Facility will be secured on a first-priority basis by the Collateral and certain of the Issuer's subsidiaries will accede as guarantors. The guarantors of the New Revolving Credit Facility will also be the Guarantors of the Notes. Pursuant to the terms of the Intercreditor Agreement, creditors under the Amended and Restated Revolving Credit Facility Agreement will be repaid with proceeds from the enforcement of the Collateral in priority to the Notes. See "*Description of Certain Financing Arrangements—Intercreditor Agreement*" and "*—New Revolving Credit Facility*." As at the date of this Offering Memorandum, the New Revolving Credit Facility was undrawn.

(5) The Notes will be guaranteed on a general, senior basis by the Guarantors, which on the Issue Date will be Victoria Midco Holdings Limited, Victoria Carpets Limited, Westex (Carpets) Limited, Abingdon Flooring Limited, Interfloor Limited, View Logistics Limited, The Victoria Carpet Company Proprietary Limited, Quest Flooring Pty Ltd, Primary Flooring Pty Ltd, Keraben Grupo, S.A.U. and Cerámica Saloni, S.A.U. Each Guarantee will be a senior obligation of the relevant Guarantor and will rank *pari passu* in right of payment with all of such Guarantor's existing and future obligations that are not expressly subordinated in right of payment to such Guarantee, including obligations under the New Revolving Credit Facility, and will rank senior in right of payment to any existing and future debt that is expressly subordinated in right of payment. Each Guarantee will be effectively subordinated to any existing and future secured obligations of such Guarantor that is secured by property or assets that does not also secure the Guarantees, to the extent of the value of such property or assets so securing such indebtedness. The Guarantees may be released in certain circumstances. The Guarantors represented 86.5% of our Adjusted *Pro Forma* EBITDA for the 52 weeks ended June 30, 2018, 89.5% of our *Pro Forma* Revenue for the 52 weeks ended June 30, 2018 and 87.9% of our *pro forma* total assets (excluding acquired intangibles and goodwill arising on consolidation) as of June 30, 2018 after giving effect to the Spanish Acquisitions. The validity and enforceability of the Guarantees and the liability of the Guarantors will be subject to the limitations described in "*Limitations on Validity and Enforceability of the Security and the Guarantees and Certain Insolvency Law Considerations*."

THE OFFERING

The following overview of the Offering contains basic information about the Notes, the Guarantees and the Collateral. It is not intended to be complete and it is subject to important limitations and exceptions. For a more complete understanding of the Notes, the Guarantees and the Collateral including certain definitions of terms used in this overview, see "*Description of the Notes*."

Issuer	Victoria PLC, a public limited company incorporated under the laws of England and Wales.
Notes Offered	€450,000,000 aggregate principal amount of Senior Secured Notes due 2023.
Issue Date	, 2018.
Issue Price	% plus accrued interest, if any, from the Issue Date.
Maturity Date	, 2023.
Interest Rate	% per annum.
Interest Payment Dates	Semi-annually in arrears on and of each year, commencing on , 2019. Interest on the Notes will accrue from the Issue Date.
Denominations	The Notes will be issued in denominations of €100,000 and any integral multiple of €1,000 in excess thereof. Notes in denominations of less than €1,000 will not be available.
Ranking of the Notes	The Notes will: • be general, senior obligations of the Issuer, secured as set forth below under "—*Security*"; • rank *pari passu* in right of payment with any existing and future Indebtedness of the Issuer that is not expressly subordinated in right of payment to the Notes, including the obligations of the Issuer under the New Revolving Credit Facility; • rank senior in right of payment to any existing and future indebtedness of the Issuer that is expressly subordinated in right of payment to the Notes; • be effectively subordinated to any existing or future indebtedness or obligation of the Issuer and its subsidiaries that is secured by property and assets that do not secure the Notes, to the extent of the value of the property and assets securing such indebtedness; and • be structurally subordinated to any existing or future indebtedness of the subsidiaries of the Issuer that are not Guarantors, including obligations owed to trade creditors.
Guarantees	The Issuer's obligations under the Notes will be guaranteed (collectively, the "**Guarantees**" on a senior basis by Victoria Midco Holdings Limited, Victoria Carpets Limited, Westex (Carpets) Limited, Abingdon Flooring Limited, Interfloor Limited, View Logistics Limited, The Victoria Carpet Company Proprietary Limited, Quest Flooring Pty Ltd, Primary Flooring Pty Ltd, Keraben Grupo, S.A.U. and Cerámica Saloni, S.A.U. (collectively, the "**Guarantors**") as of the Issue Date.

The obligations of each Guarantor will be limited as described under "*Description of the Notes—Guarantees*." Each Guarantee will be subject to certain contractual and legal limitations. See "*Limitations on Validity and Enforceability of the Security and the Guarantees and Certain Insolvency Law Considerations.*" Each Guarantee will be subject to the terms of the Intercreditor Agreement, including certain payment blockage, standstill and turnover provisions. See "*Description of Certain Financing Arrangements—Intercreditor Agreement.*" Each Guarantee will be subject to release under certain circumstances. See "*Description of the Notes—Guarantees—Release of the Guarantees.*"

The Guarantors represented 86.5% of our Adjusted *Pro Forma* EBITDA for the 52 weeks ended June 30, 2018, 89.5% of our *Pro Forma* Revenue for the 52 weeks ended June 30, 2018 and 87.9% of our *pro forma* total assets (excluding acquired intangibles and goodwill arising on consolidation) as of June 30, 2018. As of June 30, 2018, on a *pro forma* basis after giving effect to the Transactions, the Group would have had £339.3 million of net senior financial debt (none of which would have been incurred at subsidiaries that will not guarantee the Notes) excluding unamortized debt issuance costs.

Ranking of the Guarantees . . . . The Guarantee of each Guarantor will:

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

Security . . . . On or about the Issue Date, the Notes will be secured by:

- a first priority share charge (or, in the case of Spain, pledge) over all of the issued share capital of the Guarantors incorporated in England and Wales (which, in the case of Victoria Midco Holdings Limited, will include only its ordinary shares), Australia and Spain;
- a first priority fixed and floating charge over substantially all of the present and future assets of the Issuer and the Guarantors incorporated in England and Wales; and
- a first priority charge over substantially all of the present and future assets of the Guarantors incorporated in Australia.

(collectively, the "**Collateral**").

The Collateral may be limited by applicable law or subject to certain defenses that may limit their validity and enforceability. For more information on the security interests granted, see "*Description of the Notes—Security*" and for more information on potential limitations to the security interests, see "*Limitations on Validity and Enforceability of the Security and the Guarantees and Certain Insolvency Law Considerations*" and "*Risk Factors—Risks Related to the Notes and Our Structure.*"

The security interests over the Collateral may be released under certain circumstances. See "*Risk Factors—Risks Related to the Notes and Our Structure—There are circumstances other than repayment or discharge of the Notes under which the Collateral securing the Notes and the Guarantees will be released automatically and under which the Guarantees will be released automatically, without your consent or the consent of the Trustee,*" "*Description of Certain Financing Arrangements—Intercreditor Agreement*" and "*Description of the Notes—Security—Release of Security.*"

Additional Amounts . . . . All payments by or on behalf of the Issuer or any Guarantor (or any surviving entity) under or with respect to the Notes or any Guarantee will be made free and clear of, and without withholding or deduction for taxes, unless required by law. If any withholding or deduction for or on account of any taxes imposed by any relevant taxing jurisdiction is required, the Issuer, the Guarantor or surviving entity, as the case may be, will pay such additional amounts as may be necessary to ensure that the net amount received by each holder of the Notes after such withholding or deduction will be not less than the amount the holder would have received if such taxes had not been required to be withheld or deducted, subject to certain exceptions. See "*Description of the Notes—Additional Amounts*."

Optional Redemption of Notes . . . . . Prior to   , 2020, the Issuer may redeem all or a portion of the Notes at a redemption price equal to 100% of the principal amount of such Notes plus the applicable "make-whole" premium set forth in this Offering Memorandum, plus accrued and unpaid interest to, but excluding, the redemption date.

Prior to   , 2020, the Issuer may redeem on one or more occasions up to 40% of the original aggregate principal amount of the Notes (including any Additional Notes) using the net proceeds from certain equity offerings at a redemption price equal to   % of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any, to the date of redemption; *provided* that at least 50% of the original aggregate principal amount of the Notes (including any Additional Notes) remains outstanding after the redemption.

Prior to   , 2020, the Issuer may redeem up to 10% of the original aggregate principal amount of the Notes (including any Additional Notes) during each 12-month period commencing on the Issue Date at its option, from time to time, at a redemption price equal to 103% of the principal amount of the Notes redeemed, plus accrued and unpaid interest and additional amounts, if any.

	On or after , 2020, the Issuer may redeem all or a portion of the Notes at the redemption prices set forth in this Offering Memorandum under the caption "*Description of the Notes—Optional Redemption*" plus accrued and unpaid interest to, but excluding, the redemption date. See "*Description of the Notes—Optional Redemption*."
Redemption for Taxation	In the event of certain developments affecting taxation, the Issuer may redeem the Notes, as applicable, in whole, but not in part, at any time, at a redemption price of 100% of the principal amount, plus accrued and unpaid interest, if any, and additional amounts, if any, to the date of redemption. See "*Description of the Notes—Redemption upon Changes in Withholding Taxes*."
Original Issue Discount	The Notes may be issued with original issue discount ("OID") for U.S. federal income tax purposes. In that event, U.S. investors generally will be required to include OID in gross income (as ordinary income) on an annual basis under a constant yield accrual method, regardless of their regular method of accounting for U.S. federal income tax purposes. As a result, U.S. investors will generally include any OID in income in advance of the receipt of cash attributable to such income. For more information, see *"Certain Tax Considerations—Certain U.S. Federal Income Tax Considerations."*
Change of Control	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 of 101% of the principal amount thereof on the date of purchase plus accrued and unpaid interest and additional amounts, if any, to, but excluding, the date of purchase. See "*Description of the Notes—Change of Control*."
Tender Offers	In connection with certain tender offers for the Notes, if holders of not less than 90% in aggregate principal amount of the applicable outstanding Notes validly tender and do not withdraw such Notes in such tender offer and the Issuer, or any third party making such a tender offer in lieu of the Issuer, purchases, all of the Notes validly tendered and not withdrawn by such holders, the Issuer or such third party will have the right to redeem the Notes that remain outstanding in whole, but not in part, following such purchase at a price equal to the price offered to each other holder of Notes (excluding any early tender or incentive fee). See "*Description of the Notes—Optional Redemption—General*."
Certain Covenants	The Indenture will contain covenants that, among other things, limit the ability of the Issuer and its restricted subsidiaries to: • incur additional debt and issue guarantees and preferred stock; • make certain payments, including dividends and other distributions, with respect to outstanding share capital; • make certain investments or loans, including participating in joint ventures; • repay or redeem subordinated debt or share capital; • create or incur certain liens;

- impose restrictions on the ability of subsidiaries to pay dividends or make other payments to the Issuer;
- sell, lease or transfer certain assets, including shares of any of our restricted subsidiaries;
- guarantee certain types of our other indebtedness without also guaranteeing the Notes;
- effect a merger or consolidation of, or sell, all or substantially all of our assets or all of the assets of certain companies within the Group;
- enter into certain transactions with affiliates; and
- impair the security interests for the benefit of the holders of the Notes.

Certain of the covenants will be suspended if and for as long as the Notes achieve and maintain investment-grade ratings. See "*Description of the Notes—Certain Covenants—Suspension of Covenants on Achievement of Investment Grade Status*."

Each of these covenants is subject to a number of important limitations and exceptions as described under "*Description of the Notes—Certain Covenants*."

Transfer Restrictions	The Notes and the Guarantees have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any other jurisdiction and 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.
Use of Proceeds	We intend to use the gross proceeds from the issuance of the Notes to repay the Bridge Facility on the Issue Date and, together with cash on hand, pay the fees and expenses incurred in connection with the Offering. See "*Use of Proceeds*."
No Prior Market	The Notes will be new securities for which there is no prior market. Although the Initial Purchasers have informed us that they intend to make a market in the Notes, they are not obligated to do so and they may discontinue market-making at any time without notice. Accordingly, we cannot assure you that a liquid market for the Notes will develop or be maintained.
Listing	Application has been made to the London Stock Exchange for the Notes to be admitted to the London Stock Exchange's International Securities Market.
Governing Law	The Indenture, the Guarantees therein and the Notes will be governed by the laws of the State of New York. The Intercreditor Agreement and the Amended and Restated Revolving Credit Facility Agreement will be governed by English Law. The Security Documents will be governed by the laws applicable to the relevant asset.
Trustee	HSBC Corporate Trustee Company (UK) Limited.
Principal Paying Agent, Registrar and Transfer Agent	HSBC Bank plc.
Security Agent	Barclays Bank PLC.
Risk Factors	Investing in the Notes involves substantial risks. You should carefully consider all the information in this Offering Memorandum and, in particular, you should evaluate the specific risk factors set forth in the "*Risk Factors*" section of this Offering Memorandum before making a decision whether to invest in the Notes.

SUMMARY *PRO FORMA* AND *AS ADJUSTED* FINANCIAL INFORMATION

Pro Forma Financial Information

This Offering Memorandum includes unaudited *pro forma* condensed consolidated financial information of the Group as of and for the 52 weeks ended June 30, 2018. The unaudited *pro forma* condensed consolidated income statement information for the 52 weeks ended June 30, 2018 gives effect to the transactions described below as if they had occurred on July 2, 2017:

- the acquisition of Keraben and the related financing;
- the acquisition of Saloni and the related financing; and
- the payment of fees and expenses related to the foregoing.

The unaudited *pro forma* condensed consolidated balance sheet information as of June 30, 2018 gives effect to the transactions described below as if they had occurred on June 30, 2018:

- the acquisition of Saloni and the related financing; and
- the payment of fees and expenses related to the foregoing.

The unaudited *pro forma* condensed consolidated financial information consists of:

- an unaudited *pro forma* condensed consolidated income statement for the 52 weeks ended June 30, 2018, which is based on and derived from (i) the unaudited interim consolidated financial statements of the Victoria Group as of and for the 13 weeks ended June 30, 2018, which includes comparative financial information as of and for the 13 weeks ended July 1, 2017, prepared in accordance with IFRS, (ii) the audited consolidated financial statements of the Victoria Group as of and for the 52 weeks ended March 31, 2018, prepared in accordance with IFRS, (iii) the unaudited financial information of Keraben for the period from July 2, 2017 to November 15, 2017, prepared in accordance with Spanish GAAP, (iv) the unaudited interim consolidated financial statements of Saloni as of and for the six months ended June 30, 2018, which include comparative financial information as of and for the six months ended June 30, 2017, prepared in accordance with Spanish GAAP, (v) the audited consolidated financial statements of Saloni as of and for the year ended December 31, 2017, prepared in accordance with Spanish GAAP, and (vi) certain adjustments for intracompany eliminations, reconciliation between Spanish GAAP and IFRS, translation of euro amounts to pound sterling amounts, presentational adjustments and certain financing arrangements;
- an unaudited *pro forma* condensed consolidated balance sheet as of June 30, 2018, which is based on and derived from (i) the unaudited interim consolidated financial statements of the Victoria Group as of and for the 13 weeks ended June 30, 2018, prepared in accordance with IFRS, (ii) the unaudited interim consolidated financial statements of Saloni as of and for the six months ended June 30, 2018, prepared in accordance with Spanish GAAP, and (iii) certain adjustments for intracompany eliminations, reconciliation between Spanish GAAP and IFRS, translation of euro amounts to pound sterling amounts, presentational adjustments, purchase price allocation and certain financing arrangements; and
- related condensed notes.

The unaudited *pro forma* condensed consolidated financial information has not been adjusted to give effect to any cost or revenue synergies resulting from the Spanish Acquisitions. The unaudited *pro forma* condensed consolidated financial information has not been prepared in accordance with the requirements of Regulation S-X of the Securities Act, the Prospectus Directive or any generally accepted accounting standards. The unaudited *pro forma* adjustments are based upon available information and certain assumptions that we believe to be reasonable. Neither the assumptions underlying the *pro forma* adjustments nor the resulting unaudited *pro forma* condensed consolidated financial information have been audited or reviewed in accordance with any generally accepted auditing standards.

The unaudited *pro forma* condensed consolidated financial information is for informational purposes only and should not be considered indicative of actual results that would have been achieved had the Spanish Acquisitions been completed as of the dates indicated and do not purport to indicate our future consolidated results of operations or financial position. The actual results may differ significantly from those reflected in the unaudited *pro forma* condensed consolidated financial information for a number of reasons, including, but not limited to, differences in assumptions used to prepare the unaudited *pro forma* condensed consolidated financial information.

The unaudited *pro forma* condensed consolidated financial information should be read in conjunction with the information contained in "*Selected Historical Consolidated Financial Information*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," "*Keraben Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the Historical Financial Statements appearing elsewhere in this Offering Memorandum.

As Adjusted Financial Data

We present in this section certain *as adjusted* financial data for the Victoria Group, which is based on the unaudited *pro forma* condensed consolidated financial information of the Victoria Group as of and for the 52 weeks ended June 30, 2018, as adjusted to give effect to the Transactions as if they had occurred as of June 30, 2018 (with respect to *as adjusted* net debt) or on July 2, 2017 (with respect to *as adjusted* interest expense). The *as adjusted* financial data has not been prepared in accordance with the requirements of Regulation S-X of the Securities Act, the Prospectus Directive or any generally accepted accounting standards.

Pro Forma Income Statement Data of Victoria Group

	52 weeks ended June 30, 2018
	(£ million)
Revenue	**609.3**
Cost of sales	(387.5)
Gross profit	**221.9**
Distribution costs	(67.3)
Administrative expenses (excluding non-underlying and exceptional items)	(77.6)
Other operating income	2.8
Underlying operating profit	**79.8**
Amortization of acquired intangibles	(21.5)
Exceptional and non-underlying items	(13.4)
Pre-acquisition exceptional items[(a)]	(59.0)
Statutory operating loss	**(14.2)**
Finance costs	
Underlying finance costs	(14.1)
Non-underlying finance costs	(3.3)
Loss before tax	**(31.6)**
Taxation	(8.1)
Loss for the period	**(39.7)**

(a) Represents exceptional costs that arose in Keraben under previous ownership, primarily in relation to sell-side transaction costs on the sale of the business to the Victoria Group, including advisory fees, the previous management incentive plan and associated taxes.

Pro Forma Balance Sheet Data of Victoria Group

	As of June 30, 2018 (£ million)
Non-current assets	
Goodwill	237.6
Intangible assets other than goodwill	263.3
Property, plant and equipment	177.3
Investment property	0.8
Investments in associates	1.4
Deferred tax assets	6.3
Total non-current assets	**686.7**
Current assets	
Inventories	135.2
Trade and other receivables	136.0
Cash at bank and in hand	59.6
Total current assets	330.8
Total assets	**1,017.5**
Current liabilities	
Trade and other current payables	156.3
Current tax liabilities	3.8
Other financial liabilities	3.2
Total current liabilities	**163.2**
Non-current liabilities	
Trade and other non-current payables	38.1
Other non-current financial liabilities	405.8
Deferred tax liabilities	69.4
Retirement benefit obligations	9.1
Total non-current liabilities	**522.4**
Total liabilities	**685.6**
Net assets	**331.9**

Other Pro Forma Financial Data of Victoria Group

	For the 52 weeks ended June 30, 2018 (£ million)
Pro Forma Revenue	609.3
Pro Forma EBITDA(1)	104.0
Adjusted *Pro Forma* Revenue(2)	630.6
Adjusted *Pro Forma* EBITDA(3)	111.7
Adjusted *Pro Forma* EBITDA Margin(4)	17.7%

(1) *Pro Forma* EBITDA represents our earnings before interest, tax, depreciation, amortization and exceptional items (as described in "*Management's Discussion and Analysis of Financial Condition and Results of Operations*") presented on a *pro forma* basis, giving effect to the Spanish Acquisitions. See "*Unaudited* Pro Forma *Condensed Consolidated Financial Information*" for a more detailed discussion of the unaudited *pro forma* condensed consolidated financial information. *Pro forma* EBITDA is not a financial measure that is required by or presented in accordance with IFRS and should not be considered in isolation or as a substitute for measures of our operating performance reported in accordance with IFRS. See "*Presentation of Financial Information—Non-IFRS and Non-Spanish GAAP Measures*."

The following table provides a reconciliation of our *Pro Forma* EBITDA to our *pro forma* operating profit:

	For the 52 weeks ended June 30, 2018 (Pro Forma)
	(£ million)
Statutory operating loss	(14.2)
Depreciation and amortization	45.8
Exceptional and non-underlying items[(a)]	13.4
Pre-acquisition exceptional items[(b)]	59.0
***Pro Forma* EBITDA**	**104.0**

(a) Represents exceptional items, including (i) one-off professional fees in connection with the assessment and completion of acquisitions during the year; and (ii) one-off reorganization costs, including redundancy costs, in relation to the Group's manufacturing and logistics operations, as well as other corporate restructuring.

(b) Represents exceptional costs that arose in Keraben under previous ownership, primarily in relation to sell-side transaction costs on the sale of the business to the Victoria Group, including advisory fees, the previous management incentive plan and associated taxes.

(2) The following table presents a reconciliation of our *pro forma* revenue to our Adjusted *Pro Forma* Revenue:

	For the 52 weeks ended June 30, 2018
	(£ million)
Pro Forma Revenue	609.3
Acquisition of Sanicova[(a)]	10.6
Serra Acquisition[(b)]	10.6
Adjusted *Pro Forma* Revenue	**630.6**

(a) This adjustment gives *pro forma* effect to our acquisition of Sanicova, a sister company of Saloni acquired together with Saloni on August 7, 2018 but not reflected in our *Pro Forma* Revenue, as if such acquisition had occurred on July 2, 2017. We have estimated the revenue contribution of Sanicova for the 52 weeks ended June 30, 2018 on the basis of the audited annual financial information of Sanicova for the year ended December 31, 2017.

(b) This adjustment gives *pro forma* effect to our acquisition of Serra as if it had occurred on July 2, 2017. The revenue contribution of Serra for the period from July 2, 2017 to December 1, 2017, the date on which the acquisition was completed, has been extracted from Serra's monthly management accounts over this period.

(3) In this Offering Memorandum, we present Adjusted *Pro Forma* EBITDA for the 52 weeks ended June 30, 2018 as an additional measure of our operating performance. The presentation of Adjusted *Pro Forma* EBITDA is based upon a number of significant assumptions and estimates, which we believe are reasonable and have summarized below. We encourage you to evaluate each adjustment and the reasons we consider it appropriate as a method of supplemental analysis. There can be no assurance, however, that our estimates and assumptions are or will prove accurate in all material respects. These amounts have not been, and, in certain cases, cannot be, audited, reviewed or verified by an independent accounting firm. Adjusted *Pro Forma* EBITDA is presented for informational purposes only and is inherently subject to risks and uncertainties. It may not give an accurate or complete picture of our results of operations for the 52 weeks ended June 30, 2018 had each of the items for which an adjustment is made occurred as of the dates indicated and may not be comparable to the consolidated financial information of the Victoria Group, Keraben or Saloni included elsewhere in this Offering Memorandum. Our actual results may differ significantly from those reflected in our Adjusted *Pro Forma* EBITDA.

The following table provides a reconciliation of our *Pro Forma* EBITDA to our Adjusted *Pro Forma* EBITDA:

	For the 52 weeks ended June 30, 2018
	(£ million)
Pro Forma EBITDA	104.0
Saloni group normalization adjustments[(a)]	2.1
Serra Acquisition[(b)]	4.0
Effect of planned changes to Serra's manufacturing plant[(c)]	1.0
Effect of South Wales factory business interruption[(d)]	0.6
Adjusted *Pro Forma* EBITDA	**111.7**

(a) This adjustment gives *pro forma* effect to (i) our acquisition of Sanicova, a sister company of Saloni acquired together with Saloni but not reflected in our *Pro Forma* EBITDA, as if such acquisition had occurred on July 2, 2017 and (ii) certain normalization adjustments to the EBITDA contributions of Saloni and Sanicova for the 52 weeks ended June 30, 2018. We estimate that the EBITDA contribution of Sanicova for the 52 weeks ended June 30, 2018 would have been €0.7 million. The normalization adjustments include (i) the impact of certain non-recurring items, (ii) the elimination of certain non-applicable expenses that existed prior to the acquisition under the previous ownership structure and (iii) the alignment of Saloni's financial information to our accounting policies. Management estimates, based on a quality of earnings assessment prepared by an international accounting firm, that Saloni's normalized EBITDA for the 52 weeks ended June 30, 2018 would have been €17.1 million. This adjustment does not include any cost or revenue synergies expected following the acquisition of Saloni.

(b) This adjustment gives *pro forma* effect to our acquisition of Serra as if it had occurred on July 2, 2017. The EBITDA contribution of Serra for the period from July 2, 2017 to December 1, 2017, the date on which the acquisition was completed, has been extracted from Serra's monthly management accounts during this period.

(c) This adjustment reflects management's estimate of the incremental EBITDA that would have been generated during the twelve months ended June 30, 2018 had production not been disrupted due to the planned removal of an existing red body tile production line and the installation of a new porcelain production line. This adjustment does not give effect to any assumed uplift in volume or profitability from the sale of porcelain products being manufactured by the new production line.

(d) This adjustment reflects management's estimate of the incremental EBITDA that would have been generated during the twelve months ended June 30, 2018 had production at our South Wales factory not been temporarily disrupted due to the collapse of its roof under heavy snow in March 2018.

(4) Adjusted *Pro Forma* EBITDA margin represents Adjusted *Pro Forma* EBITDA as a percentage of Adjusted *Pro Forma* Revenue.

As Adjusted Financial Data of Victoria Group

	As of and for the 52 weeks ended June 30, 2018
	(£ million)
As adjusted cash and cash equivalents(1)	59.6
As adjusted senior debt(2)	398.9
As adjusted net senior debt(3)	339.3
Ratio of as adjusted net senior debt to Adjusted *Pro Forma* EBITDA	3.0x
As adjusted interest expense(4)	
Ratio of as adjusted interest expense to Adjusted *Pro Forma* EBITDA	x

(1) As adjusted cash and cash equivalents reflect our cash and cash equivalents as of June 30, 2018 as adjusted to give effect to (i) an increase in our cash and cash equivalents of £20.1 million as a result of our acquisition of Saloni and the related financing and (ii) the portion of estimated underwriting fees and commissions, other transaction costs and professional fees and expenses to be paid in connection with the Offering that are expected to be paid with cash on hand.

(2) As adjusted senior debt includes debt outstanding under the Notes. We expect that the New Revolving Credit Facility will be undrawn as of the Issue Date. As adjusted senior debt does not include amounts drawn under the BGF loan as it is unsecured and does not benefit from credit support from our operating subsidiaries. As adjusted senior debt is presented for illustrative purposes only and does not purport to represent what our senior debt would have been had the Transactions occurred on June 30, 2018, nor does it purport to project our senior debt for any future period or our financial position at any future date. We have translated certain euro amounts into pounds sterling at the rate of €1.1284 = £1.00, which was the period-end exchange rate used in our Unaudited Group Interim Financial Statements as of June 30, 2018.

(3) As adjusted net senior debt represents as adjusted senior debt net of as adjusted cash and cash equivalents. As adjusted net senior debt is presented for illustrative purposes only and does not purport to represent what our net senior debt would have been had the Transactions occurred on June 30, 2018, nor does it purport to project our net senior debt for any future period or our financial position at any future date. We have translated certain euro amounts into pounds sterling at the rate of €1.1284 = £1.00, which was the period-end exchange rate used in our Unaudited Group Interim Financial Statements as of June 30, 2018.

(4) As adjusted interest expense represents the interest expense on our as adjusted net senior debt. As adjusted interest expense excludes amortized debt issuance cost incurred in connection with the Offering and excludes original issue discount, if any. As adjusted interest expense is presented for illustrative purposes only and does not purport to represent what our interest expense would have been had the Transactions occurred on July 2, 2017, nor does it purport to project our interest expense for any future period or our financial position at any future date.

SUMMARY HISTORICAL CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

Historical consolidated financial information of Victoria Group

The following tables set forth the summary consolidated financial information and other data as of the dates and for the periods indicated below for the Victoria Group. The summary consolidated financial information as of and for the 53 weeks ended April 2, 2016, the 52 weeks ended April 1, 2017 and the 52 weeks ended March 31, 2018 has been derived from the Audited Consolidated Group Financial Statements included elsewhere in this Offering Memorandum. The summary unaudited interim consolidated financial information as of and for the 13 weeks ended June 30, 2018, which include comparative financial information as of and for the 13 weeks ended July 1, 2017, has been derived from the Unaudited Group Interim Financial Statements included elsewhere in this Offering Memorandum.

We prepare our financial statements on the basis of a 52-week or 53-week financial period. The 2018 financial year and the 2017 financial year were 52-week periods, however the 2016 financial year was a 53-week financial period. Consequently, unless otherwise indicated, our results for the 2016 financial year include an additional week of trading, which affects the comparability of our results of operations between periods, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Comparability of Our Financial Results*."

You should also read the following information in conjunction with the "*Presentation of Financial Information*," "*Risk Factors*," "*Capitalization*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations.*"

Summary Income Statement Data of Victoria Group

	For the financial year ended			13 weeks ended	
	April 2, 2016	April 1, 2017	March 31, 2018	July 1, 2017	June 30, 2018
			(£ million)		
Revenue	**255.2**	**330.4**	**424.8**	**95.0**	**135.6**
Cost of sales	(169.9)	(220.8)	(279.4)	(65.0)	(88.3)
Gross profit	**85.3**	**109.6**	**145.4**	**30.0**	**47.3**
Distribution costs	(49.9)	(54.9)	(59.4)	(13.8)	(15.9)
Administrative expenses (excluding non-underlying and exceptional items)	(13.8)	(21.5)	(38.6)	(7.4)	(13.9)
Other operating income	0.3	0.5	1.4	—	0.7
Underlying operating profit	**21.9**	**33.7**	**48.8**	**8.8**	**18.2**
Amortization of acquired intangibles	(2.3)	(4.4)	(11.2)	(1.7)	(4.9)
Exceptional and non-underlying items	(1.9)	(2.6)	(11.2)	(0.3)	(2.5)
Statutory operating profit	**17.7**	**26.7**	**26.4**	**6.8**	**10.8**
Finance costs					
Underlying finance costs	(3.7)	(4.3)	(8.0)	(1.3)	(3.2)
Non-underlying finance (costs)/income	(4.7)	(3.6)	(5.0)	(0.6)	1.0
Profit before tax	**9.3**	**18.8**	**13.4**	**4.9**	**8.6**
Taxation	(3.4)	(6.2)	(4.8)	(1.7)	(2.8)
Profit for the period from continuing operations	**5.9**	**12.6**	**8.6**	**3.2**	**5.8**
Loss for the period from discontinued operations	(2.1)	—	—	—	—
Profit for the period	**3.8**	**12.6**	**8.6**	**3.2**	**5.8**

Summary Balance Sheet Data of Victoria Group

	As of			As of
	April 2, 2016	April 1, 2017	March 31, 2018	June 30, 2018
	(£ million)			
Non-current assets				
Goodwill	37.2	59.8	188.1	189.5
Intangible assets other than goodwill	43.5	66.3	210.3	207.2
Property, plant and equipment	38.8	41.8	142.9	148.5
Investment property	0.2	0.2	0.8	0.8
Investments in associates	—	—	1.0	1.0
Deferred tax assets	3.3	5.0	4.6	5.0
Total non-current assets	**123.0**	**173.1**	**547.7**	**552.0**
Current assets				
Inventories	59.0	73.1	100.3	104.8
Trade and other receivables	43.0	55.1	88.2	100.6
Cash at bank and in hand	19.1	28.0	54.0	39.5
Total current assets	121.0	156.2	242.5	244.9
Total assets	**244.0**	**329.2**	**790.2**	**796.9**
Current liabilities				
Trade and other current payables	66.9	82.8	121.5	115.1
Current tax liabilities	2.9	4.3	1.0	0.9
Other financial liabilities	0.6	0.6	3.0	2.0
Total current liabilities	70.4	87.7	125.5	118.0
Non-current liabilities				
Trade and other non-current payables	11.5	19.9	29.2	38.1
Other non-current financial liabilities	78.5	116.1	306.1	304.3
Deferred tax liabilities	9.1	15.2	54.7	54.9
Retirement benefit obligations	3.4	11.1	9.1	9.1
Total non-current liabilities	102.5	162.3	399.1	406.4
Total liabilities	**172.9**	**250.0**	**524.6**	**524.4**
Net assets	**71.0**	**79.2**	**265.6**	**272.5**
Equity				
Share capital	4.5	4.5	5.9	5.9
Share premium	52.5	52.5	229.8	229.8
Retained earnings	10.2	16.5	26.7	32.9
Foreign exchange reserve	3.1	5.0	2.9	3.4
Other reserves	0.7	0.8	0.3	0.5
Total Equity	**71.0**	**79.3**	**265.6**	**272.5**

Cash Flow Statement Data of Victoria Group

	For the financial year ended			For the 13 weeks ended	
	April 2, 2016	April 1, 2017	March 31, 2018	July 1, 2017	June 30, 2018
			(£ million)		
Net cash flow from operating activities before movements in working capital	**30.3**	**42.8**	**53.3**	**11.4**	**21.4**
Net cash inflow from operating activities	**24.0**	**31.7**	**37.0**	**3.3**	**3.3**
Net cash used in investing activities	**(35.0)**	**(57.3)**	**(316.3)**	**(6.7)**	**(12.8)**
Net cash generated/(used) in financing activities	**37.8**	**33.4**	**306.6**	**1.6**	**(6.1)**
Net increase/(decrease) in cash and cash equivalents	**26.8**	**7.8**	**27.3**	**(1.8)**	**(15.6)**
Cash and cash equivalents at beginning of period	(8.5)	19.1	28.0	28.0	53.1
Effect of foreign exchange rate changes	0.8	1.1	(2.2)	(0.5)	2.0
Cash and cash equivalents at end of period	**19.1**	**28.0**	**53.1**	**25.7**	**39.5**

Other Financial Data of Victoria Group

	For the financial year ended			13 weeks ended	
	April 2, 2016	April 1, 2017	March 31, 2018	July 1, 2017	June 30, 2018
			(£ million)		
Revenue	**255.2**	**330.4**	**424.8**	**95.0**	**135.6**
Underlying EBITDA	32.3	45.7	64.7	11.9	23.5
% Margin	12.7%	13.8%	15.2%	12.5%	17.3%
Non-cash items	(0.1)	(0.5)	(0.2)	(0.2)	0.4
Underlying movement in net working capital	0.1	(1.6)	(0.2)	(5.1)	(11.8)
Operating Cash Flow before interest, tax and exceptional items	32.2	43.6	64.3	6.6	12.1
% Cash conversion	99.7%	95.4%	99.4%	55.5%	51.5%
Interest paid	(3.2)	(3.6)	(6.7)	(1.2)	(2.7)
Income tax paid	(3.2)	(5.8)	(10.6)	(1.8)	(3.6)
Maintenance capital expenditure	(10.2)	(10.8)	(14.1)	(2.4)	(4.3)
Proceeds from fixed asset disposals	1.0	0.2	2.1	—	0.3
Free Cash Flow before exceptional items	16.6	23.7	35.0	1.2	1.8
Expansionary capital expenditure	—	—	(15.2)	(1.7)	(6.6)
Deferred consideration and earn-out payments	(7.5)	(10.3)	(15.3)	(2.6)	(2.2)
Exceptional cash items	—	(0.3)	(3.4)	(0.4)	(1.7)

Historical financial information of Keraben

The following tables set forth the summary financial information as of the dates and for the periods indicated below for Keraben, which we acquired on November 16, 2017. The summary financial information as of and for the years ended December 31, 2015, 2016 and 2017 have been derived from the Keraben Financial Statements included elsewhere in this Offering Memorandum.

In preparing the 2016 Keraben Financial Statements, Keraben reclassified certain comparative information for the financial year ended December 31, 2015 as a result of the entry into force of Royal Decree 602 of December 2, 2016, which modified Spanish GAAP from January 1, 2016, and primarily impacted the entry and valuation of intangible assets. Except as otherwise indicated in this Offering Memorandum, we present and discuss the restated financial information for the year ended December 31, 2015 in the 2016 Keraben Financial Statements included elsewhere in this Offering Memorandum rather than the financial information as reported in the 2015 Keraben Financial Statements. For additional information on the accounting change and restatement, see note 2-e to the 2016 Keraben Financial Statements.

The Keraben Financial Statements have been prepared in accordance with Spanish GAAP. The Consolidated Group Financial Statements of Victoria Group included elsewhere in this Offering Memorandum have been prepared in accordance with IFRS. Spanish GAAP differ from IFRS in certain material respects, a summary of which is set forth in "*Annex A: Summary of Certain Differences between Spanish GAAP and IFRS*."

You should also read the following information in conjunction with the "*Presentation of Financial Information*," "*Risk Factors*," "*Capitalization*" and "*Keraben Management's Discussion and Analysis of Financial Condition and Results of Operations.*"

Income Statement Data of Keraben

	For the year ended		
	December 31, 2015[(1)]	December 31, 2016	December 31, 2017
		(€ million)	
Continuing operations:			
Revenue	107.2	118.0	129.7
Changes in inventories of finished goods and work in progress	0.7	0.8	0.9
In-house work on non-current assets	0.0	0.0	0.0
Procurements	(28.7)	(30.8)	(30.7)
Other operating income	0.3	0.4	0.2
Staff costs	(22.1)	(23.8)	(26.1)
Other operating costs	(31.0)	(31.2)	(31.0)
Depreciation and amortization charge	(8.4)	(8.9)	(9.0)
Allocation to profit or loss of grants related to non-financial non-current assets and other grants	0.9	0.9	0.7
Excess provisions	0.3	0.7	—
Impairment and gains or losses on disposals of non-current assets	(11.4)	(0.8)	(0.9)
Other gains or losses	0.5	(4.1)	(64.7)
Profit from operations	**8.3**	**21.3**	**(30.9)**
Finance income	1.4	6.3	0.3
Finance costs	(2.8)	(2.6)	(4.4)
Changes in fair value of financial instruments	0.0	—	(0.0)
Impairment and gains or losses on disposals of financial instruments	(0.7)	27.5	(0.9)
Exchange Differences	0.1	0.0	(0.6)
Financial profit (loss)	**(2.0)**	**31.2**	**(5.6)**
Result before tax	**6.4**	**52.4**	**(36.5)**
Corporation tax	(1.0)	(4.3)	(6.7)
Profit for the year	**5.3**	**48.2**	**(43.2)**

(1) Reflects the restatement of certain comparative information for the financial year ended December 31, 2015 as a result of the entry into force of Royal Decree 602 of December 2, 2016. For additional information on the accounting change and restatement, see note 2-e to the 2016 Keraben Financial Statements included elsewhere in this Offering Memorandum.

Balance Sheet Data of Keraben

	As at		
	December 31, 2015[(1)]	December 31, 2016	December 31, 2017
		(€ million)	
Assets:			
Non-current assets	**143.4**	**124.2**	**113.3**
Intangible assets	7.0	5.3	4.0
Property, plant and equipment	99.3	100.4	99.5
Investment property	15.8	4.4	0.7
Non-current investments in Group companies and associates	6.8	2.4	1.1
Non-current financial assets	—	0.2	0.2
Deferred tax assets	14.5	11.6	7.9
Current Assets	**56.4**	**71.3**	**58.7**
Inventories	19.8	20.2	21.3
Trade and other receivables	29.0	30.7	30.3
Current financial assets	1.1	3.0	0.0
Current prepayments and accrued income	0.2	0.2	0.2
Cash and cash equivalents	6.4	17.2	7.0
Total Assets	**199.8**	**195.6**	**172.0**
Equity and liabilities:			
Equity	82.4	84.6	41.3
Shareholder's equity	81.8	84.0	40.8
Profit for the year	5.3	48.2	(43.2)
Grants, donations and legacies received	0.6	0.6	0.5
Non-Current Liabilities	**90.3**	**74.5**	**102.7**
Non-current payables	76.1	61.2	0.8
Long Term Debts with group companies and associates	—	—	89.8
Deferred tax liabilities	14.2	13.2	12.1
Current Liabilities	**27.1**	**36.5**	**27.9**
Short-Term Provisions	1.8	0.6	0.5
Current payables	7.9	10.3	1.4
Short Term Debts with group companies and associates	—	—	0.3
Trade and other payables	17.4	25.6	25.7
Total equity and liabilities	**199.8**	**195.6**	**172.0**

(1) Reflects the restatement of certain comparative information for the financial year ended December 31, 2015 as a result of the entry into force of Royal Decree 602 of December 2, 2016. For additional information on the accounting change and restatement, see note 2-e to the 2016 Keraben Financial Statements included elsewhere in this Offering Memorandum.

Cash Flow Statement Data of Keraben

	For the year ended		
	December 31, 2015[(1)]	December 31, 2016	December 31, 2017
		(€ million)	
Cash flows from operating activities	13.0	36.7	(26.0)
Cash flows from investing activities	(7.9)	30.6	(3.6)
Cash flows from financing activities	(5.5)	(56.5)	20.1
Effect of foreign exchange rate changes	0.1	0.0	(0.6)
Net increase/decrease in cash and cash equivalents	**(0.4)**	**10.8**	**(10.2)**

(1) Reflects the restatement of certain comparative information for the financial year ended December 31, 2015 as a result of the entry into force of Royal Decree 602 of December 2, 2016. For additional information on the accounting change and restatement, see note 2-e to the 2016 Keraben Financial Statements included elsewhere in this Offering Memorandum.

Historical consolidated financial information of Saloni

The following tables set forth the summary consolidated financial information as of the dates and for the periods indicated below for Saloni, which we acquired on August 7, 2018. The summary consolidated financial information as of and for the year ended December 31, 2017 has been derived from the Saloni Consolidated Financial Statements included elsewhere in this Offering Memorandum. For a description of the basis of presentation with respect to the Saloni Consolidated Financial Statements, see "*Presentation of Financial Information—Historical Financial Data—Saloni*." The summary consolidated financial information as of and for the six months ended June 30, 2018, and the comparative financial information as of and for the six months ended June 30, 2017, has been derived from the Saloni Interim Financial Statements included elsewhere in this Offering Memorandum.

Saloni's financial statement data have been prepared in accordance with Spanish GAAP. The Consolidated Group Financial Statements of Victoria Group included elsewhere in this Offering Memorandum have been prepared in accordance with IFRS. Spanish GAAP differ from IFRS in certain material respects, a summary of which is set forth in "*Annex A: Summary of Certain Differences between Spanish GAAP and IFRS*."

You should also read the following information in conjunction with the "*Presentation of Financial Information*," "*Risk Factors*," "*Capitalization*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations.*"

Income Statement Data of Saloni

	For the year ended December 31, 2017	For the six months ended	
		June 30, 2017	June 30, 2018
	(€ million)		
Revenues	114.2	60.1	61.1
Changes in inventories of finished goods and work in progress	0.7	(0.1)	3.5
Supplies	(46.4)	(23.5)	(25.0)
Other operating income	0.6	0.3	0.1
Personnel expenses	(26.4)	(13.0)	(12.9)
Other operating expenses	(30.9)	(15.4)	(15.5)
Amortization and depreciation	(3.9)	(1.8)	(2.1)
Non-financial and other capital grants	0.0	0.0	0.0
Impairment and losses on disposal of fixed assets	0.3	(0.3)	(0.0)
Other income	0.1	0.0	0.0
Results from operating activities	**8.3**	**6.3**	**9.3**
Finance income	22.5	0.1	0.0
Finance costs	(0.7)	(0.3)	(2.9)
Exchange losses	(0.1)	(0.0)	(0.1)
Impairment and losses on disposal of financial instruments	—	0.1	(0.0)
Net finance cost/income	21.7	(0.2)	(2.8)
Profit before income tax	**30.0**	**6.1**	**6.5**
Income tax	(7.2)	(1.6)	(2.0)
Consolidated profit for the year	**22.8**	**4.5**	**4.5**

Balance Sheet Data of Saloni

	As of	
	December 31, 2017	June 30, 2018
	(€ million)	
Assets		
Intangible assets	0.2	0.2
Property, plant and equipment	33.4	34.5
Investment property	—	—
Non-current investments in Group companies and associates	2.2	2.0
Non-current investments	0.1	0.1
Deferred tax assets	1.6	1.4
Total non-current assets	37.5	36.2
Inventories	31.9	34.3
Trade and other receivables	28.3	34.9
Current investments in Group companies and associates	3.5	2.8
Current investments	0.3	0.3
Prepayments for current assets	0.5	0.3
Cash and cash equivalents	8.8	11.5
Total current assets	73.3	84.1
Total assets	**110.8**	**120.3**
Equity and Liabilities		
Capital and reserves	9.5	13.9
Conversion differences	(0.1)	(0.1)
Grants, donations and bequests received	0.1	0.2
Total equity	**9.5**	**14.0**
Non-current payables	2.0	1.9
Group companies and associates, non-current	46.9	49.7
Deferred tax liabilities	0.6	0.5
Total non-current liabilities	49.5	52.1
Current provisions	0.3	0.3
Current payables	4.7	1.3
Group companies and associates, current	3.8	2.0
Trade and other payables	43.0	50.6
Prepayments	—	—
Total current liabilities	51.9	54.2
Total equity and liabilities	**110.8**	**120.3**

Cash Flow Statement Data of Saloni

	For the year ended	For the six months ended	
	December 31, 2017	June 30, 2017	June 30, 2018
		(€ million)	
Cash flows from operating activities	19.4	11.3	7.5
Cash flows used in investing activities	(6.8)	(9.4)	(0.1)
Cash flows used in financing activities	(4.9)	(0.4)	(4.6)
Net increase/decrease in cash and cash equivalents	**7.7**	**1.5**	**2.8**

RISK FACTORS

An investment in the Notes involves risks. Before investing in the Notes, you should consider carefully the following risk factors and all information contained in this Offering Memorandum. Additional risks and uncertainties of which we are not aware or that we believe are immaterial may also adversely affect our business, financial condition, liquidity, results of operations or prospects. If any of these events occur, our business, financial condition, liquidity, results of operations or prospects could be materially and adversely affected, the Issuer may not be able to pay interest or principal on the Notes when due and you could lose all or part of your investment.

This Offering Memorandum also contains forward-looking statements that involve risks and uncertainties. See "Forward-Looking Statements." Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including the risks described below and elsewhere in this Offering Memorandum.

Risks Related to Our Industry and Our Business

The success of our business is contingent on understanding consumer preferences and identifying trends.

Flooring products are subject to changing consumer tastes and trends and must appeal to a broad range of consumers whose preferences cannot always be predicted. The extent of our success depends in large part on our ability to follow, gauge and react to trends in home decoration and changing consumer preferences in a timely manner. In particular, as we continue to expand into new markets, we must continue to meet the demands of new consumers who may have different tastes and follow different trends. For example, we noted a significant increase in demand in the United Kingdom and Continental Europe for artificial grass and consequently acquired artificial grass manufacturers in Continental Europe to incorporate this into our product offering. If we are unable to identify or respond effectively to consumer preferences and demand, we may experience back orders, order cancellations or overstock, any of which would have a negative effect on our business. There can be no assurance that we will be able to launch competitive products in a timely or successful manner in response to shifts in consumer demand. Our failure to further develop and introduce new products attractive to the market could cause our reputation to suffer and our products to become uncompetitive or obsolete, which could reduce our market share and cause our sales to decline. Any of the foregoing could have a material adverse effect on our business, financial condition and results of operations. See "*—Consumers may choose alternative flooring solutions over our products*."

The flooring industry is highly competitive.

The Group operates in mature and highly competitive markets in which we face significant competition from local flooring manufacturers in the United Kingdom, Continental Europe and Australia, and, to a lesser degree, from international manufacturers with respect to certain palletized products like LVT. Certain of our competitors may have greater resources and access to capital than we do, which may afford them a competitive advantage in the innovation, production and distribution of new or existing products. The arrival of new competitors, new products or new technologies developed by competitors could also affect our competitive position. There can be no assurance that we will be able to maintain our margins with respect to our competitors, particularly if new entrants gain access to one or more of our markets, or if competition intensifies for any other reason. Maintaining our competitive position could also require additional investments in new products and new manufacturing facilities, or further development of our distribution network, marketing and sales activities. These competitive pressures could lead to reduced demand for our products or force us to lower our prices, which would negatively impact our margins. Such events could have a material adverse effect on our business, financial condition and results of operations.

The designs of our products are not commercially protected and can be reproduced by our competitors.

The duplication of designs and innovations is a routine feature of the industry in which we operate, which functions on the continued renewal of products in accordance with constantly evolving consumer and market trends. We therefore do not substantially rely on intellectual property and have no material proprietary rights relating thereto, aside from registered trademarks over our brand names. In keeping with industry practice, as our designs are, in general, not registered, our products have historically been and may continue to be reproduced by our competitors. As we have little recourse to prevent the reproduction of our products, if our competitors expand the reproduction of products that we have designed, and/or sell reproductions of our products to our customers at lower prices, our market share and/or operating profit may decline, which could have a material adverse effect on our business, financial condition and results of operations.

Consumers may choose alternative flooring solutions over our products.

We derive most of our revenues from the manufacture of soft-flooring offerings, such as carpeting and carpet tiles, and ceramic flooring products. Consumer preferences may shift and they may begin to prefer other flooring solutions due to changes in market trends, technological advancements in flooring products, or personal preference and we may lack sufficient scale and geographical footprint with respect to our flooring offerings in order to benefit from this shift. There can be no assurance that the products we offer will remain competitive within the general flooring market, or that consumers will continue to purchase flooring products in line with previous purchasing habits. We have invested significantly in our carpet and ceramic tile offerings and manufacturing capacity and, to the extent consumers in any one market or over multiple markets choose alternative flooring solutions, or if carpet and ceramic flooring products were to fall out of favor in one or multiple markets, this could have a material adverse effect on our business, financial condition and results of operations.

Our strategy to acquire new businesses and enter into new markets may fail or advance at a slower pace than planned, limiting the potential growth of our revenue.

We intend to increase revenue and profitability by expanding into new product and geographical markets.

As part of our growth strategy, we evaluate opportunities for acquiring complementary businesses that may supplement, but not replace, our internal organic growth. Since 2016, we have acquired Ezi Floor, Dunlop Flooring, Avalon, GrassInc, Millennium, Keraben, Serra and Saloni. However, there can be no assurance that we will be able to identify and purchase suitable complementary businesses or assets in the future. Any acquisition or other strategic transaction we may undertake in the future could result in the incurrence of debt and contingent liabilities and an increase in interest expense. We may experience difficulties in integrating future acquired entities into our business, incur higher than expected costs and not realize all the anticipated benefits or synergies of these acquisitions, such as in logistics and manufacturing, if any. Such transactions may also disrupt our relationships with current and new employees, customers and suppliers.

In addition, the success of any acquisition depends in part on our ability to integrate the acquired company and retain key management personnel, which may involve unforeseen difficulties and may require a disproportionate amount of our management's attention and our financial and other resources. The failure to successfully integrate these acquired businesses could adversely affect our financial condition and results of operations. Moreover, our competitors may also follow similar acquisition strategies and may have greater financial resources available for investments or may be willing to accept less favorable terms than we can accept, which may prevent us from acquiring the businesses that we target to the benefit of our competitors. In addition, our debt burden may increase if we borrow funds to finance any future acquisition, which could have a negative impact on our cash flows and our ability to finance our overall operations. Our acquisition strategy could further impact our financial statements, resulting in the recognition of goodwill and intangible assets upon consolidation of these entities, as further described in our Audited Consolidated Group Financial Statements. There can be no assurance that we will be successful in completing business acquisitions or successfully integrating previously acquired companies.

The future success of acquisitions may be affected if we fail to adequately assess the commercial aspects of an acquisition target, such as in our revenue projections, list of competitors or margin analyses. We may also fail to correctly estimate customer demand in a local market or may be unable to successfully establish our products in a new location. This risk is elevated in new international markets where our lack of experience may make it more difficult to assess customer preferences and local tastes. Although we conduct due diligence investigations prior to each acquisition, there can be no assurance that we will discover all operational deficiencies or material liabilities of an acquired business for which we may be responsible as a successor owner or operator, and actual developments may differ significantly from our expectations. Further, our market research analysis may prove to be inadequate, particularly due to factors that are difficult to assess due to insufficient data, such as in periods when market conditions are changing. As a result, our investments in new locations may not yield the anticipated returns that could have a material adverse effect on our business, financial condition, results of operations and cash flow.

Our industry is affected by economic conditions, particularly to the extent such conditions impact consumer confidence and the residential and commercial renovation markets.

The flooring industry depends heavily on consumer confidence and the residential and commercial redecoration and renovation markets, which can be affected by the cyclical nature of the general economy. Though we are not significantly exposed to the new construction end-market, the construction end-market is traditionally a large driver of demand in the flooring industry and is also affected by the cyclical nature of the economy. Our business tends to be influenced, in particular, by changes in consumer confidence, in disposable income, interest rates and the availability of credit. These factors can cause fluctuations in demand, and, as a result, in our sales volumes and margins. For example, the global economic downturn in 2008 and 2009 had a negative impact on the flooring industry and on our business.

Economic activity remains dependent on highly accommodative macroeconomic policies and is subject to downside risks. The implementation of policies that are or are perceived to be less consumer-friendly may restrict economic recovery, and as such, there can be no assurance of a favorable change in consumer confidence. Such trends are also influenced by overall economic growth and a large number of other economic and socio-political variables, including interest rates, governmental economic policies, public spending and allocations for infrastructure, or a combination of the above factors. Further economic downturns could impact consumer confidence, and therefore discretionary spending habits, and could cause the industry to deteriorate in the future, which could have a material adverse effect on our business, financial condition and results of operations. See "*—We are exposed to risks associated with fluctuations in currency exchange rates*."

Our business is exposed to fluctuations in the pricing of raw materials.

Raw material expenses represented 46% of our Adjusted *Pro Forma* Revenue for the 52 weeks ended March 31, 2018. Certain essential raw materials that we use, such as wool, synthetic yarn, polyurethane foam, clay and natural gas, may be subject to fluctuations in price and demand, and prices may increase to the point where these raw materials affect our profitability. Fluctuations and price volatility, more broadly, may be due to a number of factors that are beyond our control, including the availability of supply (including supplier capacity constraints); general economic conditions; currency fluctuations; competitive demand by other industries for the same raw materials; and the availability of complementary and substitute materials. There can be no assurance that the essential raw materials that we require to manufacture our products will continue to be available at commercially reasonable prices in the future.

In the event of a future increase in raw material prices, we may be unable to pass the resulting additional costs on to our customers in a timely manner, or at all, as we do not have a contractual right to pass such cost increases on to our customers. A failure to otherwise mitigate increased costs could result in lower margins, customer loss or revenue reductions. Any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

A failure of, or a malicious attack in relation to, our IT systems could adversely affect our reputation, business and results of operations.

Our business is dependent on the normal operation of our IT systems and networks and its performance could be materially adversely affected by a failure of our IT systems and networks to operate normally in the event of any major failures or bugs in or breakdowns of any of the IT systems or networks (including hardware and software) which result in significant or repeated disruption or loss or interruption in or to their use. In addition to these risks, with the growing incidence of hacking and other forms of cyber-attacks, our IT systems and networks have been, and may in the future be, subject to malicious attacks, including cyber-attacks or the deliberate, accidental or negligent insertion of software viruses or other malicious code, any of which may disrupt or interrupt their normal operation, prevent access to data, cause data loss or corruption, damage or destroy some or all of our systems, cause an unexpected plant or process shutdown or may lead to safety and reliability risks in our computerized industrial control systems. Attempts may be made to gain unauthorized access to, or deliberately breach, our IT systems and networks in order, for example, to manipulate our proprietary business data or customer information, and even incidents that do not amount to a breach could result in adverse regulatory and financial consequences including breaches of Data Protection Act 2018 and the General Data Protection Regulation, and could harm our reputation.

A failure to comply with data protection regulation could adversely affect our reputation and result in adverse regulatory and financial consequences including fines and penalties.

The EU-wide General Data Protection Regulation (Regulation (EU) 2016/679) (the "**GDPR**") and the U.K. Data Protection Act 2018 significantly change the UK/EU/EEA data protection landscape. These regulations strengthen the rights of individuals (data subjects), impose stricter controls over the processing of personal data by both controllers and processors of personal data and impose stricter sanctions with substantial administrative fines and potential claims for damages from data subjects for breach of their rights. The GDPR also offers data subjects the option to allow privacy organizations to litigate on their behalf, including collecting potential damages, which may result in a substantial increase in claims being brought. Should a serious data breach occur, the GDPR provides for increased obligations to notify regulators and data subjects whose personal data has been compromised and may result in the imposition of significant sanctions and penalties, which will require heightened escalation and notification processes with associated response plans. If a significant or widely publicized unlawful disclosure of employee or customer data were to occur, whether as a result of a cyber-attack, the failure of our IT security systems, employee negligence or the actions of our vendors, we may be subject to legal claims by individuals, fines or other enforcement action which could result in adverse regulatory and financial consequences and could harm our reputation.

We may be subject to losses that might be completely or partially uninsured.

We maintain insurance policies with respect to certain operating risks, including product liability, damage to property (including buildings, plants, machinery and stock, including as a result of catastrophic events such as fire, flood, storms and earthquakes), industrial accidents and directors' and officers' liability. There can be no assurance that the level of insurance we maintain is appropriate for the risks to our business or adequate to cover all potential claims. Certain types of losses may not be covered by our insurance policies and may be either completely or partially uninsurable or not insurable on commercially reasonable terms. A completely or partially uninsured loss suffered by us could have a material adverse effect on our business, financial condition and results of operations. Further, we may not be able to obtain future insurance coverage at current levels or at all, and our premiums may increase significantly on the coverage that we maintain or obtain in the future.

Our operations require the use of several different currencies, exposing us to both transaction and translation effects of exchange rate fluctuations that could adversely affect our profitability, costs and ability to repay indebtedness or comply with certain maintenance covenants.

We currently conduct our business operations across multiple jurisdictions, including the United Kingdom, Belgium, the Netherlands, Spain, Italy and Australia. Our businesses are subject to risks normally associated with international operations, including currency fluctuation risks and local business risks.

Approximately 15% of our total costs are denominated in a currency other than the local operating currency. In particular, certain of our raw materials are purchased in foreign currencies, particularly in the case of our United Kingdom and Australian businesses, which have raw material expenses denominated in euro and U.S. dollars. As a result, our financial condition and results of operations are exposed to risks related to currency exchange rate fluctuations. Fluctuations in exchange rates may also affect the relative competitive position of our manufacturing facilities, as well as our ability to market our products successfully in other markets.

Our sales are principally invoiced in currencies other than the pound sterling and are then translated into pounds sterling at the applicable exchange rates for inclusion in our financial statements. Therefore, fluctuations in the value of the pound sterling relative to the euro and Australian dollar in any given period could materially adversely affect our business, financial condition and results of operations. Moreover, our customers may demand that we reduce our prices where any changes in currency exchange rates may have been beneficial to our operations. We are exposed to currency fluctuations when we convert currencies that we receive from the sales of our products into our reporting currency to pay salaries and other costs.

Movements in exchange rates between our reporting currency (the pound sterling) and foreign currencies can also affect our ability to comply with financial covenants pertaining to our outstanding debt. We have raised, and will in the future continue to raise, financing in currencies (principally the euro and Australian dollar) other than our functional currency. As at June 30, 2018, after giving *pro forma* effect to the Transactions, 3.1% of our consolidated indebtedness was denominated in pounds sterling, 96.8% was denominated in euro and 0.1% was denominated in Australian dollars. In addition, a significant proportion of our capital expenditures are denominated in currencies other than the pound sterling. As a result, to the extent that the pound sterling declines in value against the currency in which indebtedness is denominated or in which capital expenditure is to be incurred and we do not have sufficient cash flows in the respective currency to service such debt or capital expenditure, the effective cost of servicing such indebtedness or making such capital expenditure may be higher.

In addition, exchange rate movements may also affect our available headroom in respect of certain financial covenants pertaining to our outstanding debt. We evaluate exchange rate risks from time to time and hedge our risks by entering into financing agreements in the currency to which we are exposed, and by using financial exchange rate derivative instruments. Our foreign currency hedging strategies may not adequately protect our results of operations or balance sheet position from the effect of exchange rate fluctuations, which may result in losses or may limit any benefit that we might otherwise receive from favorable movements in exchange rates. Any significant adverse fluctuations in currency exchange rates could have a material adverse effect on our business, financial condition and results of operations.

As a result, strengthening of the pound sterling against the euro or Australian dollar will result in a decrease in our net sales as reported in pound sterling, which could materially adversely affect our business, financial condition and results of operations. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Qualitative and Quantitative Disclosure About Market Risk—Foreign Exchange Risk*."

Our currency hedging exposes us to risks.

Although it is impossible to hedge against all currency risks, we use derivative financial instruments in order to reduce the substantial effects of currency fluctuations on our cash flows and financial condition. We have entered into, and expect to continue to enter into, forward exchange contracts to hedge our residual exposure to the pound sterling.

As with all hedging instruments, there are risks associated with the use of such instruments. While limiting to some degree our risk from fluctuations in currency exchange rates by utilizing such hedging instruments, we potentially forgo benefits that might result from other fluctuations in currency exchange rates. We are also exposed to the risk that our counterparties to hedging contracts will default on their obligations. We manage exposure to counterparty credit risk by limiting the counterparties to major international banks and financial institutions meeting established credit guidelines. However, any default by such counterparties might have an adverse effect on our business, financial condition and results of operation.

Disruptions to the production or delivery of our products could impact our ability to attract new customers and retain existing customers.

Our ability to produce and deliver our products on time is a significant element in attracting new customers and retaining existing customers. On-time delivery is particularly important to our large retail and wholesale customers. Though we do own certain of our transportation infrastructure, a small number of our operating businesses deliver products through third-party services. We therefore have some dependency on the timely performance of these third-party service providers. Our ability to deliver products on time may be adversely affected by events or circumstances beyond our control, including, but not limited to, unforeseen events causing the shutdown of one or more of our production facilities, unforeseen increases in order volumes as a result of changes to the competitive landscape or otherwise, the failure of third-party freight carriers to meet scheduled delivery times, any prolonged shortage of freight capacity or other extended disruption of transport services, disruptions to transportation infrastructure, including roads or rail networks, or the failure of our IT platform. If we are unable to produce and deliver our products in accordance with the timetable specified by our customers and maintain our on-time service delivery record, we may be unable to attract new customers or retain existing customers, which in turn could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to attract, integrate, manage and retain qualified personnel or key employees.

Our future performance depends to a significant degree upon the continued contributions of our senior management team—a concentrated group of highly experienced individuals, including Managing Directors of our principal brands and operating companies.

Though our high-level operating strategy is generated at the Group level (including budget, capital expenditure planning and cross-business operations), we maintain a decentralized structure with Managing

Directors individually responsible for the day-to-day management of the individual operating businesses. Within the limits of our overall strategy and objectives, each manager develops their own plan and tactics (reviewed by the Board) to deliver their targets. Thus, the loss of any member of our senior management team, including our Managing Directors, could harm our ability to operate effectively. To the extent that the services of members of our senior management team may be unavailable for any reason, we would be required to hire other personnel to manage and operate our Group. There can be no assurance that we would be able to locate or employ such senior personnel with the requisite level of experience on acceptable terms or on a timely basis.

Our future success also depends upon our ability to identify, attract, develop and retain qualified employees, including those with long-standing relationships with our suppliers and customers and those with relevant technical expertise. We compete with other companies to recruit and hire from a limited pool of potential employees with the required skill set and/or industry experience due to, among other things, a shortage of potential employees with the requisite skills and experience in the industry. In addition, the training of new employees requires a large amount of our time and resources.

If one or more of our key personnel resigns to join a competitor, the loss of such personnel and any resulting loss of existing or potential customers to any such competitor could harm our business. Our failure to maintain competitive compensation packages, including equity incentives, may also be disruptive to our business. In addition, we may be unable to prevent the disclosure or use of our technical knowledge, practices or procedures by departed personnel. If we cannot attract, train and retain qualified personnel or retain our senior management, this could have a material adverse effect on our business, financial condition and results of operations.

Significant damage to any of our facilities could cause a production disruption.

We have manufacturing facilities across the United Kingdom, Continental Europe and Australia. Our facilities generally specialize in a particular product segment, making it difficult to replace production in one facility with production from another. If a disruption occurs at one or more of these production facilities, we could experience temporary shortfalls in production, an increase in our production costs, or quality issues, which could have a material adverse effect on our results of operations.

The production at our plants could be adversely affected by extraordinary events, including fire, explosion, release of high-temperature steam or water, structural collapse, machinery failure, chemical spill, mechanical failure, extended or extraordinary maintenance, road construction or closures of primary access routes, earthquake, flood, windstorm or other severe weather conditions. Although we carry insurance covering losses at these facilities and insurance to cover interruptions in our business, that insurance is subject to limitations such as deductibles and maximum liability amounts and therefore may not cover all of our losses or recover the business lost to our competitors. We may incur losses that are outside of the coverage of our insurance policies. In the future, we may not be able to obtain insurance coverage at current levels or at all, and our premiums may increase significantly on the coverage that we maintain. As a result, we could experience significant losses if any of our manufacturing facilities were damaged or ceased operation for any other reason, and there can be no assurance that we would be able to completely or partially use our other production facilities to compensate for or mitigate the effects of any such shutdowns. Any disruptions at our production facilities could compromise our production capacity and thereby have a material adverse effect on our business, financial condition and results of operations.

For example, our South Wales factory experienced a roof collapse in January 2018, which damaged one of two finishing lines for several weeks. The shutdown of this finishing line impacted operations, margins and sales. Although we received compensation for these losses through our insurance provider, we may in the future incur losses that are outside the coverage of our insurance policies.

We may be affected by manufacturing defects or liability claims or may otherwise be subject to adverse publicity.

The success of our business depends on the quality and reliability of our products and our customer relations. In the event that our products repeatedly fail to satisfy our customers' requirements, our reputation and sales volumes could suffer. We may be required to manufacture at our own expense replacement products if they fail to meet our customers' standards, expectations and/or the applicable health and safety standards of the country in which a product is distributed, and we may be subject to product liability claims in connection with the foregoing. We may incur significant expenditures as a result of product recalls or product liability claims. We may also suffer other commercial and financial consequences in connection with manufacturing defects or product liability claims, including fines and payments to customers in respect of destroyed inventory, out-of-stock penalties and consumer complaints. Furthermore, if our products fail to meet our customers' specifications, the customer relationship may be terminated.

Any manufacturing defects or product liability claim against us could also subject us to adverse publicity. In addition, we may be subject to adverse publicity relating to other matters, including, but not limited to, product quality, brand image, complaints, production facilities and employee relationships. Adverse publicity may negatively impact our reputation, regardless of whether the allegations are valid. The negative impact of adverse publicity relating to any of our products, brands or production facilities may extend far beyond the product, brand or facility involved to affect some or all of our other products, brands and facilities. Any such adverse publicity may have a material adverse effect on our business, financial condition and results of operations.

We are required to comply with environmental and other regulations and obtain government permits and approvals.

We are required to obtain and comply with numerous permits, approvals, licenses and certificates from the respective government authorities of each jurisdiction in which we operate, particularly in relation to health, safety (including the security of our facilities) and environmental regulations. The process of obtaining and renewing necessary permits can be lengthy and complex. In addition, such permits or approvals may be subject to denial, revocation or modification under various circumstances. Failure to obtain or comply with the conditions of permits or approvals, or failure to comply with applicable environmental laws or regulations, may result in the delay or temporary suspension of our operations and sales and may subject us to penalties and other sanctions, all of which may have a material adverse effect on our business, financial condition and results of operation.

The environmental, health, hygiene and safety regulations with which we must comply relate primarily to industrial safety, carbon and other emissions, and discharge of chemicals or dangerous substances (including industrial waste and chemicals used in our production processes, such as dyes); their use, production, traceability, handling, transport, storage and elimination or exposure to such substances; and the remediation of industrial sites and environmental clean-up. Such regulations more heavily affect our ceramic tile manufacturing business than our carpet manufacturing business.

Legislation in these areas typically has become broader and stricter over time, and enforcement has tended to increase (resulting also in contractual obligations and responsibilities in these areas being imposed on the Group). In addition, new environmental legislation or regulations, if enacted, or changed interpretations of existing laws may elicit claims that historical routine modification activities at our facilities violated applicable laws and regulations. Complying with these regulations may require us to incur significant expense, especially in relation to spillages of dyes and other chemicals. We cannot predict the amount of any increase in capital expenditure or operating expenses that we may incur to comply with applicable environmental or other regulatory requirements, or whether we will be able to pass on these costs to our customers through price increases. Additionally, the tightening of regulations applicable to certain substances that we use could force us to use more expensive substances, change our formulations, decreasing the profitability of our products.

It is difficult to anticipate changes to the foregoing laws and regulations or to their interpretation, which could lead to significant expense or investment. If we are unable to obtain or comply with required permits and approvals for our operations, or in the event of the possible imposition of fines or undertaking of capital investments in the aforementioned cases, this could have a material adverse effect on our business, financial condition and results of operations.

The result of the UK referendum on withdrawal from the European Union may have a negative effect on economic conditions, financial markets and demand for our products and services, which could materially adversely affect our business, results of operations and financial condition.

We are based in and have significant operations within the United Kingdom. Following a national referendum in June 2016, on 29 March 2017, the Government formally initiated the withdrawal process for the United Kingdom's departure from the European Union ("**Brexit**"). The terms of withdrawal are subject to ongoing negotiations which are expected to last until March 2019. The outcome of the referendum and the terms of withdrawal have created significant uncertainty about the future relationship between the United Kingdom and the European Union, and has given rise to calls for certain regions within the United Kingdom to preserve their place in the European Union by separating from the United Kingdom. Until the terms of Brexit become clear, it is not possible to determine the impact Brexit may have on our business. Depending on the terms of Brexit, the United Kingdom could lose access to the single European Union market and customs union (and the Government has stated its expectation that the United Kingdom will lose such access) resulting in an impact on the general and economic conditions in the United Kingdom, which could directly impact the financial condition of our customers which could have a negative impact on our revenues. A significant weakening of economic conditions in the United Kingdom could also affect internal demand for our products as a byproduct of potentially slowed activity in the residential and commercial renovation markets. See "*—Our industry is affected by economic conditions, particularly to the extent such conditions impact consumer confidence and the residential and commercial renovation markets.*

Increased costs of labor, labor disputes, work stoppages or union organizing activity could have a negative impact on our operations.

During the 2018 financial year, we had an average headcount of 2,500 employees, predominantly in the United Kingdom and Continental Europe (84.4%) and Australia (15.6%). Our ability to meet our labor needs while controlling labor costs is subject to many external factors, including competition for and availability of qualified personnel in a given market, unemployment levels within those markets, wage rates, union membership levels and activity among our employees and changes in employment and labor or other workplace regulation. Our labor costs could also increase due to, among other things, any potential re-characterization of independent contractors as employees or other challenge to employment or compensation arrangements with our personnel. If we were unable to pass on such higher costs to our customers or otherwise mitigate such increases, these higher labor costs could have a material adverse effect on our business, financial condition and results of operations.

As our business is labor intensive, maintaining good relationships with our employees, unions and other employee representatives is crucial to our operations. As a result, any deterioration of the relationships with our employees, increased costs of labor, including the costs of employee benefits plans, labor disputes, work stoppages or union organizing activity, could delay or impede production and have a material adverse effect on our financial condition and operations. As a portion of our manufacturing employees are represented by unions and covered by collective bargaining or similar agreements, we often incur costs attributable to periodic renegotiation of those agreements, which may be difficult to project. We are also subject to the risk that strikes or other conflicts with organized personnel may arise or that we may become the subject of union organizing activity at our facilities that do not currently have union representation. Prolonged negotiations, conflicts or related activities could also lead to costly work stoppages and loss of productivity. Any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

We do not have formal purchase arrangements with a substantial majority of our customers.

We do not have formal purchase arrangements with a substantial majority of our customers, including many of our long-standing customers. We typically deal with our customers on a non-exclusive basis and with no minimum purchase obligations or fixed terms. In addition, as a result of the competitive markets in which we operate and the continued consolidation of our customer base, our customers may be able to demand purchase arrangements that are less favorable to us or could simply elect to discontinue their purchases, which could materially adversely impact our business. To the extent any of our competitors offer more attractive purchasing terms to one or more of our customers, or if we attempt to materially increase margins, we may lose customers. Any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

Changes in international tax rates, tax liabilities or tax accounting rules could affect future results.

As a multinational group, we are subject to taxation in various jurisdictions. Significant judgment is required to determine worldwide tax liabilities, including, among other reasons, because tax laws and regulations in effect in the various countries in which we operate do not always provide clear and definitive guidelines. Our effective tax rates and tax exposure could be affected by changes in the composition of our earnings in countries or jurisdictions with higher or lower tax rates, changes to transfer pricing rules, changes in the valuation of our deferred tax assets and liabilities, our ability to utilize tax losses and tax credits, changes to interest deductibility or other changes in the tax laws and the way such tax laws are applied by tax administrations (possibly with retroactive effect), including through tax arrangements issued by the relevant competent tax authorities.

Non-recoverable VAT rates could increase in the future in other countries in which we operate. If we do not increase the prices of our products to match the increase in VAT, our profitability margins will be negatively impacted. If we pass the increase in VAT on to our customers by raising the prices of our products, the demand for our products may decline, materially and adversely affecting our business, financial condition and results of operations. Furthermore, we have VAT risks arising out of the operating activities in the normal course of business and typical acquisition-related VAT risks relating to prior acquisitions and reorganizations.

Certain markets in which we operate have transfer pricing mechanisms that require transactions involving associated companies to be at arm's length. Arrangements between members of our group, such as intra-group transactions involving management services, royalties, information technology service fees, cash-pooling arrangements, intra-group loans and consultancy fees, are typically carried out on an arm's-length basis. However, if the tax authorities in any relevant jurisdiction do not regard such arrangements as being made on an arm's-length basis and successfully challenge those arrangements, the amount of tax payable by the relevant member or members of the group, in respect of both current and previous years, may increase materially and penalties or interest may be payable. Furthermore, any failure to file transfer pricing documentation evidencing the outcome of applied pricing principles, should they be requested by the relevant tax authorities, may result in penalties.

In addition, we are subject to regular audits of our income tax returns by the tax authorities in the various countries in which we operate. From time to time various governments together with the European Union and the Organization for Economic Co-operation and Development make substantive changes to tax rules and the application of rules to companies, including changes potentially impacting our ability to defer taxes on international earnings. We regularly assess the likelihood of favorable or unfavorable outcomes in tax audits and amendments to tax laws and regulations in order to determine the adequacy of our provision for income taxes. Although we believe our tax estimates are reasonable, there can be no assurance that any final determination will not be materially different from the treatment reflected in our historical income tax provisions and accruals. Any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

Changes in how tax authorities view our structure could have an adverse impact on our operating results.

Our effective tax rate and tax liability is based on the application of current income tax laws, regulations and treaties. Although to date, tax authorities have not questioned our interpretation of the application of current laws, regulations and treaties, these authorities could challenge our interpretation in the future, resulting in an additional tax liability or adjustment to our income tax provision that could increase our effective tax rate. In addition, tax laws, regulations or treaties enacted in the future may cause us to revalue our deferred tax assets and result in a material increase to our effective tax rate. A change in relevant income tax laws, regulations or treaties or an adverse interpretation of these items by tax authorities could result in an audit adjustment or revaluation of our deferred tax assets that may cause our effective tax rate and tax liability to be higher than what is currently presented in the consolidated financial statements, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our reliance on third parties may subject us to risk and may disrupt or have an adverse impact on our operations.

We rely upon third parties for various services, including for the transportation of our products and for the provision of certain of our raw materials. Although we specify performance standards with our suppliers and providers, we do not ultimately control their performance, which may make our operations vulnerable to their performance failures. In addition, our failure to adequately monitor and regulate the performance of our third-party vendors could subject us to additional risk. Reliance on third parties also makes us vulnerable to changes in our vendors' businesses, financial condition and other matters outside of our control, including their violations of laws or regulations, which could increase our exposure to liability or otherwise increase the costs associated with the operation of our business. The failure of our providers to perform as expected or as contractually required could have a negative effect on our reputation with our customers and could result in significant disruptions and costs to our operations and to the services we provide to our clients, which could have a material adverse effect on our business, financial condition and results of operations.

Our business could be affected by various legal and regulatory compliance risks, including those involving antitrust, anti-money laundering, anti-bribery or anti-corruption laws and regulations.

We are subject to various legal and regulatory requirements and risks in the countries in which we have facilities or sell our products, involving compliance with antitrust, anti-money laundering, anti-bribery, anti-corruption laws and regulations, including the U.S. Foreign Corrupt Practices Act and the UK Bribery Act. In recent years, there has been a general increase in both the frequency and severity of enforcement under such laws. The application of these laws and regulations to our business is sometimes unclear. We may be unaware of developments in such laws and regulations and any of our employees, contractors, agents and licensees or third party suppliers and providers involved in our sales may take actions in violation of such policies, any of which may subject to legal or regulatory action by foreign or domestic governments or regulators.

Our existing compliance controls may not be sufficient in order to prevent or detect inadequate practices, fraud and violations of law by our intermediaries, consultants, sales agents and employees. In the case that any intermediaries, consultants, sales agents or employees with whom we cooperate receive or grant inappropriate benefits or use corrupt, fraudulent or other unfair business practices, we could be confronted with legal sanctions, penalties, loss of orders and harm to our reputation. Especially given our worldwide operations, group structure, size and the extent of our cooperation with intermediaries, consultants and sales agents, our internal controls, policies and risk management may not be adequate. If we are subject to an enforcement action or found to be in violation of such laws, this may result in significant penalties, fines or sanctions, which could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to carry out acquisitions or mergers due to regulatory restrictions on business acquisitions and mergers or we may become subject to antitrust regulations as a consequence of our position in certain markets.

Future acquisition opportunities and mergers may require approvals from antitrust authorities under antitrust regulation in force at the time in any one of a number of jurisdictions. If such approvals of a proposed acquisition or merger prove necessary, approval of the transaction may require, based on the relevant antirust authority's evaluation of prevailing market conditions and our position in the market, that we divest certain businesses in order to carry out the transaction. We may also be prohibited by antitrust authorities from carrying out the transaction. Furthermore, we could, as a consequence of our strong positions in certain of our markets, be considered by antitrust regulatory authorities to have a dominant position which could subject us to certain limitations in our ability to act on the market by adjusting our prices or otherwise. Any of these factors could materially adversely affect our ability to execute our strategy and our business, financial condition and results of operations.

Our international sales are subject to risks in relation to compliance with various jurisdictions' economic sanctions and export control laws and regulations.

We sell our products internationally and are therefore subject to laws of the United Kingdom, the European Union, Australia and other jurisdictions regulating the export of our products to certain countries. Where applicable, these laws restrict or prohibit transactions with certain countries, such as Iran, and with certain companies and individuals identified on lists maintained by the U.S. government, the European Union, various European Union Member States and other governments. Failure to comply with these laws could expose us to civil and criminal prosecution and penalties, the imposition of export or economic sanctions against us and reputational damage, all of which could materially and adversely affect our business, financial condition and results of operations.

Risks Related to the Notes and Our Structure

Our leverage and debt servicing obligations could materially adversely affect our business, prospects, results of operations and financial condition.

As at June 30, 2018, after giving *pro forma* effect to the Transactions, our *as adjusted* net senior debt would have been £339.3 million on a consolidated basis and our ratio of *as adjusted* net senior debt to Adjusted *Pro Forma* EBITDA would have been 3.0x. For computations of our *as adjusted* net debt and our ratio of *as adjusted* net debt to Adjusted *Pro Forma* EBITDA, see "*Summary—Selected Pro Forma and As Adjusted Financial Information—As Adjusted Financial Data of Victoria Group*." On the Issue Date, the Issuer expects to (a) issue the Notes and (b) use the proceeds of the Offering, together with cash on hand, to refinance amounts incurred under the Bridge Facility and to pay costs, fees and expenses incurred in connection with the Offering. See "*Use of Proceeds,*" "*Capitalization*" and "*Description of Certain Financing Arrangements*."

Our leverage can have important consequences for our business and operations, 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 working capital and capital expenditures and for other general corporate purposes;
- increasing our vulnerability to a downturn in our business or 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 our industry;
- negatively impacting credit terms with our creditors;
- restricting us from exploiting certain business opportunities; and
- limiting our ability to borrow additional funds or raise equity capital in the future and increasing the costs of such additional financings.

Any of these or other consequences or events could have a material adverse effect on our ability to satisfy our debt obligations, including under the Notes and the Guarantees.

We may incur additional indebtedness that could further increase our leverage and may have terms that are more or less favorable than the terms of the Notes and our other existing indebtedness.

We may incur substantial additional debt, including in connection with a refinancing of our existing debt, to fund any future acquisition or for general corporate purposes. In connection with our financial strategy, we continually evaluate different financing alternatives, and we may decide to enter into new credit facilities, access the debt capital markets or incur other indebtedness from time to time. Any such offering or incurrence of debt will be made at our election, and if such debt is in the form of securities, would be offered and sold pursuant to, and on the terms described in, a separate offering document. The interest rate with respect to any such additional debt will be set at the time of the pricing or incurrence of such debt and may be less than or greater than the interest rate applicable to the Notes and our other existing debt, including, in the case of a refinancing, the debt that is being refinanced, which would have a corresponding effect on our cash interest expense on a *pro forma* basis. In addition, the maturity date of any such additional debt will be set at the time of pricing or incurrence of such debt and may be earlier or later than the maturity date of the Notes and our other existing debt. For example, the BGF Loan matures in 2021, which is earlier than the maturity of the Notes. The other terms of such additional debt would be as agreed with the relevant lenders or holders thereof and could be more or less favorable than the terms of the Notes or our other existing indebtedness. There can be no assurance that we will elect to raise any such additional debt or that any effort to raise such debt will be successful, and there can be no assurance as to the timing of such offering or incurrence, the amount or terms of any such additional debt. If we incur new debt in addition to our current debt and the Notes, the related risks that we now face, even in a refinancing transaction, as described above and elsewhere in this "*Risk Factors*" section, could intensify.

We are subject to restrictive debt covenants that may limit our ability to finance our future operations and capital needs to pursue business opportunities and activities.

Among other things, the Indenture will limit our ability to:

- incur or guarantee additional indebtedness;
- pay dividends, redeem capital stock and make certain investments;
- make certain other restricted payments;
- create or permit to exist certain liens;
- impose restrictions on the ability of our subsidiaries to pay dividends or make other payments to the Issuer;

- transfer or sell assets;
- impair the security interests for the benefit of the holders of the Notes;
- consolidate, merge or sell all or substantially all of our assets; and
- enter into certain transactions with affiliates.

In addition, the Amended and Restated Revolving Credit Facility Agreement will contain covenants that limit our ability to incur and assume debt and require us to maintain a certain Adjusted Leverage (as defined in the New Revolving Credit Facility Agreement) in the event that drawings under the Amended and Restated Revolving Credit Facility Agreement exceed 35% of total commitments. Further, the Amended and Restated Revolving Credit Facility Agreement will limit, among other things, our ability to acquire or sell certain assets, to undergo certain corporate actions (such as mergers and de-mergers) or to create security over our assets. See *"Description of Certain Financing Arrangements."*

All of these limitations are subject to significant exceptions and qualifications. See "*Description of the Notes—Certain Covenants*" and *"Description of Certain Financing Arrangements."* These covenants could limit our ability to finance our future operations and capital needs and our ability to pursue acquisitions and other business activities that may be in our interest.

If we fail to comply with any of these covenants, we will be in default under the Indenture and/or the relevant debt instruments, as the case may be, and the Trustee, the holders of the Notes or the applicable creditors could declare the principal and accrued interest on the Notes or the applicable amounts immediately due and payable, after any applicable cure period. In addition, any such default could lead to an event of default and acceleration under our other debt instruments that contain cross-default or cross-acceleration provisions, including the Indenture. These restrictions could materially adversely affect our ability to finance future operations or capital needs or engage in other business activities that may be in our best interest. See "*Description of the Notes—Certain Covenants"* and *"Description of Certain Financing Arrangements*."

We will require a significant amount of cash to service our debt and sustain our operations. Our ability to generate or raise sufficient cash depends on many factors beyond our control.

Our ability to make principal or interest payments when due on our indebtedness, including the Amended and Restated Revolving Credit Facility Agreement and our obligations under the Notes, and to fund our ongoing operations, will depend on our future performance and ability to generate cash, which is subject to general economic, financial, competitive, legislative, legal, regulatory and other factors, as well as other factors discussed in these "*Risk Factors*," many of which are beyond our control.

The Amended and Restated Revolving Credit Facility Agreement provides for a revolving credit facility with commitments of £60.0 million equivalent. If we are unable to generate sufficient cash flows from operations and other capital resources to pay our debt obligations or meet other liquidity needs, we may be required to refinance or restructure our indebtedness. If we are unable to refinance or restructure all or a portion of our indebtedness or obtain such refinancing or restructuring on terms acceptable to us, we may be forced to, among others:

- reduce or delay our business activities, planned acquisitions and capital expenditures;
- sell assets;
- raise additional debt or equity financing; or
- restructure or refinance all or a portion of our debt, including the Notes, on or before maturity.

If any of the above were to occur, the holders of our debt may be able to accelerate our debt and, to the extent such debt is secured, foreclose on our assets. The type, timing and terms of any future financing, restructuring, asset sales or other capital raising transactions will depend on our cash needs and the prevailing conditions in the financial markets. We cannot assure you that we will be able to accomplish any of these measures in a timely manner or on commercially reasonable terms, if at all. In such an event, we may not have sufficient cash or sources of cash to repay all of our debt. In addition, the terms of the Amended and Restated Revolving Credit Facility Agreement, the Indenture and the Intercreditor Agreement may limit our ability to pursue any of these measures. Furthermore, any failure to make payments of interest or principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could impact our ability to incur additional indebtedness in the future.

Drawings under the New Revolving Credit Facility will bear interest at floating rates that could rise significantly, increasing our costs and reducing our cash flow.

The drawings under the New Revolving Credit Facility will, and future indebtedness that we may incur could, bear interest at floating rates of interest per annum equal to EURIBOR, LIBOR or BBSY (as applicable) as adjusted periodically, plus a spread. These interest rates could rise significantly in the future. Although we may enter into certain hedging arrangements designed to fix a portion of these rates, there can be no assurance that hedging will be available or continue to be available on commercially reasonable terms. To the extent that interest rates or any drawings were to increase significantly, our interest expense would correspondingly increase, reducing our cash flow.

The Issuer is a holding company dependent upon cash flow from subsidiaries to meet its obligations on the Notes and the Guarantees.

The Issuer is a holding company with no independent business operations or significant assets other than investments in its subsidiaries and intercompany loan receivables, and therefore depends upon the receipt of sufficient funds from its subsidiaries in the form of dividends or other distributions or payments to meet its obligations, including its obligations under the Notes. We intend to provide funds to the Issuer in order to meet the obligations under the Notes through a combination of dividends, interest payments on intercompany loans and repayment of intercompany loans. The obligations under intercompany loans will be junior obligations and will be subordinated in right of payment to all existing and future senior and senior subordinated indebtedness of the Issuer, including obligations under, or Guarantees of obligations under, the New Revolving Credit Facility and the Notes.

The amounts of dividends and distributions available to the Issuer will depend on the profitability and cash flows of its subsidiaries and the ability of those subsidiaries to issue dividends under applicable law. If our subsidiaries do not fulfill their obligations under 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. Further, if we are unable to generate sufficient cash flow to meet our payment obligations, we may be forced to reduce or delay planned expansions or capital expenditures, sell significant assets, discontinue specified operations or obtain additional funding in the form of debt or equity capital or attempt to restructure or refinance all or a portion of our debt on or before maturity.

In addition, applicable tax laws may subject such payments to further taxation and applicable corporate law may limit the amounts that some of our subsidiaries will be permitted to pay as dividends or distributions on their equity interests, or even prevent such payments. In particular, our ability to pay dividends to the Issuer will generally be limited to the amount of distributable reserves available to us. Finally, the subsidiaries of the Issuer that do not guarantee the Notes have no obligation to make payments with respect to any of the Notes.

The inability to transfer cash among entities within their respective consolidated groups may mean that, even though the entities, in aggregate, may have sufficient resources to meet the Issuer's obligations, they may not be permitted to make the necessary transfers from one entity in the restricted group to another entity in the restricted group in order to make payments to the Issuer.

The Notes will be structurally subordinated to the liabilities and preference shares (if any) of our non-guarantor subsidiaries.

Generally, claims of creditors of a non-guarantor subsidiary, including trade creditors, and claims of preference shareholders (if any) of the subsidiary, will have priority with respect to the assets and earnings of the subsidiary over the claims of creditors of its parent entity, including claims by holders of the Notes under the Guarantees. In the event of any foreclosure, dissolution, winding-up, liquidation, reorganization, administration or other bankruptcy or insolvency proceeding of any of our non-guarantor subsidiaries, holders of their indebtedness and their trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to its parent entity. As such, the Notes and each Guarantee will each be structurally subordinated to the creditors (including trade creditors) and preference shareholders (if any) of our non-guarantor subsidiaries. In addition, our Consolidated Group Financial Statements include both Guarantor and non-guarantor subsidiaries and, as such, may be of limited use in assessing the financial position of the Guarantors.

The proceeds from the enforcement of the Collateral may not be sufficient to satisfy the obligations under the Notes.

The Notes will be secured by security interests in the Collateral described in this Offering Memorandum, which Collateral also secures the obligations under the Amended and Restated Revolving Credit Facility Agreement and certain hedging obligations. Upon a refinancing of the New Revolving Credit Facility, or if the lenders under the Amended and Restated Revolving Credit Facility Agreement consent to an increase under the New Revolving Credit Facility, the amount that will benefit from super-priority security interest in the Collateral may be increased up to the amount provided under the Indenture. The Collateral may also secure additional debt ranking *pari passu* with the Notes to the extent permitted by the terms of the Indenture and the Intercreditor Agreement. Your rights to the Collateral may therefore be diluted by any increase in the first-priority debt secured by the Collateral or a reduction of the Collateral securing the Notes.

No appraisals of the Collateral have been prepared by us or on our behalf in connection with the issuance of the Notes. The value of the Collateral and the amount to be received upon an enforcement 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 operations are located, the availability of buyers, whether or not our business is sold as a going concern, the jurisdiction in which the enforcement action or sale is completed, the ability to readily liquidate the Collateral and the fair market value and condition of the Collateral. The book value of the Collateral should not be relied on as a measure of realizable value for such assets. All or a portion of the Collateral may be illiquid and may have no readily ascertainable market value. Likewise, we cannot assure you that there will be a market for the sale of the Collateral, or, if such a market exists, that there will not be a substantial delay in our liquidation. In addition, the share pledges over the shares of an entity may be of no value if that entity is subject to an insolvency or bankruptcy proceeding.

The granting of the Guarantees and security interests in connection with the issuance of the Notes, or the incurrence of permitted debt in the future, may create or restart hardening periods, i.e., the periods of time following the granting of Guarantees or security interests during which such Guarantees or security interests may be challenged in accordance with the laws applicable in certain jurisdictions.

The granting of Guarantees and security interests to secure the Notes may create or restart hardening periods for such Guarantees and security interests in certain jurisdictions. The granting or extension of shared security interests to secure future indebtedness permitted to be secured on the Collateral may restart or reopen such hardening periods in particular, as the Indenture permits the release and retaking of security granted in favor of the Notes in certain circumstances including in connection with the incurrence of future indebtedness. The applicable hardening period for these new or extended security interests can run from the moment each new security interest has been granted, perfected or extended. At each time, if the Guarantee or security interest granted or recreated were to be enforced before the end of the respective hardening period applicable in such jurisdiction, it may be declared void or ineffective and/or it may not be possible to enforce it. See "*Limitations on Validity and Enforceability of the Security and the Guarantees and Certain Insolvency Law Considerations*."

The same rights also apply following the issuance of the Notes in connection with the accession of further subsidiaries as additional Guarantors and the granting of security interest over their relevant assets and equity interests for the benefit of holders of the Notes. See "*Description of the Notes—Security*."

It may be difficult to realize the value of the Collateral securing the Notes and the ability of the Security Agent to enforce certain of the Collateral may be restricted by local law.

The Collateral securing the Notes will be subject to any and all exceptions, defects, encumbrances, liens and other imperfections as may be accepted by the Security Agent and any other creditors that have the benefit of first-priority security interests in the Collateral from time to time, whether on or after the date the Notes are first issued. 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 to realize or foreclose on such Collateral. Furthermore, the first-priority ranking of security interests can be affected by a variety of factors, including, among others, the timely satisfaction of perfection requirements, statutory liens or characterization under the laws of certain jurisdictions. Specifically, the Collateral is located in the United Kingdom, Spain and Australia, and the multijurisdictional nature of any enforcement of the Collateral may limit the realizable value of the Collateral. For example, the bankruptcy, insolvency, administrative and other laws of the various jurisdictions may be materially different from, or conflict with, each other, including in the areas of rights of creditors, priority of government and other creditors, ability to obtain post-petition interest and duration of the proceedings.

In addition, the security interests will be subject to practical problems generally associated with the realization of security interests in Collateral. For example, under the laws in certain of the jurisdictions where the Collateral is located, the enforcement of share pledges, whether by means of a sale or an appropriation, is subject to certain specific requirements. See "*Limitations on Validity and Enforceability of the Security and the Guarantees and Certain Insolvency Law Considerations*." Third party consent may be needed to enforce a security interest. We cannot assure you that any such consents will be obtained. We also cannot assure you that the consents of any third parties will be given when required to facilitate a sale of, or foreclosure on, such assets. Accordingly, the Security Agent may not have the ability to sell or foreclose upon those assets, and the value of the Collateral may significantly decrease.

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

The Security Documents (subject to certain exceptions) will 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 securing the Notes. So long as no default or event of default under the Indenture would result therefrom, the Issuer and the Guarantors may, among other things, without any release or consent by the Security Agent, conduct ordinary course activities with respect to the Collateral, such as selling, factoring, abandoning or otherwise disposing of Collateral and making ordinary course cash payments, including repayments of indebtedness.

The security interests in the Collateral will be granted to the Trustee or Security Agent, as applicable, rather than directly to the holders of the Notes and the Collateral to be granted by us will be granted subsequent to the issuance of the Notes.

The security interests in the Collateral that will secure our obligations under the Notes and the obligations of the Guarantors under the Guarantees will not be granted directly to the holders of the Notes but will be granted only in favor of the Trustee (who will accept them on behalf of the holders of the Notes) or the Security Agent, as applicable. The Indenture will provide (along with the Intercreditor Agreement) 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, who will (subject to the provisions of the Indenture) provide instructions to the Security Agent in respect of the Collateral. For further information, see "*Limitations on Validity and Enforceability of the Security and the Guarantees and Certain Insolvency Law Considerations*".

There are circumstances other than repayment or discharge of the Notes under which the Collateral securing the Notes and the Guarantees will be released automatically and under which the Guarantees will be released automatically, without your consent or the consent of the Trustee.

Under various circumstances, the Collateral securing the Notes and the Guarantees will be released automatically, including:

- in connection with any asset sale or disposition or transfer of assets to a person that is not (either before or after giving effect to such transaction) the Issuer or a restricted subsidiary, if the sale or other disposition does not violate the covenant described under the caption "*Description of the Notes—Certain Covenants—Limitation on Asset Sales*";
- upon a defeasance or satisfaction and discharge of the Notes that complies with the provisions under "*Description of the Notes—Defeasance*" or "*Description of Notes—Satisfaction and Discharge*";
- as described under "*Description of the Notes—Amendments and Waivers*" or "*Description of Notes—Certain Covenants—Limitation on Liens*";
- in the case of property and assets and capital stock of a Guarantor, to the extent such Guarantor is released from its Guarantee of the Notes pursuant to the terms of the Indenture;
- to the extent permitted in accordance with the covenant described under the caption "*Description of the Notes—Certain Covenants—Impairment of Security Interest*";

- if the Issuer designates any restricted subsidiary to be an unrestricted subsidiary in accordance with the applicable provisions of the Indenture (to the extent of such restricted subsidiary's assets and property);
- upon repayment in full of the Notes;
- if the lien granted in favor of the New Revolving Credit Facility or such other debt that gave rise to the obligation to grant the lien over such Collateral is released;
- as provided for under the Intercreditor Agreement, including in accordance with certain enforcement actions taken pursuant to the Intercreditor Agreement or any Additional Intercreditor Agreement (as defined in the *"Description of the Notes*", or as otherwise provided for in the Intercreditor Agreement or any Additional Intercreditor Agreement; or
- as otherwise permitted in accordance with the Indenture.

The lien on the capital stock of the Issuer will only be released as provided by the first, second, third and fifth bullets above.

Even though the holders of the Notes share in the Collateral securing the Notes ratably with the lenders under the New Revolving Credit Facility, under certain circumstances, the creditors under the Amended and Restated Revolving Credit Facility Agreement and certain of our hedging arrangements will control enforcement actions with respect to the Collateral through the Security Agent, whether or not the holders of the Notes agree with those actions. See *"Description of Certain Financing Arrangements*."

Under various circumstances, the Guarantee of a Guarantor will be released, including:

- in connection with any asset sale or disposition or transfer of assets to a person that is not (either before or after giving effect to such transaction) the Issuer or a restricted subsidiary, if the sale or other disposition does not violate the covenant described under the caption "*Description of the Notes—Certain Covenants—Limitation on Asset Sales*";
- upon a defeasance or satisfaction and discharge of the Notes that complies with the provisions under "*Description of the Notes—Defeasance*" or "*—Satisfaction and Discharge*";
- as described under "*Description of the Notes—Amendments and Waivers*" or "*Description of the Notes—Certain Covenants—Limitation on Liens*";
- in the case of property and assets and capital stock of a Guarantor, to the extent such Guarantor is released from its Guarantee of the Notes pursuant to the terms of the Indenture;
- to the extent permitted in accordance with the covenant described under the caption "*Description of the Notes—Certain Covenants—Impairment of Security Interest*";
- if the Issuer designates any restricted subsidiary to be an unrestricted subsidiary in accordance with the applicable provisions of the Indenture (to the extent of such Restricted Subsidiary's assets and property);
- upon repayment in full of the Notes;
- if the lien granted in favor of the New Revolving Credit Facility or such other debt that gave rise to the obligation to grant the lien over such Collateral is released;
- as provided for under the Intercreditor Agreement, including in accordance with certain enforcement actions taken pursuant to the Intercreditor Agreement or any Additional Intercreditor Agreement, or as otherwise provided for in the Intercreditor Agreement or any Additional Intercreditor Agreement; or
- as otherwise permitted in accordance with the Indenture.

In addition, the Guarantees and security interests will be subject to release upon a distressed disposal as contemplated under the Intercreditor Agreement. See "*Description of Certain Financing Arrangements—Intercreditor Agreement*."

Your rights in the Collateral may be adversely affected by the failure to perfect security interests in the Collateral.

Under certain 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 security interests in the Collateral securing the Notes may not be perfected with respect to the claims of the Notes if we, or the Security Agent, fail or are unable to take the actions required to perfect any of these security interests. In addition, certain applicable law requires that certain property and rights acquired after the grant of a general security interest, such as real property, equipment 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.

Any failure to perfect any security interest in the Collateral may result in the invalidity of the relevant security interest or adversely affect the priority of such security interest in favor of the Notes against third parties, including a trustee in bankruptcy and other creditors who claim a security interest in the same Collateral. The Trustee and the Security Agent will not be under any obligation or responsibility to take any steps or action to perfect, or ensure the perfection of, any such liens.

Each Guarantee and security interest will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defenses that may limit its validity and enforceability.

Each Guarantee will provide the holders of the Notes with a direct claim against the relevant Guarantor. In addition, the Issuer and the Guarantors will secure the payment of the Notes by granting security under the relevant Security Documents. There can be no assurance that the value of the Guarantees or the Collateral will be sufficient to satisfy claims under the Notes. However, each security interest granted under a Security Document will be limited in scope to the value of the relevant assets expressed to be subject to that security interest or to the secured amount stated in the relevant Security Document (which may be lower than the value of the relevant assets expressed to be subject to that security interest), and the Indenture will provide that each Guarantee will be limited to the maximum amount that can be guaranteed by the relevant Guarantor, without rendering the relevant Guarantee or security interest voidable or otherwise ineffective under English, Spanish, Australian or other applicable law, and enforcement of each Guarantee or Security Document would be subject to certain generally available defenses. These laws and defenses include those that relate to corporate benefit, fraudulent conveyance or transfer, unfair or voidable preference and insolvent transactions, financial assistance, corporate purpose, capital maintenance, related party transactions, security registration or similar laws, regulations or defenses affecting the rights of creditors generally. For example, where proceeds from the Notes are used to refinance the Senior Secured Bridge Facilities, the value of the Guarantee granted by Saloni would be limited to the portion of Senior Secured Bridge Facilities not used to fund our acquisition of Saloni. See "*Limitations on Validity and Enforceability of the Security and the Guarantees and Certain Insolvency Law Considerations*."

Although laws differ among various jurisdictions, in general, under fraudulent conveyance and other laws, Guarantees and security interests can be challenged (for example, by the bankruptcy receiver or insolvency trustee, in the case of bankruptcy of the relevant Guarantor, or by any of the creditors of such Guarantor outside bankruptcy), and a court could declare unenforceable against third parties (including the beneficiaries thereof) and/or void, any legal act performed by a Guarantor (including, without limitation, the granting by it of the Guarantees or the security interests granted under the Security Documents) or by any party granting the security interests and, if payment had already been made under a Guarantee or enforcement proceeds applied under a Security Document, require that the recipient (and possibly, subsequent transferees thereof) return the payment to the relevant Guarantor or to the party granting the security interests, if the court found, *inter alia*, that:

- the amount paid or payable under the relevant Guarantee or the enforcement proceeds under the relevant Security Document was in excess of the maximum amount permitted under applicable law;
- the relevant Guarantee or security interest under a Security Document was incurred with actual intent to hinder, delay or defraud creditors or shareholders of the Guarantor or of the party granting the security interests or, in certain jurisdictions, even when the recipient was simply aware that the Guarantor or the above-referred party was insolvent when it granted the relevant Guarantee or security interest;
- the Guarantor or the party granting the security interests did not receive fair consideration or reasonably equivalent value for granting the relevant Guarantee or security interests and the

Guarantor or such party was: (i) insolvent or rendered insolvent because of the relevant Guarantee or security interest; (ii) undercapitalized or became undercapitalized because of the relevant Guarantee/ Security Document; or (iii) intended to incur, or believed that it would incur, indebtedness beyond its ability to pay at maturity; or

- the relevant Guarantees or Security Documents were held to exceed the corporate objects of the Guarantor or of the party granting the security interests or not to be in the best interests or for the corporate benefit of the Guarantor or of such party.

We cannot assure you which standard a court would apply in determining whether a Guarantor or a party granting the security interests was insolvent at the relevant time or that, regardless of the method of the valuation, a court would not determine that a Guarantor or such party was insolvent on that date, or that a court would not determine, regardless of whether or not a Guarantor or such party was insolvent on the date its Guarantee was issued or its security interests were granted, that payments to holders of the Notes constituted unfair or voidable preferences, fraudulent transfers or voidable conveyances on other grounds.

The payment of dividends to the Issuer will reduce the distributable profits and reserves available to satisfy the obligations under the Guarantees and Security Documents. There can be no assurances that we will have distributable profits and reserves available to satisfy the obligations under the Guarantees and Security Documents, whether or not we make dividends. The payment of dividends by a Guarantor or by the party granting the security interests to the Issuer to service our debt obligations (including under the Notes) will deplete the distributable reserves available to those Guarantors or parties to satisfy the obligations under the Guarantees or the Security Documents. In addition, the payment under the Guarantees and the enforcement of security interests under the relevant Security Documents may require certain prior corporate formalities to be completed, including, but not limited to, obtaining an audit report, shareholders' resolutions and board resolutions.

In addition, judgments rendered by a U.S. court will generally not be directly enforceable in Spain. Instead, as a pre-condition to enforcing a U.S. judgment, a local court will subject the judgment to a multi-factor test. Several of the factors the court will consider involving a considerable amount of discretion. Even if the court ultimately finds that the judgment is enforceable, the process may require considerable time to complete. For all of the foregoing, an investment in the Notes involves unique risks that may not apply or may apply differently in a differently structured bond offering. If any of these risks materialize, your ability to collect payments of principal and interest under the Notes may be materially adversely affected. See "*Service of Process and Enforcement of Judgements*" for more information.

The insolvency laws of the United Kingdom, Spain and Australia may not be as favorable to you as the U.S. bankruptcy laws and may preclude holders of the Notes from recovering payments due on the Notes.

The Issuer and certain Guarantors are incorporated under the laws of the United Kingdom, Spain and Australia. In the event of a bankruptcy, insolvency or similar event, proceedings could be initiated in the United Kingdom, Spain and Australia or another relevant jurisdiction. Such multi-jurisdictional proceedings may be complex and more 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 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 Issuer's and the Guarantors' jurisdictions of organization or incorporation may be materially different from, or in conflict with, each other and those of the United States, 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 any particular jurisdiction's law should apply, adversely affect your ability to enforce your rights under the Notes and the Guarantees in those jurisdictions or limit any amounts that you may receive. For an overview of certain insolvency laws and enforceability issues, see "*Limitations on Validity and Enforceability of the Security and the Guarantees and Certain Insolvency Law Considerations*" with respect to certain of the jurisdictions mentioned above.

We may not have the ability to raise the funds necessary to finance an offer to repurchase the Notes upon the occurrence of certain events constituting a change of control as required by the Indenture.

Upon the occurrence of certain events constituting a Change of Control as defined in the Indenture, the Issuer would be 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 and additional amounts to the date of purchase, if any. If a Change of Control were to occur, we cannot assure you that we would have sufficient funds available at such time, or that we would have sufficient funds to provide to the Issuer to pay the purchase price of the outstanding Notes or that the restrictions in the Amended and Restated Revolving Credit Facility Agreement, the Indenture, the Intercreditor Agreement or our other existing contractual obligations would allow us to make such required repurchases. A Change of Control may result in an event of default under, acceleration of, or an obligation to mandatorily prepay the New 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. The ability of the Issuer to receive cash from its subsidiaries to allow them to pay cash to the holders of the Notes following the occurrence of a Change of Control, may be limited by our then existing financial resources. Sufficient funds may not be available when necessary to make any required repurchases. If an event constituting a Change of Control occurs at a time when we are prohibited from providing funds to the Issuer for the purpose of repurchasing the Notes, we may seek the consent of the lenders under such indebtedness to allow us to purchase the Notes or we may attempt to refinance the borrowings that contain such prohibition. If such a consent to repay such borrowings is not obtained, the Issuer will remain prohibited from repurchasing any Notes. In addition, 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. Any failure by the Issuer to offer to purchase the Notes would constitute a default under the Indenture, which, in turn, would constitute a default under the Amended and Restated Revolving Credit Facility Agreement and certain other indebtedness. See "*Description of the Notes—Certain Covenants—Change of Control*."

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. Except as described under "*Description of the Notes—Certain Covenants—Change of Control*," the Indenture will not contain provisions that would require the Issuer 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 in the Indenture will include a disposition of all or substantially all of the assets of the applicable Issuer and its 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 Issuer's assets and its 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.

Certain covenants may be suspended upon the occurrence of a change in our ratings.

The Indenture will provide that, if at any time following the date of the Indenture, the Notes receive a rating of Baa3 or better by Moody's Investors Service and a rating of BBB− or better by Standard and Poor's and no default or event of default has occurred and is continuing, then beginning that day and continuing until such time, if any, at which such Notes cease to have such ratings, certain covenants will cease to be applicable to such Notes. See "*Description of the Notes—Certain Covenants—Suspension of Covenants on Achievement of Investment Grade Status*." If these covenants were to cease to be applicable, the Group would be able to incur additional debt or make payments, including dividends or investments, which may conflict with the interests of holders of the Notes. There can be no assurance that the Notes will ever achieve an investment grade rating or that any such rating will be maintained.

There may not be an active trading market for the Notes, in which case your ability to sell the Notes may be limited.

The Notes will be new securities and currently there is no market for them. The Initial Purchasers have informed us that they intend to make a market in the Notes. They are not, however, obliged to do so and may discontinue market-making at any time.

As a result, we cannot assure you as to:

- the development or liquidity of any market in the Notes;
- your ability to sell your Notes; or
- the prices at which you would be able to sell your Notes.

Future trading prices for the Notes will depend on many factors, including, among other things, prevailing interest rates, our operating results and the market for similar securities. Historically, the market for non-investment grade securities has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the Notes. The liquidity of a trading market for the Notes may be adversely affected by a general decline in the market for similar securities and is subject to disruptions that may cause volatility in prices. The trading market for the Notes may attract different investors and this may affect the extent to which the Notes may trade. It is possible that the market for the Notes will be subject to disruptions. Any such disruption may have a negative effect on you, as a holder of the Notes, regardless of our prospects and financial performance. As a result, there is no assurance that there will be an active trading market for the Notes. If no active trading market develops, you may not be able to resell your holding of the Notes at a fair value, if at all.

In addition, the Indenture will allow us to issue additional notes in the future which could adversely impact the liquidity of the Notes.

The Notes may not be listed or remain listed on the London Stock Exchange's International Securities Market (the "Exchange").

We intend to list and maintain the listing of the Notes on the Exchange, as long as the Notes are outstanding, we cannot assure you that the Notes will be listed or remain listed. If we cannot list or maintain the listing of the Notes on the Exchange or it becomes unduly onerous to maintain such listing, we may cease to maintain such listing on the Exchange, provided that we will use commercially reasonable efforts to maintain the listing of the Notes on another "recognised stock exchange" (within the meaning of Section 1005 of the U.K. Income Tax Act 2007), although there can be no assurance that the Issuer will be able to do so. See also "*Certain Tax Considerations—UK Withholding Tax on UK Source interest*." Although no assurance is made as to the liquidity of the Notes as a result of listing on the Exchange or another "recognised listing exchange" for high yield issuers in accordance with the Indenture, the delisting of the Notes from the Exchange or another stock exchange in accordance with the Indenture may have a material adverse effect on a holder's ability to resell the Notes in the secondary market.

Investors may face foreign exchange risks by investing in the Notes.

The Notes will be denominated and payable in euro. If investors measure their investment returns by reference to a currency other than euro, 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 currency by reference to which investors measure the return on their investments because of economic, political and other factors over which we have no control. Depreciation of the euro against the currency by reference to which investors measure the return on their investments could cause a decrease in the effective yield of the Notes below their stated coupon rates and could result in a loss to investors when the return on the Notes is translated into the currency by reference to which the investors measure the return on their investments. Investments in the Notes denominated in a currency other than U.S. dollars by U.S. investors may also have important tax consequences as a result of foreign exchange gains or losses, if any. See "*Tax Considerations—Certain U.S. Federal Income Tax Considerations*."

You may not be able to recover in civil proceedings for U.S. securities law violations.

The Issuer and certain of the Guarantors and their respective subsidiaries are organized outside the United States, and our business is conducted primarily outside the United States. The directors, managers and/or executive officers of the Issuer and the Guarantors are non-residents of the United States. In addition, as a majority of the assets of the Issuer and the Guarantors and their respective subsidiaries and those of their directors and executive officers are located outside of the United States, you may be unable to enforce judgments obtained in U.S. courts against them. Moreover, actions of the Issuer and the Guarantors may not be subject to the provisions of the federal securities laws of the United States. The United States is not currently bound by a treaty providing for reciprocal recognition and enforcement of judgments, other than arbitral awards, rendered in civil and commercial matters with the United Kingdom, Spain or Australia. There is, therefore, doubt as to the enforceability in the United Kingdom, Spain or Australia of U.S. securities laws in an action to enforce a U.S. judgment in such jurisdictions. In addition, the enforcement in the United Kingdom, Spain or Australia of any judgment obtained in a U.S. court, whether or not predicated solely upon U.S. federal securities laws, will be subject to certain conditions. There is also doubt that a court in the United Kingdom, Spain or Australia would have the requisite power or authority to grant remedies sought in an original action brought in such jurisdictions on the basis of U.S. securities laws violations. For further information see "*Service of Process and Enforcement of Judgments*."

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 herein 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.

The transfer of the Notes is restricted, which may adversely affect their liquidity and the price at which they may be sold.

The Notes and the Guarantees have not been registered under, and we are not obliged to register the Notes or the Guarantees under, the U.S. Securities Act or the securities laws of any other jurisdiction and, unless so registered, may not be offered or sold except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the U.S. Securities Act and any other applicable laws. See "*Notice to Investors*." We have not agreed to or otherwise undertaken to register any of the Notes or the Guarantees, and do not have any intention to do so.

The interests of our controlling shareholders may be inconsistent with the interests of holders of the Notes.

The interests of our principal shareholders, in certain circumstances, may conflict with your interests as holders of the Notes. Our principal shareholders have, directly or indirectly, the power, among other things, to affect our legal and capital structure and our day to day operations, as well as the ability to elect and change our management and to approve any other changes to our operations. For example, our principal shareholders could vote to cause us to incur additional indebtedness, to sell certain material assets or make dividend distributions, in each case, so long as the Indenture, the Amended and Restated Revolving Credit Facility Agreement and the Intercreditor Agreement so permit. The interests of our principal shareholders could conflict with interests of holders of the Notes, particularly if we encounter financial difficulties or are unable to pay our debts when due. Our principal shareholders could also have an interest in pursuing acquisitions, divestitures, financings, dividend distributions or other transactions that, in their judgment, could enhance their equity investments although such transactions might involve risks to the holders of the Notes. In addition, our principal shareholders may come to own businesses that directly compete with our business.

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.

Unless and until Notes in definitive registered form, or definitive registered notes are issued in exchange for book-entry interests (which may occur only in very limited circumstances), owners of book-entry interests will not be considered owners or holders of the Notes. The common depository (or its nominee) for Euroclear and Clearstream will be the sole registered holder of the global notes. Payments of principal, interest and other amounts owing on or in respect of the relevant global notes representing the Notes will be made to HSBC Bank plc, 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, the Issuer, the Guarantors, the Trustee, the Registrar, the Transfer Agent or any Paying Agent will not have any 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 in the Notes, you must rely on the procedures of Euroclear and Clearstream and if you are not a participant in Euroclear and/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 any direct rights to act upon any 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 and Clearstream or, if applicable, from a participant. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable you to vote on any matters or on a timely basis.

Similarly, upon the occurrence of an event of default under the Indenture, unless and until the relevant 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. We cannot assure you that the procedures to be implemented through Euroclear and Clearstream will be adequate to ensure the timely exercise of rights under the Notes.

The Notes may be issued with original issue discount ("OID") for U.S. federal income tax purposes.

The Notes may be issued with OID for U.S. federal income tax purposes. In that event, U.S. investors generally will be required to include OID in gross income (as ordinary income) on an annual basis under a constant yield accrual method, regardless of their regular method of accounting for U.S. federal income tax purposes. As a result, U.S. investors will generally include any OID in income in advance of the receipt of cash attributable to such income. For more information, see "*Certain Tax Considerations—Certain U.S. Federal Income Tax Considerations*."

Investors in the Notes may have limited recourse against the independent auditors.

See "*Independent Auditors*" for a description of the reports of Grant Thornton UK LLP, the independent auditors of the Group in respect of the Consolidated Group Financial Statements. In accordance with guidance issued by The Institute of Chartered Accountants in England and Wales, the independent auditor's reports from Grant Thornton UK LLP state that: the reports including the opinions were prepared for and only for the members of the Group as a body in accordance with Chapter 3 of Part 16 of the Companies Act of 2006 and for no other purpose; the independent auditors did not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by their prior consent in writing. The independent auditor's reports for the Group issued by Grant Thornton UK LLP as of and for the 2016, 2017 and 2018 financial years were unqualified. The independent auditor's reports for the Group as of and for the 2016, 2017 and 2018 financial years are included elsewhere in this Offering Memorandum.

Investors in the Notes should understand that in making these statements, the independent auditor has confirmed that it does not accept or assume any liability to parties (such as the purchasers of the Notes) other than to the Group and its members as a body with respect to the reports and to the independent auditor's audit work and opinions. The Securities and Exchange Commission of the United States (the "**SEC**") would not permit such limiting language to be included in a registration statement or a prospectus used in connection with an offering of securities registered under the U.S. Securities Act or in a report filed under the U.S. Exchange Act. If a U.S. court (or any other court) were to give effect to such limiting language, the recourse that investors in the Notes may have against the independent auditor based on its report or the consolidated financial statements to which it relates could be limited.

USE OF PROCEEDS

We estimate that the aggregate gross proceeds from the issuance of the Notes will be €450.0 million (assuming the Notes are issued at par). On the Issue Date, we will use the proceeds of the Offering to repay the Bridge Facility and, together with cash on hand, pay the fees and expenses in connection with the Offering. We used drawings under the Bridge Facility, together with the proceeds of the Equity Placement: (i) to fund the consideration payable for our acquisition of Saloni on August 7, 2018, (ii) to repay the Saloni Legacy Indebtedness, (iii) to repay the amounts drawn under the Legacy Revolving Credit Facility and other existing indebtedness of the Victoria Group; and (iv) for general corporate purposes.

The following table illustrates the estimated sources and uses of funds in connection with the Offering. Actual amounts may vary from estimated amounts depending on several factors, including differences from our estimates of fees, expenses and commissions. For descriptions of our current and anticipated indebtedness following the offering of the Notes and the use of proceeds therefrom, see "*Description of Certain Financing Arrangements*" and "*Capitalization*."

Sources	(£ million)[1]	Uses	(£ million)
Notes offered hereby	398.3	Repayment of Bridge Facility[2]	393.9
Cash on hand	3.0	Estimated fees, expenses and commissions[3]	7.4
Total Sources	**401.3**	**Total Uses**	**401.3**

(1) We have translated certain euro amounts into pounds sterling at the rate of €1.1297 = £1.00, which was the exchange rate quoted by Bloomberg as of October 25, 2018. You should not view such translations as a representation that such pound sterling amounts actually represent such euro amounts, or could be or could have been converted into pounds sterling at the rate indicated or at any other rate, on such date or any other date. Assumes issuance at par.

(2) Does not reflect accrued interest from the closing of the acquisition of Saloni to the Issue Date, which will be paid with cash on hand.

(3) Represents underwriting fees and commissions, other estimated transaction costs and professional fees and expenses to be paid in connection with the Offering.

CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of June 30, 2018 on an actual basis and on an as adjusted basis to give effect to the Transactions.

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 Certain Financing Arrangements*" and the Historical Financial Statements appearing elsewhere in this Offering Memorandum. Except as set forth below, there have been no other material changes to our capitalization since June 30, 2018. See "*Summary—The Transactions*" and "*Use of Proceeds*."

	As of June 30, 2018		
	Actual	Adjustments	As Adjusted for the Transactions
		(£ million)[1]	
Cash and cash equivalents[2]	39.5	20.1	59.6
Debt			
Existing bank facility debt[3]	293.1	(293.1)	—
New Revolving Credit Facility[4]	—	—	—
Notes offered hereby[5]	—	398.9	398.9
Total senior debt	293.1	105.8	398.9
BGF Loan[6]	10.0	—	10.0
Finance leases	1.8	—	1.8
Total debt	304.9	105.8	410.7
Total equity	272.5	59.3	331.8
Total capitalization	577.4	165.1	742.5

(1) We have translated certain euro amounts into pounds sterling at the rate of €1.1284 = £1.00, which was the period-end exchange rate used in our Unaudited Group Interim Financial Statements as of June 30, 2018. You should not view such translations as a representation that such pound sterling amounts actually represent such euro amounts, or could be or could have been converted into pounds sterling at the rate indicated or at any other rate, on such date or any other date.

(2) Adjustments to our cash and cash equivalents reflect (i) an increase in our cash and cash equivalents of £20.1 million as a result of our acquisition of Saloni and the related financing and (ii) the portion of estimated underwriting fees and commissions, other transaction costs and professional fees and expenses to be paid in connection with the Offering that are expected to be paid with cash on hand.

(3) Represents drawn amounts under the Legacy Revolving Credit Facility as well as certain term loan indebtedness, all of which was repaid with the proceeds of the Bridge Facility on August 7, 2018.

(4) The New Revolving Credit Facility provides for aggregate borrowings of up to an equivalent of £60.0 million, £55.6 million of which is available for drawing. We are subject to a £4.4 million contingent bank guarantee under the New Revolving Credit Facility in relation to certain deferred consideration with respect to our acquisition of Serra. We expect the New Revolving Credit Facility to remain undrawn as of the Issue Date. See "*Description of Certain Financing Arrangements—New Revolving Credit Facility*."

(5) Represents the aggregate principal amount of the Notes without giving effect to the accounting impact of deferred debt issuance costs.

(6) Represents the subordinated unsecured loan facility entered into by Victoria PLC with the Business Growth Fund. See "*Description of Certain Financing Arrangements—BGF Loan*."

UNAUDITED *PRO FORMA* CONDENSED CONSOLIDATED FINANCIAL INFORMATION

Unaudited Pro Forma Condensed Consolidated Financial Information

This Offering Memorandum includes unaudited *pro forma* condensed consolidated financial information of the Group as of and for the 52 weeks ended June 30, 2018. The unaudited *pro forma* condensed consolidated income statement information for the 52 weeks ended June 30, 2018 gives effect to the transactions described below as if they had occurred on July 2, 2017:

- the acquisition of Keraben and the related financing;
- the acquisition of Saloni and the related financing; and
- the payment of fees and expenses related to the foregoing.

The unaudited *pro forma* condensed consolidated balance sheet information as of June 30, 2018 gives effect to the transactions described below as if they had occurred on June 30, 2018:

- the acquisition of Saloni and the related financing; and
- the payment of fees and expenses related to the foregoing.

The unaudited *pro forma* condensed consolidated financial information consists of:

- an unaudited *pro forma* condensed consolidated income statement for the 52 weeks ended June 30, 2018, which is based on and derived from (i) the unaudited interim consolidated financial statements of the Victoria Group as of and for the 13 weeks ended June 30, 2018, which includes comparative financial information as of and for the 13 weeks ended July 1, 2017, prepared in accordance with IFRS, (ii) the audited consolidated financial statements of the Victoria Group as of and for the 52 weeks ended March 31, 2018, prepared in accordance with IFRS, (iii) the unaudited financial information of Keraben for the period from July 2, 2017 to November 15, 2017, prepared in accordance with Spanish GAAP, (iv) the unaudited interim consolidated financial statements of Saloni as of and for the six months ended June 30, 2018, which include comparative financial information as of and for the six months ended June 30, 2017, prepared in accordance with Spanish GAAP, (v) the audited consolidated financial statements of Saloni as of and for the year ended December 31, 2017, prepared in accordance with Spanish GAAP and (vi) certain adjustments for intracompany eliminations, reconciliation between Spanish GAAP and IFRS, translation of euro amounts to pound sterling amounts, presentational adjustments and certain financing arrangements;
- an unaudited *pro forma* condensed consolidated balance sheet as of June 30, 2018, which is based on and derived from (i) the unaudited interim consolidated financial statements of the Victoria Group as of and for the 13 weeks ended June 30, 2018, prepared in accordance with IFRS, (ii) the unaudited interim consolidated financial statements of Saloni as of and for the six months ended June 30, 2018, prepared in accordance with Spanish GAAP, and (iii) certain adjustments for intracompany eliminations, reconciliation between Spanish GAAP and IFRS, translation of euro amounts to pound sterling amounts, presentational adjustments, purchase price allocation and certain financing arrangements; and
- related condensed notes.

The unaudited *pro forma* condensed consolidated financial information has not been adjusted to give effect to any cost or revenue synergies resulting from the Spanish Acquisitions. The unaudited *pro forma* condensed consolidated financial information has not been prepared in accordance with the requirements of Regulation S-X of the Securities Act, the Prospectus Directive or any generally accepted accounting standards. The unaudited *pro forma* adjustments are based upon available information and certain assumptions that we believe to be reasonable. Neither the assumptions underlying the *pro forma* adjustments nor the resulting unaudited *pro forma* condensed consolidated financial information have been audited or reviewed in accordance with any generally accepted auditing standards.

The unaudited *pro forma* condensed consolidated financial information is for informational purposes only and should not be considered indicative of actual results that would have been achieved had the Spanish Acquisitions been completed as of the dates indicated and do not purport to indicate our future consolidated results of operations or financial position. The actual results may differ significantly from those reflected in the unaudited *pro forma* condensed consolidated financial information for a number of reasons, including, but not limited to, differences in assumptions used to prepare the unaudited *pro forma* condensed consolidated financial information.

The unaudited *pro forma* condensed consolidated financial information should be read in conjunction with the information contained in "*Selected Historical Consolidated Financial Information*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," "*Keraben Management's Discussion and Analysis of Financial Condition and Results of Operations*," the Consolidated Group Financial Statements, the Keraben Financial Statements and the Saloni Financial Statements, in each case, appearing elsewhere in this Offering Memorandum.

***Pro forma* Condensed Consolidated Income Statement Data of Victoria Group for the 52 weeks ended June 30, 2018**

	Victoria Group for the 52 weeks ended June 30, 2018	Saloni for the 12 months ended June 30, 2018 (IFRS)	Saloni Acquisition Adjustments	Keraben for the period from July 2, 2017 to November 15, 2017 (IFRS)	Victoria Group Pro Forma for the 52 weeks ended June 30, 2018
			(£ million)		
Sources	Note 1	Note 2	Note 3	Note 4	
Revenue	**465.3**	**102.0**	**—**	**42.0**	**609.3**
Cost of sales	(302.7)	(61.7)	—	(23.1)	(387.5)
Gross Profit	**162.7**	**40.3**	**—**	**18.8**	**221.9**
Distribution costs	(61.5)	(5.8)	—	—	(67.3)
Administrative expenses	(45.1)	(25.2)	—	(7.3)	(77.6)
Other operating income	2.1	0.6	—	0.0	2.8
Underlying operating profit	**58.2**	**10.0**	**—**	**11.6**	**79.8**
Amortization of acquired intangibles	(14.4)	—	(3.7)	(3.4)	(21.5)
Exceptional items	(13.4)	—	—	—	(13.4)
Pre-acquisition exceptional items[(a)]	—	—	—	(59.0)	(59.0)
Statutory operating profit/(loss)	**30.4**	**10.0**	**(3.7)**	**(50.8)**	**(14.2)**
Finance costs	**(13.3)**	**17.0**	**(19.4)**	**(1.6)**	**(17.4)**
Underlying finance costs	(10.0)	—	(2.5)	(1.6)	(14.1)
Non-underlying finance (costs)/income	(3.3)	17.0	(17.0)	—	(3.3)
Profit / (loss) before tax	**17.1**	**27.0**	**(23.2)**	**(52.5)**	**(31.6)**
Taxation	(5.9)	(6.8)	5.8	(1.3)	(8.1)
Profit / (loss) for the period	**11.2**	**20.2**	**(17.4)**	**(53.7)**	**(39.7)**

	Victoria Group for the 52 weeks ended June 30, 2018	Saloni for the 12 months ended June 30, 2018 (IFRS)	Financing adjustments of Saloni	Keraben For the period from July 2, 2017 to November 15, 2017 (IFRS)	Victoria Group Pro Forma for the 52 weeks ended June 30, 2018
			(£ million)		
Sources	Note 1	Note 2	Note 3	Note 4	
Statutory operating profit	**30.4**	**10.0**	**(3.7)**	**(50.8)**	**(14.2)**
Add back:					
Exceptional and non-underlying items	13.4	—	—	—	13.4
Pre-acquisition exceptional items[(a)]	—	—	—	59.0	59.0
Depreciation	18.2	3.7	—	2.3	24.3
Amortization	14.4	—	3.7	3.4	21.5
EBITDA	**76.4**	**13.7**	**—**	**13.9**	**104.0**

(a) Represents exceptional costs that arose in Keraben under previous ownership, primarily in relation to sell-side transaction costs on the sale of the business to the Victoria Group, including advisory fees, the previous management incentive plan and associated taxes.

Pro forma **Condensed Consolidated Balance Sheet Data of Victoria Group**

	Victoria Group as of June 30, 2018	Saloni as of June 30, 2018 (IFRS)	Financing Adjustments	Purchase Price allocation	Victoria Group Pro Forma as of June 30, 2018
		(£ million)			
Sources		Note 2	Note 5	Note 6	
Non-current assets					
Goodwill	189.5	—	—	48.1	237.6
Intangible assets other than goodwill	207.2	0.2	—	55.9	263.3
Property, plant and equipment	148.5	28.8	—	—	177.3
Investment property	0.8	—	—	—	0.8
Investments in subsidiaries	1.0	0.4	—	—	1.4
Deferred tax assets	5.0	1.3	—	—	6.3
Total non-current assets	552.0	30.7	—	104.0	686.7
Current assets					
Inventories	104.8	30.4	—	—	135.2
Trade and other receivables	100.6	35.4	—	—	136.0
Cash at bank and in hand	39.5	10.2	9.9	—	59.6
Total current assets	244.9	76.0	9.9	—	330.8
Total assets	**796.9**	**106.7**	**9.9**	**104.0**	**1,017.5**
Current liabilities					
Trade and other current payables	115.1	44.0	(2.8)	—	156.3
Current tax liabilities	0.9	2.9	—	—	3.8
Other financial liabilities	2.0	1.2	—	—	3.2
Total current liabilities	118.0	48.0	(2.8)	—	163.2
Non-current liabilities					
Trade and other non-current payables	38.1	44.1	(44.1)	—	38.1
Other non-current financial liabilities	304.3	1.7	99.9		405.8
Deferred tax liabilities	54.9	0.5		14.0	69.4
Retirement benefit obligations	9.1	—	—	—	9.1
Total non-current liabilities	406.4	46.2	55.8	14.0	522.4
Total liabilities	**524.4**	**94.2**	**53.0**	**14.0**	**685.6**
Net assets	**272.5**	**12.5**	**(43.1)**	**90.0**	**331.9**

Notes to the Unaudited *Pro Forma* Condensed Consolidated Financial Information

Note 1—Condensed Consolidated Income Statement Data of the Victoria Group

The *pro forma* condensed consolidated income statement data of the Victoria Group for the 52 weeks ended June 30, 2018 has been calculated by adding (i) the consolidated financial information for the 52 weeks ended March 31, 2017 and (ii) the unaudited consolidated interim financial information for the 13 weeks ended June 30, 2018 and then subtracting (iii) the unaudited consolidated interim financial information for the 13 weeks ended July 1, 2017. This information has been derived from the Audited Consolidated Financial Statements and the Unaudited Interim Financial Statements, which are included elsewhere in this Offering Memorandum.

Condensed Consolidated Income Statement Data of Victoria Group

	52 weeks ended March 31, 2018	13 weeks ended July 1, 2017	13 weeks ended June 30, 2018	52 weeks ended June 30, 2018
		(£ million)		
Revenue	**424.8**	**95.0**	**135.6**	**465.3**
Cost of sales	(279.4)	(65.0)	(88.3)	(302.7)
Gross profit	**145.4**	**30.0**	**47.3**	**162.7**
Distribution costs	(59.4)	(13.8)	(15.9)	(61.5)
Administrative expenses (excluding non-underlying and exceptional items)	(38.6)	(7.4)	(13.9)	(45.1)
Other operating income	1.4	—	0.7	2.1
Underlying operating profit	**48.8**	**8.8**	**18.2**	**58.2**
Amortization of acquired intangibles	(11.2)	(1.7)	(4.9)	(14.4)
Exceptional and non-underlying items	(11.2)	(0.3)	(2.5)	(13.4)
Statutory operating profit	**26.4**	**6.8**	**10.8**	**30.4**
Finance costs				
Underlying finance costs	(8.0)	(1.3)	(3.2)	(10.0)
Non-underlying finance (costs)/income	(5.0)	(0.6)	1.0	(3.3)
Profit before tax	**13.4**	**4.9**	**8.6**	**17.1**
Taxation	(4.8)	(1.7)	(2.8)	(5.9)
Profit for the period from continuing operations	**8.6**	**3.2**	**5.8**	**11.2**

	52 weeks ended March 31, 2018	13 weeks ended July 1, 2017	13 weeks ended June 30, 2018	52 weeks ended June 30, 2018
		(£ million)		
Statutory operating profit	**26.4**	**6.8**	**10.8**	**30.4**
Add back:				
Exceptional items	11.2	0.3	2.5	13.4
Depreciation	16.0	3.1	5.3	18.2
Amortization	11.2	1.7	4.9	14.4
EBITDA	**64.8**	**11.9**	**23.5**	**76.4**

Note 2—Condensed Consolidated Financial Information of Saloni

The *pro forma* condensed consolidated income statement data of Saloni for twelve months ended June 30, 2018 has been calculated by adding (i) the consolidated financial information for the year ended December 31, 2017 and (ii) the unaudited consolidated interim financial information for the six months ended June 30, 2018 and then subtracting (iii) the unaudited consolidated interim financial information for the six months ended June 30, 2017. This information has been derived from the Audited Consolidated Financial Statements and the Unaudited Interim Financial Statements, which are included elsewhere in this Offering Memorandum, realigned in order to match the financial presentation of the Victoria Group and translated from euro into pounds sterling at a rate equal to €1.129 = £1.00, which was the period average for the twelve months ended June 30, 2018.

The *pro forma* condensed consolidated balance sheet data of Saloni as of June 30, 2018 has been derived from the Unaudited Interim Financial Statements, which are included elsewhere in this Offering Memorandum, realigned in order to match the financial presentation of the Victoria Group and translated into pounds sterling at a rate equal to €1.128 = £1.00, which was the period-end rate as of June 30, 2018.

Condensed Consolidated Income Statement Data of Saloni

	For the year ended December 31, 2017	For the six months ended June 30, 2017	For the six months ended June 30, 2018	For the twelve months ended June 30, 2018 (Spanish GAAP)	For the twelve months ended June 30, 2018 (Spanish GAAP)	For the twelve months ended June 30, 2018 (IFRS)[(a)]
	(€ million)				(£ million)	
Revenues	**114.2**	**60.1**	**61.1**	**115.2**	**102.0**	**102.0**
Changes in inventories of finished goods and work in progress	0.7	(0.1)	3.5	4.3	3.8	3.8
Supplies	(46.4)	(23.5)	(25.0)	(47.9)	(42.4)	(42.4)
Other operating income/(expense)	0.6	(0.3)	0.1	0.4	0.4	0.4
Personnel expenses	(26.4)	(13.0)	(12.9)	(26.3)	(23.3)	(23.3)
Other operating expenses	(30.9)	(15.4)	(15.5)	(31.0)	(27.5)	(27.5)
Amortization and depreciation	(3.9)	(1.8)	(2.1)	(4.2)	(3.7)	(3.7)
Non-financial and other capital grants	0.0	0.0	0.0	0.0	0.0	0.0
Impairment and losses on disposal of fixed assets	0.3	(0.3)	(0.0)	0.6	0.5	0.5
Other income	0.1	0.0	0.0	0.2	0.2	0.2
Results from operating activities	**8.3**	**6.3**	**9.3**	**11.3**	**10.0**	**10.0**
Finance income	22.5	0.1	0.0	22.4	19.8	19.8
Finance costs	(0.7)	(0.3)	(2.9)	(3.3)	(2.9)	(2.9)
Exchange losses	(0.1)	(0.0)	0.1	0.0	0.0	0.0
Impairment and losses on disposal of financial instruments	—	0.0	0.0	0.0	0.0	0.0
Net finance (cost)/income	21.7	(0.2)	(2.8)	19.1	16.9	16.9
Profit before income tax	**30.0**	**6.1**	**6.5**	**30.4**	**26.9**	**26.9**
Income tax	(7.2)	(1.6)	(2.0)	(7.6)	(6.7)	(6.7)
Consolidated profit for the year	**22.8**	**4.5**	**4.5**	**22.8**	**20.2**	**20.2**

	For the year ended December 31, 2017	For the six months ended June 30, 2017	For the six months ended June 30, 2018	For the twelve months ended June 30, 2018 (Spanish GAAP)	For the twelve months ended June 30, 2018 (Spanish GAAP)	For the twelve months ended June 30, 2018 (IFRS)
	(€ million)				(£ million)	
Consolidated profit for the period	**22.8**	**4.5**	**4.5**	**22.8**	**20.2**	**20.2**
Add back:						
Income tax	7.2	1.6	2.0	7.6	6.7	6.7
Net finance (cost)/income	(21.7)	0.2	2.8	(19.1)	(16.9)	(16.9)
Amortisation and depreciation	3.9	1.8	2.1	4.2	3.7	3.7
Adjusted EBITDA	**12.2**	**8.1**	**11.4**	**15.5**	**13.7**	**13.7**

Condensed Consolidated Balance Sheet Data of Saloni

	As of June 30, 2018 (Spanish GAAP)	As of June 30, 2018 (Spanish GAAP)	As of June 30, 2018 (IFRS)[(a)]
	(€ million)	(£ million)	
Assets			
Intangible assets	0.2	0.2	0.2
Property, plant and equipment	34.5	28.8	28.8
Investment property	—	—	—
Non-current investments in Group companies and associates	2.0	1.8	1.8
Non-current investments	0.1	0.1	0.1
Deferred tax assets	1.4	1.2	1.2
Total non-current assets	**36.2**	**32.1**	**32.1**
Inventories	34.3	30.4	30.4
Trade and other receivables	34.9	30.8	30.8
Current investments in Group companies and associates	2.8	2.5	2.5
Current investments	0.3	0.3	0.3
Prepayments for current assets	0.3	0.3	0.3
Cash and cash equivalents	11.5	10.2	10.2
Total current assets	**84.1**	**74.5**	**74.5**
Total assets	**120.3**	**106.6**	**106.6**
Equity and Liabilities			
Capital and reserves	13.9	12.3	12.3
Conversion differences	(0.1)	(0.1)	(0.1)
Grants, donations and bequests received	0.2	0.2	0.2
Total equity	**14.0**	**12.4**	**12.4**
Non-current payables	1.9	1.7	1.7
Group companies and associates, non-current	49.7	44.0	44.0
Deferred tax liabilities	0.5	0.4	0.4
Total non-current liabilities	**52.1**	**46.1**	**46.1**
Current provisions	0.3	0.3	0.3
Current payables	1.3	1.2	1.2
Group companies and associates, current	2.0	1.8	1.8
Trade and other payables	50.6	44.8	44.8
Total current liabilities	**54.2**	**48.1**	**48.1**
Total equity and liabilities	**120.3**	**106.6**	**106.6**

(a) Reflects the conversion of Saloni's consolidated balance sheet data from Spanish GAAP to IFRS. There are no material differences as between Saloni's balance sheet data as of June 30, 2018 as presented in accordance with Spanish GAAP and as presented in accordance with IFRS. For a discussion of certain of the differences between Spanish GAAP and IFRS, see *"Annex A: Summary of Certain Differences between Spanish GAAP and IFRS."*

Note 3—Saloni Acquisition Adjustments

On August 7, 2018, the Victoria Group acquired Saloni for cash consideration of €96.7 million (£86.2 million). We financed the acquisition of Saloni through (i) the Equity Placement raising gross proceeds of £60.5 million and (ii) drawings under the €445.0 million (£394.0 million) Bridge Facility. We used the remaining proceeds in excess of the cash consideration payable for the Saloni acquisition to (i) to repay the Legacy Saloni Indebtedness, (ii) to repay drawings under the Legacy Revolving Credit Facility, (iii) to repay term loan indebtedness incurred to finance the acquisition of Keraben, (vi) to pay fees and expenses incurred in connection with the acquisition of Saloni and (v) for general corporate purposes.

The unaudited condensed consolidated income statement data of Saloni for the twelve months ended June 30, 2018 has been adjusted to give *pro forma* effect to (i) the financing costs associated with the acquisition of Saloni as if the acquisition had occurred on July 2, 2017 and (ii) the amortization of acquired intangibles as if the acquisition of Saloni had occurred on July 2, 2017. For purposes of the financing adjustment, we have assumed a rate of interest of 2.75%, which we believe reflects the rate of interest we could have obtained for permanent financing based on our acquisition of Keraben in 2017, and excluded €17.0 million of finance income relating to a write down of debt at Saloni under previous ownership.

Note 4—Acquisition of Keraben

The results of operations of Keraben have been consolidated with those of the Victoria Group since November 16, 2017. The acquisition of Keraben was financed through (i) an equity placement of new ordinary shares by the Issuer raising gross proceeds of £180.0 million and (ii) the draw-down of €178 million under a syndicated term loan facility with a per annum interest rate equal to 2.75% when leverage is at or below 3.0x.

This adjustment represents the unaudited condensed consolidated income statement data of Keraben for the period from July 2, 2017 to November 15, 2017, prepared solely for the purposes of the *pro forma* condensed consolidated income statement for the 52 weeks ended June 30, 2018. The historical financial information of Keraben for the period from July 2, 2017 to November 15, 2017 has been (i) extracted from the accounting records of Keraben, (ii) presented in accordance with IFRS, (iii) translated from euro into pounds sterling at a rate equal to €1.122 = £1.00, which was the period average from July 2, 2017 to November 15, 2017, (iv) adjusted to give *pro forma* effect to the financing costs associated with the acquisition of Keraben as if the acquisition had occurred on July 2, 2017, and (v) the amortization of acquired intangibles as if the acquisition of Keraben had occurred on July 2, 2017. There are no material differences as between Keraben's income statement data for the period from July 2, 2017 to November 15, 2017 as presented in accordance with Spanish GAAP and as presented in accordance with IFRS. For a discussion of certain of the differences between Spanish GAAP and IFRS, see *"Annex A: Summary of Certain Differences between Spanish GAAP and IFRS."*

Exceptional items for Keraben for the period from July 2, 2017 to November 15, 2017 principally relate to costs incurred in the cancellation of existing financing arrangements and financial expenses in relation to certain management incentive plans triggered by the acquisition of Keraben by the Victoria Group.

Note 5—Saloni Financing Adjustments

This adjustment gives *pro forma* effect to the £60.5 million Equity Placement together with our drawing of €445.0 million under the Bridge Facility (i) to fund a portion of the consideration payable for our acquisition of Saloni; (ii) to repay certain Saloni Legacy Indebtedness; (iii) to repay the Legacy Revolving Credit Facility and other existing indebtedness of the Group; and (iv) for general corporate purposes.

Note 6—Saloni Purchase Price Allocation

On August 7, 2018, the Victoria Group acquired Saloni. The consideration transferred includes (i) the purchase of the shares valued at €96.7 million and (ii) the repayment of existing net indebtedness of £61.0 million. We have assumed a useful economic life of 15 years for intangible assets. The acquisition of Saloni is being accounted for using the acquisition method as defined by IFRS. This unaudited *pro forma* condensed consolidated financial information has been prepared on the basis of preliminary estimates of fair values, which have been based on the percentages resulting from the final purchase price allocation calculation of the Keraben acquisition. The actual amounts and the allocation between tangible assets, goodwill and intangible assets other than goodwill ultimately recorded may differ materially from the information presented herein. The preliminary estimates of the fair values of the assets acquired and liabilities assumed reflected herein are subject to change based upon completion of the valuation of the assets acquired and liabilities assumed as of the closing date.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth our financial information as of the dates and for the periods indicated below. The Group financial information as of and for the 53 weeks ended April 2, 2016, the 52 weeks ended April 1, 2017 and the 52 weeks ended March 31, 2018 has been derived from the Audited Consolidated Group Financial Statements included elsewhere in this Offering Memorandum. These Audited Consolidated Group Financial Statements have been audited by Grant Thornton UK LLP and have been prepared in accordance with IFRS. Our Unaudited Group Interim Financial Statements included herein and the accompanying notes thereto as of and for the 13 weeks ended June 30, 2018, including the comparative financial statements for the 13 weeks ended July 1, 2017, have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting. We prepare our financial statements on the basis of a 52-week or 53-week financial period. The 2018 financial year and the 2017 financial year were 52-week periods, however the 2016 financial year was a 53-week financial period. Consequently, unless otherwise indicated, our results for the 2016 financial year include an additional week of trading, which affects the comparability of our results of operations between periods.

The following selected financial information should be read in conjunction with, and is qualified in its entirety by reference to, the Consolidated Group Financial Statements and other relevant information included elsewhere in this Offering Memorandum. You should also read the following information in conjunction with the "*Presentation of Financial Information*," "*Risk Factors*," "*Capitalization*," "*Management's Discussion and Analysis of Financial Condition.*"

Selected Income Statement Data of Victoria Group

	For the financial year ended			13 weeks ended	
	April 2, 2016	**April 1, 2017**	**March 31, 2018**	**July 1, 2017**	**June 30, 2018**
			(£ million)		
Revenue	**255.2**	**330.4**	**424.8**	95.0	135.6
Cost of sales	(169.9)	(220.8)	(279.4)	(65.0)	(88.3)
Gross profit	**85.3**	**109.6**	**145.4**	30.0	**47.3**
Distribution costs	(49.9)	(54.9)	(59.4)	(13.8)	(15.9)
Administrative expenses (excluding non-underlying and exceptional items)	(13.8)	(21.5)	(38.6)	(7.4)	(13.9)
Other operating income	0.3	0.5	1.4	—	0.7
Underlying operating profit	**21.9**	**33.7**	**48.8**	**8.8**	**18.2**
Amortization of acquired intangibles	(2.3)	(4.4)	(11.2)	(1.7)	(4.9)
Exceptional and non-underlying items	(1.9)	(2.6)	(11.2)	(0.3)	(2.5)
Statutory operating profit	**17.7**	**26.7**	**26.4**	**6.8**	**10.8**
Finance costs					
Underlying finance costs	(3.7)	(4.3)	(8.0)	(1.3)	(3.2)
Non-underlying finance (costs)/income	(4.7)	(3.6)	(5.0)	(0.6)	1.0
Profit before tax	**9.3**	**18.8**	**13.4**	**4.9**	**8.6**
Taxation	(3.4)	(6.2)	(4.8)	(1.7)	(2.8)
Profit for the period from continuing operations	**5.9**	**12.6**	**8.6**	**3.2**	**5.8**
Loss for the period from discontinued operations	(2.1)	—	—	—	—
Profit for the period	**3.8**	**12.6**	**8.6**	**3.2**	**5.8**

Selected Balance Sheet Data of Victoria Group

	As of			As of
	April 2, 2016	April 1, 2017	March 31, 2018	June 30, 2018
	(£ million)			
Non-current assets				
Goodwill	37.2	59.8	188.1	189.5
Intangible assets other than goodwill	43.5	66.3	210.3	207.2
Property, plant and equipment	38.8	41.8	142.9	148.5
Investment property	0.2	0.2	0.8	0.8
Investments in associates	—	—	1.0	1.0
Deferred tax assets	3.3	5.0	4.6	5.0
Total non-current assets	**123.0**	**173.1**	**547.7**	**552.0**
Current assets				
Inventories	59.0	73.1	100.3	104.8
Trade and other receivables	43.0	55.1	88.2	100.6
Cash at bank and in hand	19.1	28.0	54.0	39.5
Total current assets	121.0	156.2	242.5	244.9
Total assets	**244.0**	**329.2**	**790.2**	**796.9**
Current liabilities				
Trade and other current payables	66.9	82.8	121.5	115.1
Current tax liabilities	2.9	4.3	1.0	0.9
Other financial liabilities	0.6	0.6	3.0	2.0
Total current liabilities	70.4	87.7	125.5	118.0
Non-current liabilities				
Trade and other non-current payables	11.5	19.9	29.2	38.1
Other non-current financial liabilities	78.5	116.1	306.1	304.3
Deferred tax liabilities	9.1	15.2	54.7	54.9
Retirement benefit obligations	3.4	11.1	9.1	9.1
Total non-current liabilities	102.5	162.3	399.1	406.4
Total liabilities	**172.9**	**250.0**	**524.6**	**524.4**
Net assets	**71.0**	**79.2**	**265.6**	**272.5**
Equity				
Share capital	4.5	4.5	5.9	5.9
Share premium	52.5	52.5	229.8	229.8
Retained earnings	10.2	16.5	26.7	32.9
Foreign exchange reserve	3.1	5.0	2.9	3.4
Other reserves	0.7	0.8	0.3	0.5
Total Equity	**71.0**	**79.3**	**265.6**	**272.5**

Selected Cash Flow Statement Data of Victoria Group

	For the financial year ended			For the 13 weeks ended	
	April 2, 2016	April 1, 2017	March 31, 2018	July 1, 2017	June 30, 2018
			(£ million)		
Net cash flow from operating activities before movements in working capital	**30.3**	**42.8**	**53.3**	**11.4**	**21.4**
Net cash inflow from operating activities	**24.0**	**31.7**	**37.0**	**3.3**	**3.3**
Net cash used in investing activities	**(35.0)**	**(57.3)**	**(316.3)**	**(6.7)**	**(12.8)**
Net cash generated/(used) in financing activities	**37.8**	**33.4**	**306.6**	**1.6**	**(6.1)**
Net increase/(decrease) in cash and cash equivalents	**26.8**	**7.8**	**27.3**	**(1.8)**	**(15.6)**
Cash and cash equivalents at beginning of period	(8.5)	19.1	28.0	28.0	53.1
Effect of foreign exchange rate changes	0.8	1.1	(2.2)	(0.5)	2.0
Cash and cash equivalents at end of period	**19.1**	**28.0**	**53.1**	**25.7**	**39.5**

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

The following discussion and analysis of our financial condition and results of operation should be read in conjunction with the sections entitled "Presentation of Financial Data and Non-GAAP Measures" and "Summary Historical Consolidated Financial Information and Other Data" as well as with the Consolidated Group Financial Statements and the related notes thereto, included elsewhere in this Offering Memorandum. The following discussion includes forward-looking statements which, although based on assumptions and/or estimates that we consider reasonable, are subject to risks and uncertainties which could cause actual events or conditions to differ materially from those expressed or implied by the forward-looking statements. For a discussion of some of those risks and uncertainties, please refer to the sections entitled "Forward-Looking Statements" and "Risk Factors".

We prepare our financial statements on the basis of a 52-week or 53-week financial period. For the purposes of this Offering Memorandum, we refer to the 52 weeks ended March 31, 2018 as the "2018 financial year", the 52 weeks ended April 1, 2017 as the "2017 financial year" and the 53 weeks ended April 2, 2016 as the "2016 financial year". The 2018 financial year and the 2017 financial year were 52-week periods, however the 2016 financial year was a 53-week financial period. Consequently, unless otherwise indicated, our results for the 2016 financial year include an additional week of trading, which affects the comparability of our results of operations between periods.

Except as the context otherwise indicates, when discussing historical results of operations in this "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Group," "Victoria," "Victoria Group," "Company," "we," "us," "our" and other similar terms are generally used to refer to the business of Victoria PLC and its subsidiaries.

Overview

We are a leading designer, manufacturer and distributor of innovative flooring products across the United Kingdom, Continental Europe and Australia, established in 1895 and publicly listed since 1963. We are the largest carpet manufacturer in the United Kingdom, the second largest carpet manufacturer in Australia and the largest flooring underlay manufacturer in both countries, in each case by volume. We are also a leading Continental European ceramic tile manufacturer. We manufacture and supply a range of carpet, ceramic tiles, flooring underlay, luxury vinyl tile ("**LVT**"), artificial grass and flooring accessories. The majority of our products are for residential use and are sold through our retail customer base. We primarily target mid- to upper-market product segments of the flooring industry as well as certain niche product segments. For the 52 weeks ended June 30, 2018, we generated £630.6 million of Adjusted *Pro Forma* Revenue and £111.7 million of Adjusted *Pro Forma* EBITDA (17.7% Adjusted *Pro Forma* EBITDA margin). While we have grown over this period largely through strategic acquisitions, like-for-like growth was 2.8%, 4.6% and 1.6% (adjusted for the restructuring of certain UK operations and the impact of a weather-related business interruption).

Significant Factors Affecting Our Results of Operations

Our results of operations, financial condition and liquidity have been influenced in the periods discussed in this Offering Memorandum by the following events, facts, developments and market characteristics. We believe that these factors are likely to continue to influence our operations in the future.

Product and Geographic Mix

We offer an extensive range of mid- to upper-market flooring products in a variety of designs across our hard and soft-flooring product segments, which comprise ceramic tiles, carpet, underlay and accessories and LVT. As the margins on our products vary, changes in the mix of our product sales have a direct impact on our total revenue and profitability. We typically achieve higher margins on sales in our hard flooring segments, and, as a result, growth in these product segments relative to our soft-flooring segments generally results in improved overall profitability. The margins in our hard flooring segment are typically higher than the margins in our soft-flooring segment because, in Continental Europe and globally, demand for hard-flooring products is high, with supply concentrated in small pockets of regional expertise. The fact that the design of hard-flooring products tends to be more varied and intricate also contributes to their higher margins. In order to take advantage of the higher margins in the hard flooring segment, we expanded into the ceramic tile (a type of hard flooring product) market through our acquisitions of Serra and Keraben in 2017 and through our recent acquisition of Saloni in 2018. The resulting shift in our product mix has been a significant factor in increasing our *Pro Forma* Adjusted EBITDA margin from 13.8% in the 2017 financial year to 17.7% in the 2018 financial year.

Additionally, our range of products have varying margins in the different geographic regions in which we operate and, therefore, our geographic mix impacts our results of operation. Through our acquisitions of Serra, Keraben and Saloni, whose end markets are across Continental Europe, we have significantly broadened the geographic diversity of our sales. In 2018, we sold our products in more than 20 countries globally. The United Kingdom, Australia, Spain and France are our largest markets, representing 41%, 17%, 14% and 7% of our revenue, respectively, for the 2018 financial year, *pro forma* for the Acquisitions. While historically the majority of our revenues have come from the United Kingdom, Continental Europe and Australia represent growing markets for our products. In the case of Continental Europe, this geographical segment has gone from representing 3% of our *Pro Forma* Revenue in the 2017 financial year to 26% in the 2018 financial year.

Consumer Preference and Demand

Based on the composition of our customer base, we believe that the substantial majority of our revenues are generated in the I&R end-market. We focus on the I&R end-market as it is four to five times larger than the new construction end-market in the United Kingdom and Continental Europe. Consumer decisions regarding the redecoration and renovation of existing properties are therefore a major driver of our business. Our business is therefore affected by our ability to design and manufacture new and attractive products in-line with consumer preferences as well as overall consumer demand in the I&R end-market.

Consumers typically base their decision to purchase our products on a broad range of factors, including color, design, texture, shape, dimensions, pile height and density, price and other structural and technical features. In order to satisfy this broad range of preferences, we have built a portfolio of over 30 brands, have experienced design teams that are specific to these brands and have well-invested manufacturing equipment to support new product lines and adapt to shifts in demand. We aim to have optimal reach across the mid- and upper-market in our product segments, which allows us to deliver strong and sustainable margins.

Demand for new flooring in the I&R end-market is typically less volatile than the new construction end-market. As the I&R end-market is driven by consistent wear-and-tear damage and the desire to upgrade the appearance of existing homes, this market is characterized by greater price inelasticity and less susceptibility to fluctuations in the business cycle. While impacted by macroeconomic factors such as GDP growth, the level of employment, real wage levels and consumer confidence, we believe that demand for flooring in the I&R end-market is, to a certain degree, less susceptible to short-term macroeconomic fluctuations, as consumers can decide to repair or upgrade their flooring independently of other home improvement decisions.

We seek to follow consumer preferences and demand trends closely, using a systematic approach to collection planning, and maintaining a short design-to-product cycle. Our design, quality control, production and cost control processes are mutually reinforcing, resulting in product specifications that align with our target customers and price points while ensuring optimal margins. We have the ability to set up our machines and re-engineer our production facilities, as well as increase our production capacity to manufacture new and different products in response to changing trends and consumer preferences. In addition, the breadth of our product offerings and our ability to redeploy our machines to make new designs makes us less subject to the success or failure of any given collection.

Cost Base and Operational Improvements

We are a manufacturer and therefore rely on well-invested production equipment, labor and raw materials to run our business. Of our cost of sales in the 2018 financial year, materials comprised 73.9%, labor comprised 15.0% and overhead comprised 11.1% (*pro forma* for the Acquisitions).

We are dependent on certain key raw materials, including synthetic yarn, wool, clay and polyurethane foam, and therefore our margins are impacted by variations in the cost of these raw materials. We manage the purchase of our key raw materials carefully, leveraging our scale and engaging with multiple suppliers in order to optimize pricing. See "*—Macroeconomic Factors—Raw Material Expenses*."

Despite being a manufacturing business, we have a relatively low fixed cost base as a result of our automation of certain processes as well as the fact that our equipment generally has a very long useful life, given proper maintenance. We estimate that 54% of our costs (46% of our cost base as a percentage of our revenues) for the 2018 financial year (*pro forma* for the Acquisitions) vary directly with revenue. A further 31% of our costs (26% of our cost base as a percentage of revenues) for the 2018 financial year (*pro forma* for the Acquisitions) is semi-variable, in respect of which we have the ability to adapt within a few months. In order to ensure that our manufacturing process is nimble and cost-effective, we are required to periodically make capital investments in our plant and equipment, which is further translated into depreciation on our income statement. Additionally, our business requires a limited amount of maintenance capital expenditures relative to our cash flows; of our capital expenditures for the 2018 financial year, £14.1 million related to maintenance and £15.2 million related to growth.

Further, following the acquisition of a new business, we look to realize operating cost synergies in order to drive margin enhancements. The purpose of these initiatives is to drive better buying terms with suppliers of raw materials, better working capital management through SKU reduction and rationalization of product lines and manufacturing assets. Realizing these operating synergies improves our margins by allowing us to manufacture our products more efficiently, including across a wide range of different SKUs, and allowing us to plan our production requirements in-line with shifts in demand. We organize our operations so that we can flexibly shift production in-line with changes to product specifications and to accommodate new designs.

Through our acquisitions since 2013, we have significantly increased the scale of our operations in the United Kingdom and in the carpet segment, in particular. As a result of this increased scale, and to optimize our cost structure, we embarked on two restructuring initiatives in the United Kingdom: one with respect to manufacturing and one with respect to logistics. In 2017, we closed our Kidderminster factory, resulting in our UK carpet production now being shared between factories located in Yorkshire and South Wales. We recently announced a similar initiative in Australia, which will result in the consolidation of our two underlay factories into a single, enlarged facility. We also began the relocation of our Midlands Distribution Center and opened our Southern Distribution Center near London. We are still in the process of refining the multi-site operation of these distribution centers. The total cost of these projects incurred in the 2018 financial year was £4.5 million plus certain one-off capital expenditures equal to approximately £3.3 million.

Business Relationships and Customer Success

We generally operate a business-to-business sales model and therefore rarely access the end-consumer directly. Therefore we rely on our customers' ability to sell and market our products effectively in order to increase our revenue and generate sustainable cash flows. As our customers grow, they tend also to increase their orders with us. We thus seek to maintain strong relationships with our customers and work side-by-side with them to help increase store traffic and grow their business.

We predominantly focus on selling directly to retailers, which represent approximately 80% of Group revenue for the 2018 financial year on a *pro forma* basis for the Spanish Acquisitions. Approximately two-thirds of our direct sales to retailers are made to specialist retailers, with the rest going to either national retail chains or DIY retailers. We also sell certain of our products in certain jurisdictions to wholesalers where there is a structural or commercial rationale for doing so, and engage in a small amount of contract work for the construction or hospitality industry representing approximately 10% of Group revenue for the 2018 financial year on a *pro forma* basis for the Spanish Acquisitions. We have developed what we believe are deep, longstanding relationships with our customers. We benefit from a broad range of customers with little concentration. For the 2018 financial year, on a *pro forma* basis for the Acquisitions, our top ten customers constituted 15% of total revenue, with our largest customer constituting approximately 4% of total revenue. In addition to ensuring low customer concentration, this diverse network of independent retailer customers presents a significant barrier to entry for new market participants.

Macroeconomic Factors

General Economic Conditions and Industry Environment

Our results of operations are affected by macroeconomic conditions, as well as the conditions affecting consumer spending on flooring in the markets in which we operate. Such conditions include levels of employment, consumer confidence, inflation, growth in GDP, real disposable income, currency exchange rates, interest rates, home prices and the availability of consumer credit. All of the markets in which we operate were adversely impacted by the global economic downturn that started in 2008. Nevertheless, the

Group was resilient throughout the financial crisis, increasing revenue in each year of the 2006–2011 financial period. While we shifted our sales mix to lower than average selling prices to protect sales volumes, we were able to utilize our flexible cost base to protect our margins. As macroeconomic indicators like GDP, real wages and employment levels have improved across the United Kingdom, Continental Europe and Australia, we have seen an increase in the rate of growth in the flooring market.

Overall economic conditions typically have a direct impact on the specific markets that drive our business, although market sensitivity varies, depending on the product. Our business is focused on the I&R end-market, which is less susceptible to the effects of an economic downturn than the new construction end-market, which typically fluctuates in-line with the overall business cycle. Additionally, we target the mid- and upper-markets of the flooring market, which have historically been more resilient during economic downturns.

During an economic downturn, raw material prices typically decrease, which can mitigate the adverse effect of potential volume decreases. We also believe that our strategic goal of expanding our presence in Continental Europe and Australia have increased our geographic and product diversification, and thereby allow us to further mitigate the impact of changes in local and regional economic conditions and consumer preferences. For example, uncertainty around the United Kingdom and Eurozone economic outlooks, driven by the forthcoming exit of the United Kingdom from the European Union, is mitigated by the operational independence of our United Kingdom and Continental European divisions and the fact that neither is heavily reliant on imports or exports.

Foreign Exchange Rate Fluctuations

We operate internationally and, as a result, are exposed to changes in the value of our operational currencies, the pound sterling, the euro, the Australian dollar and the U.S. dollar. For the 2018 financial year, 58% of our revenue was denominated in pound sterling, 26% of our revenue was denominated in Australian dollars, and 16% of our revenue was denominated in euro. As a consequence, we have considerable cash flow, earnings and assets in currencies other than our reporting currency, which is the pound sterling. Our exposure to changes in exchange rates may be described in terms of translation exposure and transaction exposure. See "*Risk Factors—Risks Related to Our Industry and Our Business—We are exposed to risks associated with fluctuations in currency exchange rates.*"

Translation risk is the risk that exchange rates impact the value of our revenues, costs, assets and liabilities reported in pounds sterling in our Consolidated Financial Statements. The weakening of the pound sterling relative to our other operational currencies will result in an increase in our revenues and costs as reported in pounds sterling. For example, since the national referendum in the United Kingdom on Brexit in June 2016, the value of the pound sterling relative our other operational currencies has declined, resulting in an increase in our reported revenues and costs.

In addition, the substantial majority of our debt is, and will continue to be following the Offering, denominated in euro and therefore the amount of our reported indebtedness is subject to currency-related fluctuations when translated into pounds sterling for inclusion in our financial statements at period-end exchange rates. Additionally, as 61% of our *Pro Forma* EBITDA is denominated in euro, there is a disparity between the currency mix of our debt and the currency mix of our income.

Transaction risk arises when our subsidiaries execute transactions in a currency other than their functional currency. As a result of our operational structure, our exposure to currency transaction risk is relatively limited, with 85% of our costs denominated in the relevant local operating currency in the 2018 financial year. Our primary transactional risk exposure comes in the form of raw material purchases by our United Kingdom and Australian divisions, in which sales are predominantly denominated in pounds sterling and Australian dollars, respectively, but which have costs denominated in euro and U.S. dollars (7% and 11%, respectively). Our Continental European ceramic tile businesses have very little transactional risk exposure. We mitigate our limited transactional risk through forward exchange contracts up to 12 months in advance to hedge our residual exposure to currencies other than the pound sterling. See "*—Qualitative and Quantitative Disclosure About Market Risk—Foreign Exchange Risk*."

Fluctuations in the value of the euro and Australian dollar relative to the pound sterling typically have a short-term impact on our gross margin as, on the revenue side, both we and our customers seek to adjust prices in response to foreign currency fluctuations. On the expense side, both we and our suppliers also seek to adjust prices. In addition, our industry is competitive and elastic, as demonstrated by price rebalancing across the industry in response to foreign currency and raw material price fluctuations.

Changes in foreign exchange rates also have an impact on the competitive dynamics within our markets, in particular with respect to our UK carpet business. As the majority of carpeting in the United Kingdom is imported from competitors in Continental Europe, the weakening of the pound sterling relative to the euro increases our competitive advantage in this market. See "*Risk Factors—Risks Related to Our Industry and Business—We are exposed to risks associated with fluctuations in currency exchange rates*."

The effect of a 10% strengthening of the Australian dollar against the pound sterling over the full year would, all other variables held constant, have resulted in an increase in our post-tax profit for the year of £0.7 million (2017: increased our post-tax profit by £0.2 million; 2016: increased our post-tax profit by £0.3 million). A 10% weakening of the Australian dollar against the pound sterling, on the same basis, have decreased Group post-tax profit by £0.6 million (2017: decreased Group post-tax profit by £0.1 million; 2016: decreased Group post-tax profit by £0.2 million).

The effect of a 10% strengthening of the Australian dollar against the pound sterling at year-end rates would, all other variables held constant, have resulted in an increase to equity of £2.2 million (2017: an increase of £2.1 million; 2016: an increase of £1.5 million). A 10% weakening of the Australian dollar against the pound sterling would, on the same basis, have decreased equity by £1.8 million (2017: decrease of £1.7 million; 2016: decrease of £1.2 million).

The effect of a 10% strengthening of the euro against the pound sterling over the full year would, all other variables held constant, have resulted in a decrease in Group post-tax profit for the year of £0.3 million. A 10% weakening in the euro against the pound sterling would, on the same basis, have increased Group post-tax profit by £0.3 million.

The effect of a 10% strengthening of the euro against pound sterling at year-end rates would have resulted in a decrease to equity of £0.3 million. A 10% weakening in the euro against the pound sterling would, on the same basis, have increased equity by £0.2 million.

Raw Materials Expenses

Raw materials constitute the majority of our production costs. Our key raw material inputs are: (i) with respect to carpets, synthetic yarn; (ii) with respect to ceramics, clay and natural gas; and (iii) with respect to underlay, polyurethane foam trim. As supply for these inputs is relatively unconstrained, our underlying raw material expenses do not typically exhibit significant volatility. In any event, we seek to pass-through any increases in raw material prices to our customers. Additionally, we have a broad range of suppliers, with our top ten suppliers constituting only 18% of our total expenditure with third parties, for the 2018 financial year after giving *pro forma* effect to the Acquisitions. In some instances, prices are fixed pursuant to long-term agreements but, more commonly, the Group purchases strategically using competitive processes. We typically review prices every six to 12 months. The primary source of volatility with respect to our raw material expenses is currency risk, primarily with respect to synthetic yarn and polyurethane foam trim, which we purchase in euro and U.S. dollars. See "*—Foreign Exchange Rate Fluctuations*."

Acquisitions

Our acquisition strategy is primarily focused on our targets as stand-alone propositions. We seek to acquire businesses that are growing and profitable, with high-quality facilities and products as well as competitive advantages in production and distribution. In line with our commitment to sustainable growth, we look to a combination of equity and debt funding to acquire material businesses and to maintain leverage levels in line with our historical performance and financial policy.

In August 2015, the Group acquired the entire issued share capital of Quest Carpet Manufacturers Pty Ltd. and Quest Carpet Manufacturers Unit Trust (together "**Quest Carpets**") for initial cash consideration of AUD $15.3 million (£7.1 million) and deferred cash consideration of AUD $10.5 million (£4.5 million) paid over the next three succeeding years. The principal activity of Quest Carpets is the design, manufacture and distribution of carpets across Australia and New Zealand. The business operates from facilities in Dandenong, near Melbourne, Australia and employs a workforce of 89 people. Quest Carpets was viewed as being highly complementary to our existing business in Australia. The Group results for the 2016 financial year included AUD $42.0 million (£20.6 million) of revenue and AUD $4.1 million (£2.0 million) of profit before tax from Quest Carpets. Quest Carpets' results have been consolidated with our own from the date of its acquisition in August 2015.

In September 2015, the Group acquired the entire issued share capital of Interfloor Group Limited ("**Interfloor Group**") for cash consideration of £14.0 million. The principal activity of Interfloor Group is the design, manufacture and distribution of carpet underlay and related accessories. The business operates in the United Kingdom from facilities in Haslingden in Lancashire, England, and Dumfries in Scotland, and employs a workforce of more than 300 people. The acquisition of Interfloor Group provided a number of commercial, operational and financial benefits to the Group. The Group results for the 2016 financial year included £41.1 million of revenue and £6.0 million of profit before tax from Interfloor Group. Interfloor Group's results have been consolidate with our own from the date of its acquisition in September 2016.

In October 2016, the Group acquired the business and assets of Ezi Floor Limited ("**Ezi Floor**") for initial cash consideration of £6.5 million and deferred cash consideration of £6.5 million payable over the next four succeeding years. Ezi Floor benefits from a modern, well-equipped, manufacturing facility near Bradford, Yorkshire, and is a manufacturer and distributor of a range of underlay and flooring accessories for both the residential and contract end-markets. Ezi Floor sells to wholesalers, retail groups, and independent stores throughout the United Kingdom. The acquisition of Ezi Floor is highly complementary to our existing businesses, with the addition of underlay and hard flooring ranges to our product portfolio, which previously consisted of only broadloom carpet and carpet tiles. The Group results for the 2017 financial year included contribution from Ezi Floor of £4.4 million of revenue and £1.2 million of underlying profit before tax (before amortization of acquired intangibles, acquisition and reorganization costs). Ezi Floor's results have been consolidated with our own from the date of its acquisition in October 2016.

In January 2017, the Group acquired the business and assets of Dunlop Flooring through a newly incorporated company in Australia, Primary Flooring Pty Ltd. ("**Dunlop Flooring**"), for cash consideration of AUD $36.4 million (£22.4 million), which continues to trade under the Dunlop Flooring name. The acquisition of Dunlop Flooring is highly complementary to our existing businesses in Australia with the addition of underlay and hard flooring ranges to our product portfolio that previously consisted of only broadloom carpet and carpet tiles. The Group results for the 2017 financial year included contribution from Dunlop Flooring AUD $8.7 million (£5.0 million) of revenue and AUD $0.8 million (£0.5 million) of underlying profit before tax (before amortization of acquired intangibles, acquisition and reorganization costs). Dunlop Flooring's results have been consolidated with our own from the date of its acquisition in January 2017.

In February 2017, the Group acquired the entire share capital of GrassInc and Avalon for initial cash consideration of €11.2 million (£9.5 million) and deferred consideration of €5.1 million (£4.3 million) payable over the next four succeeding years, with additional deferred consideration of €8.8 million (£7.5 million) payable over the same period subject to improved EBITDA and other criteria. These acquisitions have allowed the Group to expand to the artificial grass market, which has and continues to show robust growth in the global market. These acquisitions are complementary to our existing expertise, as the artificial grass manufacturing process is virtually identical to the carpet manufacturing process. The Group results for the 2017 financial year included contributions from Avalon and GrassInc of €3.0 million (£2.6 million) of revenue and €0.7 million (£0.6 million) of underlying profit before tax (before amortization of acquired intangibles, acquisition and reorganization costs). GrassInc's and Avalon's results have been consolidated with our own from the date of their acquisitions in February 2017.

In November 2017, the Group acquired the entire share capital of Keraben for total consideration of €274.1 million (£243.4 million). Keraben, which is based in Castellón, Spain, designs, manufactures and distributes a range of mid- to upper-market white body and porcelain tiles for both wall and floor covering. The enlarged group, containing three brands with strong market reputation, is substantially diversified in terms of both product and geography and is an ideal platform for further potential acquisitions in the ceramic flooring segment. The Group results for the 2018 financial year included contribution from Keraben of €46.8 million (£41.1 million) of revenue and €10.8 million (£9.5 million) of profit before tax (before amortization of acquired intangibles and acquisition costs). Keraben's results have been consolidated with our own from the date of its acquisition in November 2017.

In December 2017, the Group acquired the entire share capital of Serra for initial cash consideration of €38.1 million (£33.6 million) and deferred cash consideration of up to €20.0 million (£17.7 million) payable over the next four succeeding years. Serra, which is based in Serramazzoni, Italy, sells and exports ceramic tiles domestically and abroad, selling to a combination of wholesalers, retail groups and independent stores throughout Continental Europe, North America and Asia. The Group results for the 2018 financial year included contribution from Serra of €6.5 million (£5.7 million) of revenue and €2.5 million (£2.2 million) of profit before tax (before amortization of acquired intangibles and acquisition costs). Serra's results have been consolidated with our own from the date of its acquisition in December 2017.

In August 2018, the Group acquired the entire share capital of Saloni from Obinesa Grupo Industrial S.L. for cash consideration of €96.7 million (£86.2 million). The acquisition further drives our expansion in the Continental European ceramic flooring segment and presents opportunities for synergies with our existing businesses. *Pro forma* for the acquisition, the Group results for the 52 weeks ended June 30, 2018 would have included contribution from Saloni of €115.2 million (£102.0 million) of revenue and €15.5 million (£13.7 million) of EBITDA (defined as earnings before interest, tax, depreciation and amortization). Euro amounts have been converted into pounds sterling at a rate equal to €1.129 = £1.00, which was the period average for the twelve months ended June 30, 2018.

Seasonality

Our carpet and underlay sales in the United Kingdom and Australia have historically been slightly higher in September, October and November, driven by an increase in home improvement activity in advance of the holiday season. Our ceramic flooring sales in Continental Europe are less susceptible to seasonal variation, with August, December and January being our slow months as home improvement activity tapers off during and following holidays. Sales of artificial grass are the most susceptible to seasonal variation, with demand being highest between April and August in Continental Europe and the United Kingdom. Our working capital is highest just prior to the seasonal peak; given the lack of seasonal variation in our ceramic flooring segment and the small scale of our artificial grass segment, this means our working capital tends to be at its highest in September and October of each year.

Factors Affecting Comparability of Our Financial Results

Financial Periods

We prepare our financial statements on the basis of a 52-week or 53-week financial period. Results for financial years that include 53 weeks (including the 2016 financial year) are not directly comparable to results from financial years that include 52 weeks. Accordingly, the historical results presented may not be directly comparable to results from other financial periods.

The Transactions

As a result of the Transactions, our leverage and interest expense will increase considerably in the periods following the consummation of the Transactions. As of June 30, 2018, we had £253.6 million of outstanding net senior indebtedness and, after giving *pro forma* effect to the Transactions, we would have had £339.3 million of outstanding net senior indebtedness on a consolidated basis. Additionally, *pro forma* for the Transactions, the substantial majority of our indebtedness will be denominated in euro. To the extent that the pound sterling/euro exchange rate varies, the pound sterling equivalent amount due upon repayment of the principal amount could increase.

Description of Key Components of Our Income Statement

Revenue

Revenue is measured by reference to the fair value of consideration receivable by the Group for goods supplied, excluding VAT and trade discounts. Revenue is recognized upon the sale of goods or transfer of risk to the customer.

Cost of Sales

Cost of sales represents variable expenses (excluding VAT and trade discounts) incurred from revenue generating activity, including cost of materials and production costs, labor costs and depreciation from the manufacture of goods.

Distribution costs

Distribution costs include the cost of warehousing (including labor), internal transportation costs (including labor) and the cost of using third-party logistics providers.

Administrative expenses

Administrative expenses represents design and development costs, sales and marketing costs, operating lease rentals, losses on disposal of fixed assets, professional fees, salaries, information technology, human resources and other administrative costs.

Other operating income

Other operating income includes income from renting portions of our properties, sale of excess stock to auction houses, government grants and the generation and sale to the local power grid of electricity generated through Keraben's manufacturing process.

Depreciation and amortization

Depreciation represents the depreciation of property, plant and equipment. Amortization represents the amortization of intangible assets, including the amortization of capitalized development costs.

Non-underlying items

Non-underlying items are material non-trading costs and non-underlying finance costs as determined by the Board. They are disclosed separately in the Consolidated Group Financial Statements in order to fairly present the results for the period. Non-underlying items include intangible amortization, the release of prepaid arrangement fees on refinanced bank facilities, BGF Loan redemption premium charges, mark-to-market adjustments on foreign exchange contracts and interest rate swaps, deferred and contingent consideration fair value adjustments, deferred tax charges in respect of non-qualifying sampling assets and retranslation of foreign currency loans. For more information, see the "Significant Accounting Policies" section in the 2018 Group Financial Statements.

Exceptional items

Exceptional items are operating costs which are material by virtue of their size or incidence but are not expected to be recurring.

Finance Costs

Finance costs are comprised of interest payable on loans, amortization of prepaid finance costs, interest accrued on the BGF Loan, net interest expense on defined benefit pensions and other non-underlying finance costs.

Taxation

Taxation is comprised of the current year's tax charge and deferred tax. The standard rate of tax applied to our reported profit was 36.0% in the 2016 financial year, 32.9% in the 2017 financial year and 35.6% in the 2018 financial year.

Loss from discontinued operations

Profit or loss from discontinued operations represents the post-tax profit or loss of discontinued operations and the post-tax gain or loss resulting from disposals, including prior year components, and is presented as a single movement in the statement of comprehensive income. In the 2016 financial year, we disposed of our wholly owned subsidiary, Westwood Yarns Limited, for which we received cash consideration of £0.4 million and recognized a net loss on the disposal of £1.85 million.

Non-GAAP Measures

In this Offering Memorandum, we have included references to certain Non-GAAP Measures, including Underlying EBITDA and Underlying EBITDA margin. We define Underlying EBITDA as earnings before interest, tax, depreciation, amortization and exceptional items.

We define Underlying EBITDA margin as Underlying EBITDA divided by revenue.

These Non-GAAP Measures are included in this Offering Memorandum because management believes they are useful to investors, securities analysts and other interested parties as additional measures of performance. These Non-GAAP Measures should not be considered in isolation and should not be considered as an alternative to profit or loss for the period or any other performance measures derived in accordance with IFRS. See "*Presentation of Financial Data and Non-GAAP Measures—Non-IFRS and Non-Spanish GAAP Measures*," "*Summary* Pro Forma *and* As Adjusted *Financial Information*," and "*Summary Historical Consolidated Financial Information and Other Data*."

See "*Forward-Looking Statements*" and "*Risk Factors*" for a discussion of certain factors that could affect our future performance and results of operation.

Results of Operations

Comparison of results of operations for the 13 weeks ended July 1, 2017 and the 13 weeks ended June 30, 2018.

The following table sets forth certain income statement data for the 13 weeks ended July 1, 2017 and the 13 weeks ended June 30, 2018.

	13 weeks ended July 1, 2017	13 weeks ended June 30, 2018
	(£ million)	
Revenue	95.0	135.6
Cost of sales	(65.0)	(88.3)
Gross profit	**30.0**	**47.3**
Distribution costs	(13.8)	(15.9)
Administrative expenses (excluding non-underlying and exceptional items)	(7.4)	(13.9)
Other operating income	—	0.7
Underlying operating profit	**8.8**	**18.2**
Amortization of acquired intangibles	(1.7)	(4.9)
Exceptional and non-underlying items	(0.3)	(2.5)
Statutory operating profit	**6.8**	**10.8**
Finance costs		
Underlying finance costs	(1.3)	(3.2)
Non-underlying finance (costs)/income	(0.6)	1.0
Profit before tax	**4.9**	**8.6**
Taxation	(1.7)	(2.8)
Profit for the period	**3.2**	**5.8**

The following table sets forth our reconciliation of Underlying EBITDA to Operating Profit for the 13 weeks ended July 1, 2017 and the 13 weeks ended June 30, 2018.

	13 weeks ended July 1, 2017	13 weeks ended June 30, 2018
	(£ million)	
Operating profit	**6.8**	**10.8**
Exceptional and non-underlying items	(2.0)	(7.4)
Underlying operating profit	**8.8**	**18.2**
Depreciation	3.1	5.3
Underlying EBITDA	**11.9**	**23.5**

Revenue

During the 13 weeks ended June 30, 2018, our revenue increased by £40.6 million, or 42.7%, to £135.6 million from £95.0 million for the 13 weeks ended July 1, 2017. The increase in revenue was primarily due to the acquisitions of Keraben and Serra. Excluding the impact of the acquisitions of Keraben and Serra, as well as foreign exchange translation effects, our revenue would have increased by 3.9% to £97.5 million, despite softer trading conditions in our traditional carpet and underlay markets compared to the prior year. Overall like-for-like revenue growth would have been higher after adjusting for the business interruption impact of a partial roof collapse due to heavy snow at our South Wales factory in early March. This growth has been driven by the company's strategy to use competitive product positioning to drive volume and market share growth.

Revenue by geographical segment

The following table sets forth our revenue for the 13 weeks ended July 1, 2017 and the 13 weeks ended June 30, 2018, by geographical segment.

	13 weeks ended July 1, 2017	13 weeks ended June 30, 2018
	(£ million)	
Revenue	**95.0**	**135.6**
By geographical segment:		
UK & Europe	65.8	109.7
Australia	29.2	25.9

UK & Europe: Our revenue from UK & Europe increased by £43.9 million, or 66.7%, to £109.7 million for the 13 weeks ended June 30, 2018 from £65.8 million for the 13 weeks ended July 1, 2017. This increase was primarily due to the acquisitions of Keraben and Serra.

Australia: Our revenue from Australia decreased by £3.3 million, or 11.4%, to £25.9 million for the 13 weeks ended June 30, 2018 from £29.2 million for the 13 weeks ended July 1, 2017. This represents a decline of 5.8% in constant currency terms, with a significant translational currency impact. This decrease was primarily due to a buoyant local housing market in the prior period which has comparatively softened in the last 12 months.

Cost of sales

Cost of sales increased by £23.3 million, or 35.8%, to £88.3 million for the 13 weeks ended June 30, 2018 from £65.0 million for the 13 weeks ended July 1, 2017. Our cost of sales increased primarily due to the acquisitions of Keraben and Serra. Our cost of sales as a percentage of total revenue decreased by 3.3 percentage points from 68.4% for the 13 weeks ended July 1, 2017 to 65.1% for the 13 weeks ended June 30, 2018.

Gross profit

Gross profit increased by £17.3 million, or 57.7%, to £47.3 million for the 13 weeks ended June 30, 2018 from £30.0 million for the 13 weeks ended July 1, 2017. Our gross profit margin increased by 3.3 percentage points from 31.6% for the 13 weeks ended July 1, 2017 to 34.9% for the 13 weeks ended June 30, 2018. The increase in gross profit margin was driven in part by our evolving product mix, reflecting the addition of higher-margin ceramic flooring products from our acquisitions of Keraben and Serra, which represented 28.1% of sales in the 13 weeks ended June 30, 2018. This has been partially offset by lower margins in certain product categories where our strategy to drive volume and market share growth has increased focus on lower priced products, which attract slightly lower margins.

Operational improvements, including ongoing review of our raw material prices and the closure of our Kidderminster factory in 2017, continue to have a positive impact on gross profit margin.

Underlying administrative expenses and distribution costs

Administrative expenses (excluding non-underlying and exceptional items) increased by £6.5 million, or 87.8%, to £13.9 million for the 13 weeks ended June 30, 2018 from £7.4 million for the 13 weeks ended July 1, 2017. Distribution costs increased by £2.1 million, or 15.2%, to £15.9 million for the 13 weeks ended June 30, 2018 from £13.8 million for the 13 weeks ended July 1, 2017. These increases were primarily due to the acquisitions of Keraben and Serra.

In total, underlying administrative expenses and distribution costs have, as a percentage of revenue, remained broadly stable, reducing from 22.3% for the 13 weeks ended July 1, 2017 to 22.0% for the 13 weeks ended June 30, 2018.

Other operating income

Other operating income was £0.7 million for the 13 weeks ended June 30, 2018, compared to £nil for the 13 weeks ended July 1, 2017. This income primarily relates to the sale to the local power grid of electricity generated as a byproduct of the manufacturing process from Keraben's combined heat and power plant.

Underlying operating profit

Underlying operating profit increased by £9.4 million, or 106.8%, to £18.2 million for the 13 weeks ended June 30, 2018 from £8.8 million for the 13 weeks ended July 1, 2017. Our underlying operating profit margin increased by 4.1 percentage points from 9.3% for the 13 weeks ended July 1, 2017 to 13.4% for the 13 weeks ended June 30, 2018.

Finance costs

Our underlying finance costs increased by £1.9 million, or 146.2%, to £3.2 million for the 13 weeks ended June 30, 2018 from £1.3 million for the 13 weeks ended July 1, 2017. This reflects the increased level of financial debt we have incurred as our business has grown, with debt (as well as equity) being used to partially fund the acquisitions of Keraben and Serra. Reported net finance costs (after the inclusion of non-underlying items) increased by £0.3 million, or 15.8%, to £2.2 million for the 13 weeks ended June 30, 2018 from £1.9 million for the 13 weeks ended July 1, 2017. This was impacted by foreign exchange translation gain in the period of £1.3 million.

Taxation

The reported corporation tax charge for the period increased by £1.1 million, or 64.7%, to £2.8 million for the 13 weeks ended June 30, 2018 from £1.7 million for the 13 weeks ended July 1, 2017. The underlying tax charge of £3.8 million for the 13 weeks ended June 30, 2018, when measured against underlying profit before tax, represents an effective tax rate of 25.3%. This compares to an underlying tax charge of £2.0 million for the 13 weeks ended July 1, 2017 representing an effective tax rate of 26.7%. The lower effective tax rate is driven by the increase in the proportion of profits generated from the UK & Europe segment versus the Australia segment.

Underlying EBITDA

Underlying EBITDA increased by £11.6 million, or 97.5%, to £23.5 million for the 13 weeks ended June 30, 2018 from £11.9 million for the 13 weeks ended July 1, 2017. This increase was primarily due to the acquisitions of Keraben and Serra. Our Underlying EBITDA margin increased by 4.8 percentage points from 12.5% for the 13 weeks ended July 1, 2017 to 17.3% for the 13 weeks ended June 30, 2018, also primarily due to the improvement in gross profit margin.

Comparison of results of operations for the 52 weeks ended April 1, 2017 and the 52 weeks ended March 31, 2018

The following table sets forth certain income statement data for the 2017 and 2018 financial years.

	52 weeks ended April 1, 2017	52 weeks ended March 31, 2018
	(£ million)	
Revenue	**330.4**	**424.8**
Cost of sales	(220.8)	**(279.4)**
Gross profit	**109.6**	**145.4**
Distribution costs	(54.9)	(59.4)
Administrative expenses (excluding non-underlying and exceptional items)	(21.5)	(38.6)
Other operating income	0.5	1.4
Underlying operating profit	**33.7**	**48.8**
Amortization of acquired intangibles	(4.4)	(11.2)
Exceptional and non-underlying items	(2.6)	(11.2)
Statutory operating profit	**26.7**	**26.4**
Finance costs		
Underlying finance costs	(4.3)	(8.0)
Non-underlying finance costs	(3.6)	(5.0)
Profit before tax	**18.8**	**13.4**
Taxation	(6.2)	(4.8)
Profit for the period	**12.6**	**8.6**

The following table sets forth our reconciliation of Underlying EBITDA to Underlying Operating Profit for the periods indicated.

	52 weeks ended April 1, 2017	52 weeks ended March 31, 2018
	(£ million)	
Underlying Operating Profit	**33.7**	**48.8**
Depreciation	12.0	15.9
Underlying EBITDA	**45.7**	**64.7**

Revenue

During the 2018 financial year, our revenue increased by £94.4 million, or 28.6%, to £424.8 million from £330.4 million for the 2017 financial year. The increase in revenue was primarily due to the acquisitions of Keraben and Serra during the year, as well as the full-year impact of the consolidation of acquisitions made in the prior year. Underlying trading conditions in our traditional carpet and underlay markets were slightly softer in the 2018 financial year compared to the prior year, in particular during the second half. Despite this, the Group experienced like-for-like revenue growth of 1.2% after adjusting for the impact of acquired and restructured entities, and 1.6% (adjusted for the restructuring of certain UK operations and the impact of a weather-related business interruption). This increase was primarily attributable to an increase in sales volumes, partially offset by a drop in average selling price due to a change in sales mix and a strategic decision to remain highly competitive on pricing in certain product segments in order to drive increases in market share. Excluding the impact of the acquisitions of Keraben and Serra, during the 2018 financial year as well as exchange rate fluctuations, our revenue would have increased by 1.2% to £334.4 million. This increase was primarily attributable to an increase in sales volumes partially offset by a drop in average selling price due to a change in sales mix and a strategic decision to remain highly competitive on pricing in order to drive increases in market share.

Revenue by geographical segment

The following table sets forth our revenue for the 2017 and 2018 financial years by geographical segment.

	52 weeks ended April 1, 2017	52 weeks ended March 31, 2018
	(£ million)	
Revenue	**330.4**	**424.8**
By geographical segment:		
UK & Europe	241.7	312.0
Australia	88.7	112.8

UK & Europe: Our revenue from UK & Europe increased by £70.3 million, or 29.1%, to £312.0 million for the 2018 financial year from £241.7 million for the 2017 financial year. This increase was primarily due to the acquisitions of Keraben and Serra.

Australia: Our revenue from Australia increased by £24.1 million, or 27.2%, to £112.8 million for the 2018 financial year from £88.7 million for the 2017 financial year. This increase was primarily due to organic growth and the full-year impact of the consolidation of Dunlop Flooring, which was acquired during the prior year.

Cost of sales

Cost of sales increased by £58.6 million, or 26.5%, to £279.4 million for the 2018 financial year from £220.8 million for the 2017 financial year. Our cost of sales increased primarily due to the acquisitions of Millennium, Keraben and Serra. Our cost of sales as a percentage of total revenue decreased by 1.0 percentage point from 66.8% for the 2017 financial year to 65.8% for the 2018 financial year.

Gross profit

Gross profit increased by £35.8 million, or 32.7%, to £145.4 million for the 2018 financial year from £109.6 million for the 2017 financial year. Our gross profit margin increased by 1.0 percentage point from 33.2% for the 2017 financial year to 34.2% for the 2018 financial year. This improvement was driven in part by our evolving product mix, reflecting the addition of ceramic flooring products from our acquisitions of Keraben and Serra, as well as operational improvements including the closure of our Kidderminster factory.

Underlying administrative expenses and distribution costs

Administrative expenses (excluding non-underlying and exceptional items) increased by £17.1 million, or 80.0%, to £38.6 million for the 2018 financial year from £21.5 million for the 2017 financial year. Distribution costs increased by £4.5 million, or 8.2%, to £59.4 million for the 2018 financial year from £54.9 million for the 2017 financial year. These increases were primarily due to the acquisitions of Keraben and Serra. In total, underlying administrative expenses and distribution costs have, as a percentage of revenue, remained constant at 23.1% of revenue.

Other operating income

Other operating income increased by £0.9 million, or 180.0%, to £1.4 million for the 2018 financial year from £0.5 million for the 2017 financial year. This income primarily relates to the sale to the local power grid of electricity generated as a byproduct of the manufacturing process from Keraben's combined heat and power plant.

Underlying operating profit

Underlying operating profit increased by £15.1 million, or 44.8%, to £48.8 million for the 2018 financial year from £33.7 million for the 2017 financial year. Our underlying operating profit margin increased by 1.3 percentage points from 10.2% for the 2017 financial year to 11.5% for the 2018 financial year. This increase is primarily attributable to the increase in our gross profit margin.

Finance costs

Our underlying finance costs increased by £3.7 million, or 86.0%, to £8.0 million for the 2018 financial year from £4.3 million for the 2017 financial year. This reflects the increased level of financial debt we have incurred as our business has grown, with debt (as well as equity) being used to partially fund the acquisitions of Keraben and Serra during the year, as well as the full-year impact of acquisitions made in the prior year. Reported net finance costs (after the inclusion of non-underlying items) increased by £5.1 million, or 64.6%, to £13.0 million for the 2018 financial year from £7.9 million for the 2017 financial year, with the largest component of non-underlying finance costs being foreign exchange translation losses.

Taxation

The reported corporation tax charge decreased by £1.4 million, or 22.6%, to £4.8 million for the 2018 financial year from £6.2 million for the 2017 financial year. The underlying tax charge of £9.2 million for the 2018 financial year, when measured against underlying profit before tax, represents an effective tax rate of 22.5%. This compares to an underlying tax charge of £6.4 million for the 2017 financial year and an effective tax rate of 21.9%. The slight increase in the effective tax rate primarily reflects mix effects of varying tax rates in the jurisdictions in which we operate.

Underlying EBITDA

Underlying EBITDA increased by £19.0 million, or 41.6%, to £64.7 million for the 2018 financial year from £45.7 million for the 2017 financial year. This increase was primarily due to the acquisitions of Keraben and Serra. Our Underlying EBITDA margin increased by 1.4 percentage points from 13.8% for the 2017 financial year to 15.2% for the 2018 financial year.

Comparison of results of operations for the 53 weeks ended April 2, 2016 and the 52 weeks ended April 1, 2017

The following table sets forth certain income statement data for the 2016 and 2017 financial years.

	53 weeks ended April 2, 2016	**52 weeks ended April 1, 2017**
	(£ million)	
Revenue	**255.2**	**330.4**
Cost of sales	(169.9)	(220.8)
Gross profit	**85.3**	**109.6**
Distribution costs	(49.9)	(54.9)
Administrative expenses (excluding non-underlying and exceptional items)	(13.8)	(21.5)
Other operating income	0.3	0.5
Underlying operating profit	**21.9**	**33.7**
Amortization of acquired intangibles	(2.3)	(4.4)
Exceptional and non-underlying items	(1.9)	(2.6)
Statutory operating profit	**17.7**	**26.7**
Finance costs		
Underlying finance costs	(3.7)	(4.3)
Non-underlying finance costs	(4.7)	(3.6)
Profit before tax	**9.3**	**18.8**
Taxation	(3.4)	(6.2)
Profit for the period from continuing operations	**5.9**	**12.6**
Profit / (loss) for the period from discontinued operations	(2.1)	—
Profit for the period	**3.8**	**12.6**

The following table sets forth our reconciliation of Underlying EBITDA, Underlying Operating Profit for the periods indicated.

	53 weeks ended April 2, 2016	52 weeks ended April 1, 2017
	(£ million)	
Underlying operating profit	**21.9**	**33.7**
Depreciation	10.4	12.0
Underlying EBITDA	**32.3**	**45.7**

Revenue

During the 2017 financial year, our revenue increased by £75.2 million, or 29.5%, to £330.4 million from £255.2 million for the 2016 financial year. The increase in revenue was primarily due to the acquisitions of Ezi Floor in the UK, GrassInc and Avalon in the Netherlands, and Dunlop Flooring in Australia, as well as the full-year impact of the consolidation of Quest Carpets and Interfloor, which were acquired during the prior year. Excluding the impact of these acquisitions and movements in foreign exchange, and adjusting for the difference in length of the periods, like-for-like revenue growth in the year was 4.6%. This growth was primarily driven by increases in sales volumes.

Revenue by geographical segment

The following table sets forth our revenue for the 2016 and 2017 financial years by geographical segment.

	53 weeks ended April 2, 2016	52 weeks ended April 1, 2017
	(£ million)	
Revenue	**255.2**	**330.4**
By geographical segment:		
UK & Europe	196.9	241.7
Australia	58.3	88.7

UK & Europe: Our revenue from UK & Europe increased by £44.8 million, or 22.8%, to £241.7 million for the 2017 financial year from £197.0 million for the 2016 financial year. This increase was primarily due to the acquisitions of Ezi Floor, GrassInc and Avalon, as well as the full-year impact of the consolidation of Interfloor, which was acquired during the prior year.

Australia: Our revenue from Australia increased by £30.4 million, or 52.1% (30.5% in constant currency terms, to £88.7 million for the 2017 financial year from £58.3 million for the 2016 financial year. This increase was primarily due to the acquisition of Dunlop Flooring, as well as the full-year impact of the consolidation of Quest Carpets, which was acquired during the prior year.

Cost of sales

Cost of sales increased by £50.9 million, or 30.0%, to £220.8 million for the 2017 financial year from £169.9 million for the 2016 financial year. Our cost of sales increased primarily due to the increased size of the group as a result of acquisitions in the period. Our cost of sales as a percentage of total revenue increased by 0.2 percentage points from 66.6% for the 2016 financial year to 66.8% for the 2017 financial year.

Gross profit

Gross profit increased by £24.3 million, or 28.9%, to £109.6 million for the 2017 financial year from £85.3 million for the 2016 financial year. Our gross profit margin remained relatively stable at 33.2% for the 2017 financial year, decreasing by 0.2 percentage points from 33.4% for the 2016 financial year. Gross profit margin was impacted by a mixture of ongoing operational improvements and acquisition mix effects between different product segments.

Underlying administrative expenses and distribution costs

Administrative expenses (excluding non-underlying and exceptional items) increased by £7.7 million, or 55.8%, to £21.5 million for the 2017 financial year from £13.8 million for the 2016 financial year.

Distribution costs increased by £5.0 million, or 10.0%, to £54.9 million for the 2017 financial year from £49.9 million for the 2016 financial year. These increases were primarily due to the increased scale of the business following the acquisitions of Ezi Floor, GrassInc, Avalon and Dunlop Flooring, as well as the full-year impact of the consolidation of Quest Carpets and Interfloor, which were acquired during the prior year. In total, underlying administrative expenses and distribution costs have, as a percentage of revenue, reduced to 23.1% for the 52 weeks ended April 1, 2017 from 25.0% for the 53 weeks ended April 2, 2016. This improvement was driven by the ongoing delivery of cost synergies and operational efficiency improvements.

Other operating income

Other operating income increased by £0.2 million, or 66.7%, to £0.5 million for the 2017 financial year from £0.3 million for the 2016 financial year. This increase was driven primarily by income from renting portions of our properties, sale of excess stock to auction houses and government grants.

Underlying operating profit

Underlying operating profit increased by £11.8 million, or 53.9%, to £33.7 million for the 2017 financial year from £21.9 million for the 2016 financial year. Our underlying profit margin increased by 1.6 percentage points from 8.6% for the 2016 financial year to 10.2% for the 2017 financial year. This increase was primarily attributable to the reduction in administrative and distribution costs as a percentage of revenue, driven by the ongoing delivery of cost synergies and operational efficiency improvements.

Finance costs

Finance costs decreased by £0.5 million, or 6.3%, to £7.9 million for the 2017 financial year from £8.4 million for the 2016 financial year. Our underlying finance costs increased by £0.6 million, or 16.2%, to £4.3 million for the 2017 financial year from £3.7 million for the 2016 financial year. The increase in underlying costs was due to the debt used to fund acquisitions in the period.

Taxation

The reported corporate tax charge increased by £2.9 million, or 87.9%, to £6.2 million for the 2017 financial year from £3.3 million for the 2016 financial year. The underlying tax charge of £6.4 million for the 52 weeks ended April 1, 2017, when measured against underlying profit before tax, represents an effective tax rate of 21.9%. This compares to an underlying tax charge of £4.3 million for the 53 weeks ended April 2, 2016 and an effective tax rate of 23.6%. The reduction in the effective tax rate primarily reflects mix effects of varying tax rates in the jurisdictions in which we operate.

Underlying EBITDA

Underlying EBITDA increased by £13.4 million, or 41.5%, to £45.7 million for the 2017 financial year from £32.3 million for the 2016 financial year. This increase was primarily due to the acquisitions of Ezi Floor, GrassInc, Avalon and Dunlop Flooring as well as the full-year impact of the consolidation of Quest Carpets and Interfloor, which were acquired during the prior year. Our Underlying EBITDA margin increased by 1.1 percentage points from 12.7% for the 2016 financial year to 13.8% for the 2017 financial year, driven by the ongoing delivery of cost synergies and operational efficiency improvements.

Liquidity and Capital Resources

Capital Resources

Our primary sources of liquidity for the periods presented have primarily been our loan facility agreements, cash flows from operations and retained earnings. The principal financing arrangements that will be in place following the Offering will consist of the Notes, the New Revolving Credit Facility and the BGF Loan, as described in the section entitled "*Description of Certain Financing Arrangements*." The proceeds of the Offering will be used to repay the Bridge Facility on the Issue Date and, together with cash on hand, pay the fees and expenses in connection with the Offering. See "*Use of Proceeds" and "Capitalization*."

Following the Offering and the application of the proceeds therefrom, our debt service obligations will consist primarily of interest payments on the Notes, principal and interest payments on amounts drawn under the Revolving Credit Facility, if any, the BGF Loan and any capital lease obligations.

As of June 30, 2018, on a *pro form*a basis after giving effect to the Transactions, we would have had net senior debt on a consolidated basis of £339.3 million.

Although we believe that our expected cash flows from operating activities, together with available borrowings will be adequate to meet our anticipated general liquidity needs and debt service obligations, we cannot assure you that our business will generate sufficient cash flows from operations to meet these needs or that future debt or equity financing will be available to us in an amount sufficient to enable us to fund our liquidity needs, including making payments on the Notes or other debt when due. If our cash flow from operating activities are lower than expected or our capital expenditure requirements exceed our projections, 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 the cost of our current and future debt obligations depends on numerous factors, including general economic conditions, the availability of credit from banks, other financial institutions, and capital markets, restrictions in instruments governing our debt, and our general financial performance. See "*Risk Factors—We will require a significant amount of cash to service our debt and sustain our operations. Our ability to generate or raise sufficient cash depends on many factors beyond our control.*"

Cash Flows

The following table sets forth our consolidated cash flows for each of the periods indicated.

	For the financial year ended			For the 13 weeks ended	
	April 2, 2016	April 1, 2017	March 31, 2018	July 1, 2017	June 30, 2018
			(£ million)		
Net cash flow from operating activities before movements in working capital	**30.3**	**42.8**	**53.3**	**11.4**	**21.4**
Net cash inflow from operating activities	**24.0**	**31.7**	**37.0**	**3.3**	**3.3**
Net cash used in investing activities	**(35.0)**	**(57.3)**	**(316.3)**	**(6.7)**	**(12.8)**
Net cash generated/(used) in financing activities	**37.8**	**33.4**	**306.6**	**1.6**	**(6.1)**
Net increase/(decrease) in cash and cash equivalents	**26.8**	**7.8**	**27.3**	**(1.8)**	**(15.6)**
Cash and cash equivalents at beginning of period	(8.5)	19.1	28.0	28.0	53.1
Effect of foreign exchange rate changes	0.8	1.1	(2.2)	(0.5)	2.0
Cash and cash equivalents at end of period	**19.1**	**28.0**	**53.1**	**25.7**	**39.5**

Cash flow from operating activities

Net cash flow generated by operating activities remained stable at £3.3 million for the 13 weeks ended June 30, 2018 and for the 13 weeks ended July 1, 2017. Operating cash flow before interest, tax and exceptional items increased by £5.5 million to £12.1 million for the 13 weeks ended June 30, 2018 from £6.6 million for the 13 weeks ended July 1, 2017. Operating Cash Flow Conversion as measured against EBITDA remained broadly consistent, at 51.5% for the 13 weeks ended June 30, 2018 as compared to 55.5% for the 13 weeks ended July 1, 2017. This level of conversion is lower than that achieved during the 2016, 2017 and 2018 financial years due to working capital seasonality.

Net cash flow generated by operating activities increased by £5.3 million to a net inflow of £37.0 million for the 2018 financial year from a net inflow of £31.7 million for the 2017 financial year. This increase was primarily due to increases in operating profits as a result of the acquisitions of Keraben and Serra partially offset by a number of exceptional costs associated with these acquisitions. Operating cash flow before interest, tax and exceptional items increased by £20.7 million to £64.3 million for the 2018 financial year from £43.6 million for the 2017 financial year. Operating Cash Flow Conversion as measured against EBITDA was 95.4% for the 2017 financial year as compared to 99.4% for the 2018 financial year.

Net cash flow generated by operating activities increased by £7.7 million to £31.7 million for the 2017 financial year from £24.0 million for the 2016 financial year. This increase was primarily due to increases in operating profits as a result of the acquisitions of Ezi Floor, GrassInc, Avalon and Dunlop Flooring partially offset by a number of exceptional costs associated with these acquisitions. Operating cash flow before interest, tax and exceptional items increased by £11.4 million, to £43.6 million for the 2017 financial year from £32.2 million for the 2016 financial year. Operating Cash Flow Conversion as measured against EBITDA was 99.7% for the 2016 financial year as compared to 95.4% for the 2017 financial year.

Cash flow from investing activities

Net cash used in investing activities increased by £6.1 million to a net outflow of £12.8 million for the 13 weeks ended June 30, 2018 from a net outflow of £6.7 million for the 13 weeks ended July 1, 2017. The increase was primarily due to increased levels of capital expenditure reflecting the increased scale of the business and specific expansionary capital expenditure projects. See "*—Liquidity and Capital Resources—Capital Expenditures*."

Net cash used in investing activities increased by £259.0 million to a net outflow of £316.3 million for the 2018 financial year from a net outflow of £57.3 million for the 2017 financial year. The increase was primarily due to the cash consideration paid on completion of the acquisitions of Keraben and Serra.

Net cash used in investing activities increased by £22.3 million to a net outflow of £57.3 million for the 2017 financial year from a net outflow of £35.0 million for the 2016 financial year. This increase was primarily due to the cash consideration paid on completion for the acquisitions of Ezi Floor, Dunlop Flooring, Avalon and GrassInc.

Cash flow from financing activities

Net cash generated by financing activities decreased by £7.7 million to a net outflow of £6.1 million for the 13 weeks ended June 30, 2018 from a net inflow of £1.6 million for the 13 weeks ended July 1, 2017. The decrease was primarily due to utilization of excess cash to pay down long-term loan balances.

Net cash generated by financing activities increased by £273.2 million to £306.6 million for the 2018 financial year from £33.4 million for the 2017 financial year. The increase was primarily due to the increase in long-term loans related to the acquisitions of Keraben and Serra, which was partially offset by the excess cash used to pay down balances on our existing indebtedness.

Net cash generated by financing activities decreased by £4.7 million to £33.4 million for the 2017 financial year from £37.8 million for the 2016 financial year. The decrease reflected the increase in long-term loans related to the acquisitions of Ezi Floor, Dunlop Flooring, Avalon and GrassInc and the 2016 issue of share capital by Victoria PLC.

Working Capital

Our working capital follows a seasonal pattern, and is generally at its highest at the beginning of the seasonal peak in soft-flooring in September. See "*—Significant Factors Affecting Our Results of Operations—Seasonality.*"

As of the end of the 2016, 2017 and 2018 financial years, our trade working capital was £35.1 million, £45.3 million and £67.0 million, respectively. These increases were due to the acquisitions for the period and the growth of the business. As at July 1, 2017 and June 30, 2018, our trade working capital was £51.7 million and £90.3 million, respectively.

The following table sets forth the components of our working capital as of the dates indicated.

	As of			As of	
	April 2, 2016	**April 1, 2017**	**March 31, 2018**	**July 1, 2017**	**June 30, 2018**
			(£ million)		
Inventories	59.0	73.1	100.3	75.5	104.8
Trade and other receivables	42.9	55.1	88.2	54.2	100.6
Trade and other payables	(66.9)	(82.9)	(121.5)	(78.0)	(115.1)
Total working capital	**35.0**	**45.3**	**67.0**	**51.7**	**90.3**

Capital Expenditures

We categorize our capital expenditures as either maintenance capital expenditures or expansionary capital expenditures. As much of our plant and machinery is relatively inexpensive and can be replaced on a modular basis, our maintenance capital expenditure requirements are minimal. While our maintenance capital expenditures have increased over the period under review, as our business has grown, our maintenance capital expenditures as a percentage of our total revenue have remained relatively stable, at 4.0%, 3.3% and 3.3% for the 2016, 2017 and 2018 financial years, respectively. Our expansionary capital expenditures are primarily related to our initiatives to expand and improve our manufacturing and logistics capabilities in order to meet the needs of our growing business.

Our capital expenditures during the 13 weeks ended June 30, 2018 were £10.9 million compared to £4.1 million during the 13 weeks ended July 1, 2017. Our capital expenditures during the 13 weeks ended June 30, 2018 comprised: £4.3 million in maintenance capital expenditures and £6.6 million in expansionary capital expenditures, consisting of (i) the addition of Keraben's new clay atomizers in floor and wall plants in order to increase clay reception capacity, (ii) Keraben's new inkjet printing machines for wall and floor pressing and glazing processes and (iii) the renovation of the South Wales factory.

Our capital expenditures during the 2018 financial year were £29.3 million compared to £10.8 million during the 2017 financial year. The increase in our capital expenditures in the 2018 financial year as compared to the 2017 financial year was primarily attributable to the increase in our maintenance capital expenditures due to the growth of our business and to the increase in our expansionary capital expenditures due to the relocation of our Midlands Distribution Center and the completed opening of our Southern Distribution Center, the replacement of one of Serra's production lines to increase production capacity and the addition of new plant and equipment at certain of Keraben's production facilities. Our capital expenditures during the 2018 financial year comprised: £14.1 million in maintenance capital expenditures and £15.2 million in expansionary capital expenditures.

Our capital expenditures during the 2017 financial year were £10.8 million compared to £10.2 million during the 2016 financial year. Our capital expenditures remained relatively stable over these periods due to an increase in our maintenance capital expenditures partially offset by a decrease in our expansionary capital expenditures. Our capital expenditures during the 2017 financial year comprised: £10.8 million in maintenance capital expenditures and nil in expansionary capital expenditures. Our capital expenditures during the 2016 financial year comprised of £10.2 million in maintenance capital expenditures. Including recently acquired businesses, we expect that total capital expenditures for the 2019 financial year will be in-line with capital expenditures in recent periods.

In the 2019 financial year, we expect our maintenance capital expenditures to increase to between £15 million and £25 million. The increase in our expected maintenance capital expenditures reflects the growth in our business since the end of the 2018 financial year. The increase in our expected expansionary capital expenditures is expected to be primarily attributable to our ongoing logistics optimization projects as well as investments to increase our manufacturing capacity in our Abingdon, Quest and Keraben businesses.

Financial Indebtedness

Contractual Obligations and Contingent Liabilities

The table below summarizes our material contractual obligations as of March 31, 2018, *pro forma* for the Transactions:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
			(£ million)		
Notes offered hereby[(1)]	—	—	396.9	—	396.9
Bank overdraft	0.9	—	—	—	0.9
BGF Loan	—	—	10.0	—	10.0
Finance lease & hire purchase agreements	0.9	0.7	0.4	—	2.0
Total	**1.8**	**0.7**	**407.3**	**—**	**409.8**

(1) For the purposes of this calculation, the Notes have been converted into pound sterling at a rate of €1.1339 = £1.00. This exchange rate differs from the exchange rate in effect as of March 31, 2018 and may differ from the exchange rate in effect as of the Issue Date. You should not view such translations as a representation that such pound sterling amounts actually represent such euro amounts, or could be or could have been converted into pounds sterling at the rate indicated or at any other rate, on such date or any other date.

We also have a contingent bank guarantee under the New Revolving Credit Facility equal to £4.4 million in relation to certain deferred consideration with respect to our acquisition of Serra.

Qualitative and Quantitative Disclosure About Market Risk

Credit Risk

Our principal financial assets are bank balances and cash, trade and other receivables and investments.

Our exposure to credit risk is primarily attributable to our trade receivables. Credit risk is managed locally by the management of each business unit. Prior to accepting new customers, credit checks are obtained from reputable external sources. The amounts presented in the balance sheet are net of allowance for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction on the recoverability of the cash flows.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with low credit risk assigned by international credit-rating agencies.

We have no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The Issuer has no significant concentration of credit risk, other than with its own subsidiaries, the performances of which are closely monitored. Further, the carrying amounts of monies owed by the Issuer's subsidiaries are approximate to their fair value.

Liquidity Risk

Liquidity risk arises from our management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. Our policy is to ensure that we always have sufficient cash to allow us to meet our liabilities when they become due.

To achieve this aim, the cash position is continuously monitored to ensure that cash balances (or agreed facilities) meet expected requirements for a period of at least 90 days.

The board of directors of the Issuer (the "**Board**") monitors annual cash budgets and updated forecasts against actual cash position on a monthly basis. At the balance sheet date, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

Interest Rate Risk

The Group finances its operations through a mixture of retained profits, equity capital and bank facilities, including hire purchase and lease finance. The Group borrows in the desired currency at floating or fixed rates of interest and may then use interest rate swaps to secure the desired interest profile and manage exposure to interest rate fluctuations. After giving *pro forma* effect to the Transactions, we anticipate that only the amounts that we borrow under the New Revolving Credit Facility will be subject to variable interest rates, as the Notes will carry interest at a fixed rate.

The annualized effect of a 50 basis point decrease in the interest rate at the balance sheet date on the variable rate debt carried at that date would, all other variables held constant, have resulted in an increase in post-tax profit of £1.2 million for the 2018 financial year. A 50 basis point increase in the interest rate would, on the same basis, have reduced the profit for the year by the same amount.

Currency risk

We operate internationally and are exposed to foreign exchange risk arising from various factors, primarily with respect to the pound sterling, the euro and the Australian dollar. Our main currency exposure arises from our ownership of our Continental European and Australian subsidiaries, which accounted for approximately 62.8% and 9.8% of our total assets in the 2018 financial year. It is the Board's policy not to hedge against translational risk-resulting movements in the pound sterling/Australian dollar and pound sterling/euro exchange rates. Other currency exposure derives from trading operations where goods are exported or raw materials and capital equipment are imported. These exposures may be managed by forward currency contracts, particularly when the amounts or periods to maturities are significant and at times when currencies are particularly volatile. See "*—Significant Factors Affecting Our Results of Operations—Macroeconomic Factors—Foreign Exchange Rate Fluctuations*."

Trading risk

It is our policy that no trading in financial instruments shall be undertaken.

Price risk

We are exposed to price risk in respect of corporate bonds held, which are accounted for within cash and cash equivalents. The volatility of such securities is very low. If the quoted price for these securities increased or decreased by 10%, profit before tax and equity would correspondingly change by £0.5 million.

Critical Accounting Estimates and Judgments

Our Consolidated Financial Statements are prepared in accordance with IFRS. The amounts presented in our consolidated financial statements involve the use of estimates and assumptions about the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Changes in the economic environment, financial markets and any other parameters used in determining such estimates and judgments could cause actual results to differ and the estimates and assumptions will seldom equal the related actual results.

Our accounting policies are more fully described in the "Significant Accounting Policies" sections of our audited Consolidated Financial Statements included elsewhere in this Offering Memorandum. We believe the following policies to be the most significant policies that require management to consider matters that are inherently uncertain or to make subjective and complex judgments.

Measurement of intangible assets

Intangible assets are recognized on acquisitions in relation to customer relationships, brands and developed technology. The fair value of these assets are determined by discounting estimated future net cash flows generated by the asset where no active market for the assets exists. These are assessed based upon our forecasts for each business in question. Key assumptions are those regarding discount rates, growth rates, expected changes to selling prices and direct costs, brand royalty rates and customer attrition.

Measurement of deferred tax assets

We have potential deferred tax assets, principally in the form of tax losses, but deferred tax assets are only recognized to the extent it is probable that sufficient future taxable income will be available against which the losses and deductions can be utilized. Recognition therefore involves an assessment of the future performance of the particular legal entity in which the deferred tax asset has been recognized. Deferred tax assets in respect of losses recognized at the balance sheet date are based on the assumption that there is a high expectation that the asset will be realized in due course.

Valuation of deferred and contingent earn-out consideration

Liabilities are recognized in respect of acquisitions with outstanding deferred or contingent earn-outs at the end of the period. These are assessed based upon management forecasts for each relevant business based upon our financial projections for the next 12 months and by applying growth assumptions for future years where relevant. Key assumptions are those regarding discount rates, growth rates and expected changes to selling prices and direct costs.

Share based payments

We have share based payment incentive arrangements in place for certain employees. The fair value of these growth shares is based on the growth in the share price of the Issuer above a certain threshold and is measured using the appropriate valuation model (Black-Scholes or Monte Carlo) at the grant date. Key assumptions include expected volatility and the expected exercise period. The growth shares awarded effectively track the market capitalization of the Issuer and, therefore, historical share price volatility has been used as a guide to the expected future volatility of the growth shares. As the fair value of the share based payment charge is spread on a straight line basis to the income statement over the expected term, this estimate impacts the annual charge recognized.

Defined benefit obligation

We have two defined benefit pension schemes. The obligations under the schemes are recognized in our consolidated balance sheet and represent the present value of the obligation calculated by independent actuaries, with input from the Board. These actuarial valuations include assumptions such as discount rates, return on assets and mortality rates. These assumptions vary from time to time according to prevailing economic conditions.

Because of changing market and economic conditions, the expenses and liabilities actually arising under the scheme in the future may differ materially from the estimates made on the basis of the actuarial assumptions. The effects of any change to these assumptions are accounted for in the next financial year as other comprehensive income. The calculation of any charge relating to retirement benefits is clearly dependent on the assumptions used, which reflects the exercise of judgment.

Inventories

A proportion of inventory is made up of stocks which are not expected to sell for the full normal selling price, either because they are remnants, come from discontinued ranges, or are below the required quality standard. This inventory is carried at the lower of cost and net realizable value. For the 2018 financial year, the total movement in stock provisions resulted in a credit to the income statement of £0.5 million (2017 financial year: credit of £0.2 million; 2016 financial year: charge of £0.2 million).

Trade receivables

Amounts owed by subsidiaries to the Issuer are not considered to be impaired. The main factors in assessing the impairment of trade receivables are the age of the balance and the circumstances of the individual customer. The Board considers that the carrying amount of all receivables, including those impaired, approximates to their fair value.

New Standards and Interpretations

IFRS 9—Financial Instruments

In 2014, the IASB introduced IFRS 9—*Financial Instruments*. This standard replaces IAS 39—*Financial Instruments: Recognition and Measurement*. We have implemented IFRS 9 with effect from January 1, 2018. IFRS 9 has not been implemented with respect to the 2018 Group Financial Statements but has been implemented with respect to the Unaudited Group Interim Financial Statements.

We do not anticipate that the adoption of IFRS 9 will significantly impact the classification and measurement of our financial instruments. See the "Significant Accounting Policies" section of our 2018 Group Financial Statements for more details about IFRS 9 and our assessment of its impact.

IFRS 15—Revenue from Contracts with Customers

In 2014, the IASB introduced IFRS15—*Revenue from contracts with customers*. IFRS 15 specifies how and when revenue is recognized together with enhanced disclosure requirements. IFRS 15 replaces existing revenue recognition standards: IAS 11—*Construction Contracts* and IAS 18—*Revenue*, and a number of revenue-related interpretations. We have implemented IFRS 15 with effect from January 1, 2018. IFRS 15 has not been implemented with respect to the 2018 Group Financial Statements but has been implemented with respect to the Unaudited Group Interim Financial Statements.

We do not anticipate that IFRS 15 will significantly impact on our consolidated financial statements. See the "Significant Accounting Policies" section of our 2018 Group Financial Statements for more details about IFRS 15 and our assessment of its impact.

IFRS 16—*Leases*

In January 2016, the IASB issued IFRS 16—*Leases*, which requires most leases to be recognized on-balance for lessees, thereby eliminating the distinction between operating and finance leases. IFRS 16 replaces IAS 17—*Leases and related interpretations*. We will implement IFRS 16 with effect from January 1, 2019.

We are in the process of evaluating the impact of IFRS 16 on our current lease arrangements. See the "Significant Accounting Policies" section of our 2018 Group Financial Statements for more details about IFRS 16 and our assessment of its impact.

Impairment of goodwill, investments or intercompany balances

Determining whether goodwill, investments or intercompany balances are impaired requires an estimation of the value in use of the cash-generating units to which value has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and to apply a suitable discount rate in order to calculate present value. We are required on an annual basis to perform an impairment review to assess whether the carrying value of goodwill, investments or intercompany balances are less than its recoverable amount. Recoverable amount is based on a calculation of expected future cash flows, which include estimates of future performance. None of the goodwill is expected to be tax deductible.

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

The following discussion should be read in conjunction with the sections entitled "Presentation of Financial Information" and "Summary Historical Consolidated Financial Information and Other Data—Historical financial information and other data of Keraben" as well as with the audited financial statements and the related notes thereto, included elsewhere in this offering memorandum. The following discussion includes forward-looking statements which, although based on assumptions and/or estimates that Keraben considers reasonable, are subject to risks and uncertainties which could cause actual events or conditions to differ materially from those expressed or implied by the forward-looking statements. For a discussion of some of those risks and uncertainties, please refer to the sections entitled "Forward-Looking Statements" and "Risk Factors."

Overview

Keraben is a Spanish manufacturer of ceramic tiles for use primarily in residential applications. Based in the province of Castellón, in the Comunidad Valenciana region of Spain, Keraben is one of Spain's largest ceramic tile manufacturers by volume, exporting much of its product throughout Continental Europe. On November 16, 2017, the Group acquired the entire share capital of Keraben for a purchase price of €274.1 million. Through this acquisition, the Group has established a significant presence within the attractive ceramic tile flooring segment in Continental Europe.

Keraben manufactures wall and floor tiles targeting the mid- and upper-market segments of the ceramic flooring market. Keraben possesses a broad portfolio of brands aimed at different product segments, markets and consumers. Keraben sells its products domestically and internationally, with its primary export markets being the United Kingdom and other countries in Continental Europe. Keraben's largest end-markets by geography are Spain, France, Germany and the United Kingdom. Keraben generates the majority of its revenues from direct sales to retailers who sell the Keraben, Metropol and Casainfinita brands. Sales to DIY segment retailers make up a smaller proportion of Keraben's revenues, while sales to traders make up the smallest proportion of its revenues, mainly serving as a capacity management tool to maintain production levels. Keraben generated €129.7 million of revenue and €42.9 million of Adjusted EBITDA (defined as earnings before interest, tax, depreciation and amortization, excluding other gains or losses) for the year ended December 31, 2017.

Significant Factors Affecting Keraben's Results of Operations

Keraben's results of operations, financial condition and liquidity have been influenced in the periods discussed in this Offering Memorandum by the following events, facts, developments and market characteristics. Keraben's management believes that these factors are likely to continue to influence its operations in the future.

Production and Personnel Cost Base

Raw materials consumption constitutes the majority of Keraben's production costs. Keraben's key raw material inputs are non-atomized clay, ceramic glazes and natural gas. Keraben purchases non-atomized clay from different suppliers and conducts the atomization process in-house. Atomized clay consumption cost per square meter ("**m^2**") of tile manufactured has remained stable through the years ended December 31, 2015, 2016 and 2017 at approximately €0.92 per m^2. The consumption cost of ceramic glaze and related additives, used to finish and add color or other features to tile surface, decreased in the same period from €0.61 per m^2 per tile manufactured in 2015 to €0.53 per m^2 per tile manufactured in 2017. This decrease was due to Keraben's SKU reduction during the period, changes to the production process resulting in increased consumption efficiency and a general increase in competition in the glazing and pigments industry. The consumption cost of other raw materials, such as packaging components and other production consumables remained stable through the years ended December 31, 2015, 2016 and 2017. Total raw material expenditures remained relatively stable over the years ended December 31, 2015, 2016 and 2017, at €22.9 million, €25.1 million and €27.1 million, respectively.

Natural gas is Keraben's largest raw material expenditure. Natural gas is used during production to heat the kilns in which the clay is fired. Additionally, Keraben uses natural gas to atomize the clay and this process generates electricity, which is consumed internally, with the excess sold to the local electrical grid. Natural gas expenditures decreased from €12.0 million in 2015 to €10.3 million in 2017. This decrease was due to a decrease in natural gas prices caused by a decrease in the Brent price, which was used as a reference for a portion of Keraben's natural gas supply under its agreement with British Petroleum between the years of 2015 and 2017 and under its agreement with Galp in 2018. Additionally, efficiency of gas consumption increased as a result of prior capital investment in production capability. Notwithstanding higher consumption efficiency, overall gas consumption increased during the same period due to increased production. Keraben changes its natural gas supplier periodically based on the pricing and terms offered by each supplier. Keraben has worked with its current gas supplier for many years, but with periodic interruptions with other suppliers. Keraben's management also utilizes contracts with suppliers that fix the price along the term of the contract to hedge against future increases in natural gas prices.

Personnel wages and salaries are another significant cost component, including production personnel and other departments directly related to the tile production process (maintenance, technical and development personnel). In 2016, Keraben decided to hire additional production personnel to create a third production shift in order to decrease expected future overtime wage expenditures. The utilization of a third production shift has resulted in an increase in productive capacity as well a higher level of efficiency since production lines now operate continuously.

Consumer Preference and Demand

Consumers choose to purchase Keraben's products based on their decision to build new residential and non-residential buildings and/or decorate and renovate existing structures.

Residential buildings encompass single-family homes, multi-family structures and manufactured housing. This end-market can be further classified as either new construction or I&R, with I&R constituting the majority of demand. New residential construction flooring demand follows the growth in new building construction, while I&R is directly linked to personal income levels. The non-residential end-market consists of office, retail, institutional, industrial and other business or government facilities. Flooring in this end-market can also be classified as either new construction or I&R, with the latter representing around three-quarters of demand. In particular, businesses with heavy decorative flooring needs (for example, hotels and other hospitality facilities) drive growth in the I&R sub-segment.

Consumers typically base their decision to purchase Keraben's products on a broad range of preferences, including color, design, texture, shape, dimensions, pile height and density, price and other structural and technical features. The countries in which Keraben sells flooring have different consumer preferences, demands and trends, primarily as a result of diverse cultural histories, climate, lifestyles and economic conditions. Keraben seeks to design its flooring products to appeal to such end consumer tastes at specific price points.

Business Relationships and Customer Success

Keraben operates a business-to-business sales model and therefore does not access the end-consumer directly. Therefore Keraben relies on its customers' ability to sell and market its products effectively in order to increase its revenue and generate sustainable cash flows given, as its customers grow, they tend also to increase their orders. Keraben thus maintains strong relationships with its customers and works side-by-side with them to help increase store traffic and grow their business. The quality of the relationship between Keraben and its customers is important to retain and grow its business. Although design, quality and price are key factors, other factors influence Keraben's relationship with its customers, such as performance track record, including product innovation, on-time delivery and operational efficiency.

Acquisitions and disposals

In 2016, Keraben sold its shareholdings in certain of its subsidiaries, including, amongst others, Construplas, S.L. and Nuevos Productos Cerámicos, S.A., for total consideration of €35.5 million, some of which was deferred until March 2017. As a result of these disposals, Keraben's revenue, impairment charges, gains/losses on financial instruments, finance income, other gains and losses (dividends), corporation tax and cash flow from investing activities were impacted during these periods. In 2017, Keraben sold, at a loss, the entire share capital of its subsidiary Expocerámica S.A. for total consideration of €0.3 million.

In 2016, Keraben sold a facility located in Villafames, Castellón. In 2017, Keraben sold, at a loss of €0.2 million, a facility located in Alcora, Castellón, and a clay atomizer´s mill machine for total consideration of €2.4 million. These assets were not related to Keraben's core business. The sale of these assets resulted in an increase in Keraben's impairment charges in the years ended December 31, 2016 and 2017.

In November 2017, the Group acquired the entire share capital of Keraben for total consideration of €274.1 million. This transaction had an impact on Keraben's finance income, other gains and losses and corporation tax during the year ended December 31, 2017.

Macroeconomic Factors

General Economic Conditions and Industry Environment

Keraben's results of operations are affected by macroeconomic conditions, as well as the conditions affecting consumer spending on ceramic flooring in the markets in which it operates. Such conditions include levels of employment, consumer confidence, inflation, growth in gross domestic product, real disposable income, currency exchange and interest rates, home prices, housing market fluctuations and the availability of consumer credit. All of the markets in which Keraben operates were adversely impacted by the global economic downturn that started in 2008. Likewise, as macroeconomic indicators like GDP, real wages and employment levels have improved across Continental Europe and the United Kingdom, Keraben has seen a return to stable growth in the ceramic flooring market.

Overall economic conditions typically have a direct impact on the specific markets that drive Keraben's business, although market sensitivity varies, depending on the product, with products in the upper-market range typically being more affected. Nevertheless, Keraben's business is generally less susceptible to changes in the macroeconomic environment given its stable base of customers in mature, consolidated markets. During an economic downturn, raw material prices typically decrease, which can mitigate the adverse effect of potential volume decreases.

Seasonality

Keraben experiences both purchase and sales seasonality during the summer and winter holiday seasons. Production and purchases are slow in August and December. The Easter holidays also impact demand to a lesser degree, depending on the month of the year in which the holidays fall.

Description of Key Components of Keraben's Income Statement

Revenue

Revenue is measured by reference to the fair value of consideration receivable by Keraben for goods or services supplied, excluding VAT. Revenue is recognized upon the sale of goods or services or transfer of risk to the customer.

Procurements

Procurements represent variable expenses (excluding VAT) incurred from revenue generating activity, including cost of goods held for resale, cost of raw materials and other consumables and work performed by other companies.

Staff costs

Staff costs represent personnel costs incurred from revenue-generating activity, including wages and salaries, social security and other welfare charges and other compensation.

Other operating income

Other operating income includes compensation for losses or claims. In the years ended December 31, 2015 and 2016, Keraben's other operating income also included services rendered to other group companies, specifically to Construplas, S.L.

Other operating expenses

Other operating expenses include outside services, taxes other than income tax, losses on and write-downs of trade receivables and changes in provisions for commercial transactions and expenses relating to greenhouse gas emissions.

Depreciation and amortization charge

Depreciation represents the depreciation of property, plant and equipment. Amortization represents the amortization of intangible assets, including the amortization of capitalized development costs.

Impairment and gains or losses on disposals of non-current assets

Impairment and gains or losses on disposals of non-current assets includes gains or losses on disposals of facilities not related to the Keraben's main business.

Other gains and losses

Other gains and losses include significant non-underlying expenses not related to the normal activity of Keraben.

Finance income

Finance income consists of financial income from investments in equity instruments and from marketable securities and other financial instruments.

Finance costs

Finance costs consist of interest related to debt owed to third parties as well as interests costs relating to provisions.

Impairment and gains or losses on disposals of financial instruments

Impairment and gains or losses on disposals of financial instruments relate to the impairment gains or losses in respect of equity investments.

Corporation tax

Corporation tax is comprised of the current year's tax charge and deferred tax. The official rate of tax applied to our reported profit for the years ended December 31, 2015, 2016 and 2017 were 28%, 25% and 25%, respectively.

Spanish GAAP

The historical financial information of Keraben for the years ended December 31, 2015, 2016 and 2017 that has been included in this Offering Memorandum was prepared in accordance with Spanish GAAP and has not been restated in accordance with IFRS. See "*Annex A: Summary of Certain Differences Between Spanish GAAP and IFRS*."

Results of Operations

The financial information below as of and for the year ended December 31, 2015 derives from financial information presented as comparative information in Keraben's audited financial statements as of and for the year ended December 31, 2016.

See "*Forward-Looking Statements*" and "*Risk Factors*" for a discussion of certain of the factors that could affect Keraben's future performance and results of operation.

Comparison of results of operations for the year ended December 31, 2016 and the year ended December 31, 2017

The following table sets forth certain income statement data for the financial years ended December 31, 2016 and December 31, 2017:

	For the year ended	
	December 31, 2016	**December 31, 2017**
	(€ million)	
CONTINUING OPERATIONS:		
Revenue	118.0	129.7
Changes in inventories of finished goods and work in progress	0.8	0.9
In-house work on non-current assets	0.0	0.0
Procurements	(30.8)	(30.7)
Other operating income	0.4	0.2
Staff costs	(23.8)	(26.1)
Other operating costs	(31.2)	(31.0)
Depreciation and amortization charge	(8.9)	(9.0)
Allocation to profit or loss of grants related to non-financial non-current assets and other grants	0.9	0.7
Excess provisions	0.7	—
Impairment and gains or losses on disposals of non-current assets	(0.8)	(0.9)
Other gains or losses	(4.1)	(64.7)
Profit from Operations	**21.3**	**(30.9)**
Finance income	6.3	0.3
Finance costs	(2.6)	(4.4)
Changes in fair value of financial instruments	—	(0.0)
Impairment and gains or losses on disposals of financial instruments	27.5	(0.9)
Exchange Differences	0.0	(0.6)
Financial Profit (Loss)	**31.2**	**(5.6)**
Result before Tax	**52.4**	**(36.5)**
Corporation Tax	(4.3)	(6.7)
Profit for the year	**48.2**	**(43.2)**

Revenue

During the financial year ended December 31, 2017, Keraben's revenue increased by €11.7 million, or 9.9%, to €129.7 million from €118.0 million for the financial year ended December 31, 2016. The increase was primarily due to an increase in sales volumes, particularly in the domestic Spanish market, while sale prices remained stable. The increase in sales volume in Spain was driven by the market recovery in Spain, in particular in the I&R end-market.

Procurements

During the financial year ended December 31, 2017, procurement expenses remained relatively stable, decreasing by €0.1 million, or 0.3%, to €30.7 million from €30.8 million for the financial year ended December 31, 2016. Keraben's procurement expenses remained relatively stable over this period due to a decrease in raw material purchases and a slight decrease in raw material prices, which were partially offset by an increase of raw materials consumption due to increased production.

Staff costs

During the financial year ended December 31, 2017, staff costs increased by €2.3 million, or 9.7%, to €26.1 million from €23.8 million for the financial year ended December 31, 2016. The increase was primarily due to an increase in the average employee headcount. The increase in staff head count was due to the hiring of new personnel in production and logistics and was particularly driven by the opening of a new kiln in mid-year 2016.

Other operating costs

During the financial year ended December 31, 2017, other operating costs decreased by €0.2 million, or 0.6%, to €31.0 million from €31.2 million for the financial year ended December 31, 2016. The decrease was primarily due to a slight decrease in costs relating to external services and expenses for greenhouse gas emissions as well as a slight decrease in bad debt provisions and local taxes.

Depreciation and amortization charge

During the financial year ended December 31, 2017, depreciation and amortization charges remained relatively stable, increasing by €0.1 million, or 1.1%, to €9.0 million from €8.9 million for the financial year ended December 31, 2016, reflecting similar levels of investment in both periods.

Impairment and gains or losses on disposals of non-current assets

During the financial year ended December 31, 2017, impairment losses on disposals of non-current assets increased by €0.1 million, or 12.5%, to €0.9 million from €0.8 million for the financial year ended December 31, 2016. The increase was primarily due to the disposal of several non-current assets in Castellón.

Other gains or losses

During the financial year ended December 31, 2017, other gains or losses was €64.7 million as compared to €4.1 million for the financial year ended December 31, 2016. The increase was primarily due to certain non-recurring expenses linked to the disposals of Construplas, S.L. and Nuevos Productos Cerámicos, S.A. as well as the non-current assets in Castellón, which consisted principally of expenses relating to independent professional advisors, financial expenses relating to the cancellation of existing financing arrangements and financial expenses in relation to certain management incentive plans triggered by the acquisition of Keraben by the Group.

Finance income

During the financial year ended December 31, 2017, finance income decreased by €6.0 million, or 95.2%, to €0.3 million from €6.3 million for the financial year ended December 31, 2016. This decrease reflects the payment of dividends by Construplas, S.L. and Nuevos Productos Cerámicos, S.A. to Keraben prior to their sale in 2016, which were reflected in the finance income of Keraben.

Finance costs

During the financial year ended December 31, 2017, finance costs increased by €1.8 million, or 69.2%, to €4.4 million from €2.6 million for the financial year ended December 31, 2016. The increase was primarily due to the incurrence of early repayment fees in connection with the repayment in November 2017 of a syndicated loan which was formalized in March 2017.

Impairment and gains or losses on disposals of financial instruments

During the financial year ended December 31, 2017, impairment and gains or losses on disposals of financial instruments decreased by €28.4 million, or 103.3%, to a loss of (€0.9 million) from a gain of €27.5 million for the financial year ended December 31, 2016. This decrease reflects the loss of €0.9 million realized from the sale of Expocerámica, S.A. and Keraben's joint venture interest in the Keraben Ceramic Tabriz in 2017, as compared to the gain of €27.5 million realized in 2016 primarily from the sale of Keraben's shares in, amongst others, Construplas, S.L. and Nuevos Productos Cerámicos, S.A.

Corporation tax

During the financial year ended December 31, 2017, corporation tax expense increased by €2.4 million, or 55.8%, to €6.7 million from €4.3 million for the financial year ended December 31, 2016. The increase was primarily due to the increase in non-deductible expenses and a decrease in non-taxable income.

Comparison of results of operations for the year ended December 31, 2015 and the year ended December 31, 2016

The following table sets forth certain income statement data for the financial years ended December 31, 2015 and December 31, 2016:

	For the year ended	
	December 31, 2015[(1)]	**December 31, 2016**
	(€ million)	
CONTINUING OPERATIONS:		
Revenue	107.2	118.0
Changes in inventories of finished goods and work in progress	0.7	0.8
In-house work on non-current assets	0.0	0.0
Procurements	(28.7)	(30.8)
Other operating income	0.3	0.4
Staff costs	(22.1)	(23.8)
Other operating expenses	(31.0)	(31.2)
Depreciation and amortization charge	(8.4)	(8.9)
Allocation to profit or loss of grants related to non-financial non-current assets and other grants	0.9	0.9
Excess provisions	0.3	0.7
Impairment and gains or losses on disposals of non-current assets	(11.4)	(0.8)
Other gains or losses	0.5	(4.1)
Profit from operations	**8.3**	**21.3**
Finance income	1.4	6.3
Finance costs	(2.8)	(2.6)
Changes in fair value of financial instruments	0.0	—
Impairment and gains or losses on disposals of financial instruments	(0.7)	27.5
Exchange Differences	0.1	0.0
Financial profit (loss)	**(2.0)**	**31.2**
Result before tax	**6.4**	**52.4**
Corporation tax	(1.0)	(4.3)
Profit for the year	**5.3**	**48.2**

(1) Reflects the restatement of certain comparative information for the financial year ended December 31, 2015 as a result of the entry into force of Royal Decree 602 of December 2, 2016. For additional information on the accounting change and restatement, see note 2-e to the 2016 Keraben Financial Statements included elsewhere in this Offering Memorandum.

Revenue

During the financial year ended December 31, 2016, Keraben's revenue increased by €10.8 million, or 10.1%, to €118.0 million from €107.2 million for the financial year ended December 31, 2015. The increase was primarily due to the market recovery in Spain, in particular in the I&R end-market. This recovery led to an increase in demand for mid- to upper-market products, including newly launched products.

Procurements

During the financial year ended December 31, 2016, procurement expenses increased by €2.1 million, or 7.3%, to €30.8 million from €28.7 million for the financial year ended December 31, 2015. The increase was primarily due to an increase in sales, which drove increased consumption of raw materials. The cost of raw materials remained relatively stable between these periods.

Staff costs

During the financial year ended December 31, 2016, staff costs increased by €1.7 million, or 7.7%, to €23.8 million from €22.1 million for the financial year ended December 31, 2015. The increase was primarily due to the introduction of a third production shift, which led to an increase in employee headcount, some of whom were hired through temporary employment agencies. Staff hired through temporary employment agencies are more expensive than our own employees.

Other operating expenses

During the financial year ended December 31, 2016, other operating expenses increased by €0.2 million, or 0.6%, to €31.2 million from €31.0 million for the financial year ended December 31, 2015. The increase was primarily attributable to an increase in bad debt provisions.

Depreciation and amortization charge

During the financial year ended December 31, 2016, depreciation and amortization charges increased by €0.5 million, or 6.0%, to €8.9 million from €8.4 million for the financial year ended December 31, 2015. The increase was primarily due to the investments made in plant and equipment.

Impairment and gains or losses on disposals of non-current assets

During the financial year ended December 31, 2016, impairment losses on disposals of non-current assets decreased by €10.6 million, or 93.0%, to €0.8 million from €11.4 million for the financial year ended December 31, 2015. The decrease was primarily due to the impairment of Keraben's non-current assets in Castellón, which were sold in 2016.

Other gains or losses

During the financial year ended December 31, 2016, other gains or losses was a loss of €4.1 million as compared to a gain of €0.5 million for the financial year ended December 31, 2015. The decrease was primarily due to the extraordinary 2016 compensation paid by Keraben to its management board following the sale of Construplas, S.L. and Nuevos Productos Cerámicos, S.A. pursuant to Keraben's acquisition valuation-related sale incentive plan for managers.

Finance income

During the financial year ended December 31, 2016, finance income increased by €4.9 million, or 350.0%, to €6.3 million from €1.4 million for the financial year ended December 31, 2015. The increase was primarily due to the receipt of dividends in 2016 from Construplas, S.L. and Nuevos Productos Cerámicos, S.A.

Finance costs

During the financial year ended December 31, 2016, finance costs decreased by €0.2 million, or 7.1%, to €2.6 million from €2.8 million for the financial year ended December 31, 2015. The decrease was primarily due to the partial write-off of an existing guarantee issued by Keraben to a group company.

Impairment and gains or losses on disposals of financial instruments

During the financial year ended December 31, 2016, impairment and gains or losses on disposals of financial instruments was a gain of €27.5 million as compared to a loss of €0.7 million for the financial year ended December 31, 2015. The increase was primarily due to the gain of €27.5 million realized in 2016 from the sale of Keraben's shares in Construplas, S.L. and Nuevos Productos Cerámicos, S.A.

Corporation tax

During the financial year ended December 31, 2016, corporation tax expense increased by €3.3 million, or 330.0%, to €4.3 million from €1.0 million for the financial year ended December 31, 2015. The increase was primarily due to the increase in profit from operations.

Liquidity and Capital Resources

Cash Flows

The following table sets forth Keraben's cash flows for each of the periods indicated:

	For the year ended		
	December 31, 2015[(1)]	December 31, 2016	December 31, 2017
		(€ million)	
Cash flows from operating activities	13.0	36.7	(26.0)
Cash flows from investing activities	(7.9)	30.6	(3.6)
Cash flows from financing activities	(5.5)	(56.5)	20.1
Effect of foreign exchange rate changes	0.1	0.0	(0.6)
Net increase/decrease in cash and cash equivalents	(0.4)	10.8	(10.2)

(1) Reflects the restatement of certain comparative information for the financial year ended December 31, 2015 as a result of the entry into force of Royal Decree 602 of December 2, 2016. For additional information on the accounting change and restatement, see note 2-e to the 2016 Keraben Financial Statements included elsewhere in this Offering Memorandum.

Cash flow from operating activities

Net cash flow generated by operating activities decreased by €62.7 million to a net outflow of €26.0 million for the financial year ended December 31, 2017 from a net inflow of €36.7 million for the financial year ended December 31, 2016. This decrease was primarily due to certain non-recurring expenses linked to the disposals of certain subsidiaries, including, amongst others, Construplas, S.L. and Nuevos Productos Cerámicos, S.A. as well as the non-current assets in Castellón. These non-recurring expenses were paid in cash.

Net cash flow generated by operating activities increased by €23.7 million to a net inflow of €36.7 million for the financial year ended December 31, 2016 from a net inflow of €13.0 million for the financial year ended December 31, 2015. The increase was primarily due to the increase in sales revenue and the increase in working capital in the year ended December 31, 2016 as compared to the year ended December 31, 2015, as a result of an increase in the payment period for suppliers.

Cash flow from investing activities

Net cash flow from investing activities decreased by €34.2 million to a net outflow of €3.6 million for the financial year ended December 31, 2017 from a net inflow of €30.6 million for the financial year ended December 31, 2016. The decrease was primarily due to the disposals of certain subsidiaries, including, amongst others, Construplas, S.L. and Nuevos Productos Cerámicos, S.A.

Net cash flow from investing activities increased by €38.5 million to a net inflow of €30.6 million for the financial year ended December 31, 2016 from a net outflow of €7.9 million for the financial year ended December 31, 2015. This increase was primarily due to the extraordinary cash inflow from the disposals of certain subsidiaries, including, amongst others, Construplas, S.L. and Nuevos Productos Cerámicos, S.A.

Cash flow from financing activities

Net cash from financing activities increased by €76.6 million to a net inflow of €20.1 million for the financial year ended December 31, 2017 from a net outflow of €56.5 million for the financial year ended December 31, 2016. The increase was primarily due to the new intragroup debt with Victoria PLC in 2017.

Net cash generated by financing activities decreased by €51.0 million to a net outflow of €56.5 million for the financial year ended December 31, 2016 from a net outflow of €5.5 million for the financial year ended December 31, 2015. The decrease primarily reflected the payment of dividends to the management board of Keraben in 2016.

Working Capital

Sales have historically been slightly higher in September, October and November, reflecting consumer trends of undertaking indoor improvements in preparation for winter. Keraben intentionally builds up inventories during the months of June and July in preparation for the fall increase in demand and the annual shutdown for maintenance and repair of the majority of Keraben's manufacturing facilities in

August. As a result, Keraben's trade working capital is higher during the summer months compared to the rest of the year.

As of the end of the years ended December 31, 2015, 2016 and 2017, Keraben's trade working capital was €29.6 million, €24.1 million and €25.3 million, respectively. Expressed as a percentage of Keraben's revenue, Keraben's trade working capital ratio was 27.6%, 20.4% and 19.5% in the years ended December 31, 2015, 2016 and 2017, respectively.

The following table sets forth the components of Keraben's working capital for each of the periods indicated:

	As of December 31,		
	2015[1]	**2016**	**2017**
		(€ million)	
Customers[2]	26.2	26.9	28.5
Suppliers[3]	(16.4)	(23.0)	(24.5)
Stocks[4]	19.8	20.2	21.3
Total working capital	**29.6**	**24.1**	**25.3**

(1) Reflects the restatement of certain comparative information for the financial year ended December 31, 2015 as a result of the entry into force of Royal Decree 602 of December 2, 2016. For additional information on the accounting change and restatement, see note 2-e to the 2016 Keraben Financial Statements included elsewhere in this Offering Memorandum.

(2) Customers includes trade & other receivables less current tax assets and other accounts receivable from public authorities.

(3) Suppliers includes trade and other payables less other accounts payable to public authorities.

(4) Stock includes inventories.

Capital Expenditures

Keraben's capital expenditures for the years ended December 31, 2015, 2016 and 2017 were €10.2 million, €8.6 million and €6.8 million, respectively. Keraben has planned growth capital expenditures over the 2016-2022 financial year period in order to increase its maximum production capacity and to adapt production lines to new tiles and product mixes. Investments to increase production capacity include (i) development of a new production plant expected to begin production in 2020, (ii) new clay atomizers in floor and wall plants in order to increase clay reception capacity, and (iii) new inkjet printing machines for wall and floor pressing and glazing processes. Keraben also intends to invest in certain product mix-changes, which include investments in presses and glazing to adapt production lines to newer, large-format production.

Financial Indebtedness

Contractual Obligations and Contingent Liabilities

On November 16, 2017, in connection with its acquisition by Victoria, Keraben amortized and entirely repaid and cancelled all outstanding amounts under all of its contractual and contingent liabilities with financial institutions. On November 16, 2017, Keraben, as borrower, entered into an intercompany loan agreement with Victoria PLC in the aggregate principal amount of €89.8 million.

Qualitative and Quantitative Disclosure About Market Risk

Credit Risk

Keraben keeps its cash and equivalent liquid assets with reputable financial institutions. In addition, a significant proportion of its turnover and accounts receivable from non-related clients are guaranteed by means of credit insurance policies.

Furthermore, Keraben is not exposed to significant concentrated third-party credit risk, since no client represents more than 10% of Keraben's total accounts receivable as of March 31, 2018. Individual credit limits are established on the basis of both internal and external ratings, in accordance with the limits set by Keraben. The use of these credit limits is regularly monitored.

Liquidity Risk

In order to ensure liquidity and in order to meet payment obligations resulting from its business activities, Keraben disposes treasury by the amount shown in the balance sheet, as well as the financing supplied by the ultimate parent company from the group in which it is integrated. Consequently, Keraben's directors believe that the company has sufficient financial resources to engage in its normal business activities.

Market risk (including interest rate risk, exchange rate risk and other price-related risk)

Keraben's cash and financial debt are exposed to interest rate risk, which could have a significant effect on its financial results and cash flow, in the case a significant variation of such interest rate takes place. Keraben's formalized debt with Victoria PLC for an amount of €89.8 million has a fixed interest rate (2.75%) and is therefore not exposed to interest rate risk.

Exchange rate risk is mainly concentrated in the sale of finished products to countries in America and Asia, which are priced in US dollars. Keraben maintains specific and adequate policies to monitor and manage exchange rate risk in the different currencies in which it transacts.

Critical Accounting Estimates and Judgments

Intangible fixed assets

As a general rule, intangible fixed assets are initially valued at their cost of acquisition or production cost. Subsequently, they are valued at cost minus the corresponding accumulated depreciation and, where applicable, minus losses incurred as a result of impairment. These assets are depreciated on the basis of their useful life.

Tangible fixed assets and real estate investments

Tangible fixed assets are initially valued at their cost of acquisition or production cost, and subsequently valued at cost minus the corresponding accumulated depreciation and, where applicable, minus losses incurred as a result of impairment. The cost of replacing or refurbishing complete items and the cost of extending, modernizing or improving items in order to extend their useful life, productivity or economic yield are entered as a higher cost of the tangible fixed asset in question, with the corresponding removal of the replaced or refurbished items. Regular maintenance, conservation and repair costs are entered against the results, using the accrual principle, as a cost in the year in which they are incurred.

Value impairment of intangible fixed assets, tangible fixed assets and real estate investments

At the end of each financial year, whenever there are signs of a fall in value, Keraben uses an impairment test to estimate the possible existence of a fall in value that may reduce the recoverable value of such assets to an amount that is lower than their book value. The recoverable value is calculated as either the fair value minus sale costs or the operational value, whichever is higher. In the event that the asset does not in itself generate cash flows independently from other assets, Keraben calculates the recoverable value of the cash flow-generating unit to which the asset belongs.

Leases

Leases are classified as financial leases whenever it can be concluded from the terms and conditions of the leases that the risks and benefits inherent in ownership of the asset forming the subject of the agreement are transferred substantially to the lessee. All other leases are classified as operational leases. In the financial leasing transactions in which Keraben acts as lessee, the cost of the leased assets is entered in the balance sheet on the basis of the nature of the item forming the subject of the agreement, and a liability in the same amount is simultaneously entered. Any costs resulting from operational lease agreements are entered in the profit and loss account in the financial year in which they are incurred.

Financial instruments

Financial assets are initially entered, in general terms, at the fair value of the consideration handed over in payment plus any costs that can be directly attributed to the transaction. Loans and accounts receivable are subsequently valued at their depreciated cost. Keraben carries out an impairment test, at least at the end of each financial year, on any financial assets that are not entered at their reasonable value. It is considered that there is objective evidence of impairment if the recoverable value of the financial asset is lower than its book value. When such impairment occurs, this is entered in the profit and loss account. In particular, as regards value adjustments relating to commercial debtors and other accounts receivable, the rule used by Keraben to calculate the relevant value adjustments is to classify the amounts owing as doubtful debts.

Debts and accounts payable are initially valued at the fair value of the consideration received, adjusted to take account of directly attributable transaction costs. Subsequently, these liabilities are valued according to their depreciated cost. Keraben removes financial liabilities when the obligations that gave rise to them disappear.

A Net Equity Instrument represents a residual shareholding in the equity of a company once all its liabilities have been deducted. The Net Equity Instruments emitted by Keraben are registered in the net equity by the amount received, net from expenses linked to its emission.

Stocks

Stocks are valued at their acquisition price, production price or net realizable value, whichever is the lowest. Commercial discounts, lower prices obtained, other similar amounts and the interest included in the base number of debited items are deducted when calculating the acquisition price. Discounts for prompt payment are also included as a lower purchase price, whether shown in the invoice or not.

Production cost includes direct material costs and, where applicable, direct labor costs and general manufacturing costs. The net realizable value represents an estimate of the sale price minus all the costs that are estimated in order to complete manufacture, plus any costs that will be incurred during the course of the marketing, sales and distribution processes. When allocating value to its inventories, Keraben uses the first in first-out (FIFO) method. Keraben makes the appropriate value adjustments, entering them as a cost in the profit and loss account, when the net realizable value of stocks is lower than their cost of acquisition (or production cost).

Subsidies, donations and bequests received

Non-repayable subsidies, donations and bequests are valued at the fair value of the amount granted or item received, depending on whether or not it is in monetary form, and they are entered in the results in proportion to the amount allocated to depreciation of the item benefiting from the subsidy over the period or, where applicable, when it is disposed of or a value adjustment is made for its impairment, with the exception of amounts received from members or owners, which are entered directly as shareholder equity and do not constitute any kind of income. Repayable subsidies are entered as liabilities while they remain repayable.

Transactions in foreign currency

The operational currency used by Keraben is the euro. Consequently, all transactions in currencies other than the euro are regarded as being denominated in foreign currency and entered according to the rates of exchange that apply on the transaction date. At the end of the financial year, monetary assets and liabilities denominated in foreign currency are converted at the rate of exchange on the date of the balance sheet. Any profit or loss that emerges is entered directly in the profit and loss account for the financial year in which it occurs.

Tax on profits

The cost or income from tax on profits or losses comprises the (i) to the cost or income from current tax and (ii) the cost or income due to deferred tax. Current tax is the amount that Keraben pays as a consequence of the tax payable on the income it has earned during the financial year. Any deductions or other tax advantages that apply to the tax amount, excluding withheld taxes and payments on account, plus any tax losses that can be offset from previous financial years and that can be applied during the current year, lead to a decrease in the current tax amount. The cost or income from deferred tax corresponds to the recognition and cancellation of assets and liabilities resulting from deferred taxes. These include the time-period differences identified as amounts that are expected to be payable or recoverable due to the difference between the asset and liability amounts shown in the books and their taxable value, together with any negative tax bases that are pending offset and credits due as the result of deductions against tax that are not fiscally applied. These amounts are entered by applying the time-period difference or corresponding credit to the tax rate at which they are expected to be recovered or paid.

Income and expenses

Income and expenses are entered on the basis of accrual criteria, that is at the time of the actual flow of goods and services that they represent, regardless of the time at which the monetary or financial flow resulting from such goods and services occurs. Income is valued at the fair value of the payment received minus discounts and taxes. Income from sales is entered at the moment that all significant risk and benefit inherent in ownership of the item being sold is transferred to the purchaser, and neither current management of that item nor effective control thereover are subsequently maintained. With regards to income from the provision of services, this is recognized on the basis of the degree to which such services have been completed on the date of the balance sheet, provided that the results of the transaction can be reliably estimated. Interests received from financial assets are entered on the basis of the effective interest rate method, while dividends are entered when the shareholders' right to receive them is announced. In any case, any interest or dividends accruing on financial assets subsequent to their acquisition are entered as income in the profit and loss account.

Provisions and contingencies

Provisions are valued at the current value of the best possible estimate of the amount that will be required to cancel or transfer the obligation, bearing in mind all available information relating to the event and its consequences, and any adjustments arising as a result of the updating of such provisions are entered as a financial cost as they accrue. Contingent liabilities are not entered in the annual accounts, though information on such liabilities is given insofar as they are not classified as remote.

Assets items of an environmental nature and greenhouse gas emission rights

Asset items of an environmental nature are understood to be lasting assets that are used during the course of Keraben's activities for the main purpose of minimizing environmental impact, protecting and improving the environment, including the reduction or elimination of future contamination.

The tangible fixed asset items designed to minimize any environmental impact that could result from the activities engaged in by Keraben are valued at cost price, adjusted by their accumulated depreciation. Any extension, modernization and improvement costs are capitalized when they represent an extension of the estimated useful life of the assets in question. Otherwise they are treated as costs for that financial year, along with repair and maintenance costs. Any costs that are incurred in relation to the protection and improvement of the environment and that do not represent an investment in tangible fixed assets are entered in the results for the year in which they are incurred, regardless of the time at which the cash or financial stream resulting from such costs materializes. Amounts incurred in the management of environmental effects resulting from the business activities engaged in by Keraben are classified as environmental costs, as are the costs that result from Keraben's existing environmental undertakings. These include the costs incurred as a result of preventing pollution in relation to Keraben's current operational activities, the treatment of residue and waste, decontamination, restoration, environmental management and environmental auditing.

Greenhouse gas emission rights, which are used for the cancellation of the obligation derived from the emissions developed by Keraben, were reclassified as stocks. In the same way, emission rights hold to be sold were registered. Any profit or loss resulting from the disposal or withdrawal of a right is calculated as the difference between the sale price and the book value of the asset, and this is entered in the profit and loss account. "Greenhouse gas emission rights" are entered in the balance sheet when Keraben becomes eligible for such rights. When such rights are acquired free of charge or at a price that is substantially lower than their market value, the acquisition price is considered to be their market price at the time of acquisition or at the beginning of the calendar year. In this case, they will be entered with a contra entry under "Subsidies, donations and bequests received" in the Net Equity Value section of the balance sheet, once any deferred tax associated with them has been deducted.

After being entered as an asset, emission rights are valued at their acquisition price or production price under stocks. The necessary provisions are set aside in order to give them their lower market value at the end of each financial year, whenever their book value may not be recoverable from the generation of sufficient income to cover all costs and expenses. Costs attached to the emission of greenhouse gases require the corresponding provision to be made for risks and costs, and this provision is maintained until the moment that Keraben has to cancel the obligation in question by handing over the corresponding emission rights.

Related party transactions

Keraben carries out all related party transactions at market prices. In addition, its transfer pricing policy is properly supported on the basis of the requirements set out in current tax legislation. Keraben's board of directors therefore believe that there are no material risks associated with related party transaction that could give rise to company liabilities.

Classification of current and non-current balances

Current assets are understood to be assets that are linked to the normal business cycle, which is generally regarded as a one-year period, and the term is also understood to apply to assets that are due to mature or be disposed of or realized in the short term following the end of the financial year, financial assets maintained for negotiation and cash and other equivalent liquid assets. Assets that do not meet these requirements are classified as non-current. Similarly, current liabilities are liabilities that are linked to the normal business cycle, financial liabilities maintained for negotiation (excluding financial derivatives with a settlement term of more than one year) and, in general, all obligations that are due to mature or be cancelled in the short-term, otherwise they are classified as non-current.

INDUSTRY OVERVIEW

The market information included in this section is taken or derived from the Freedonia Report (unless otherwise stated). Market information is inherently forward-looking and subject to uncertainties and may not reflect actual market conditions. Market information is based on market research, which itself is based on sampling and subjective judgments by both researchers and respondents, including judgments about what types of products and competitors should be included in the relevant market. In addition, certain statements below, including in the section entitled "—Industry Composition—Competitors," are based on management's own information, insights, subjective opinions and internal estimates, and are not based on any third-party or independent source; these statements contain words such as "we estimate," "we expect" or "we believe" and as such do not purport to cite or summarize any third-party or independent source and should not be so read. Prospective purchasers of the Notes should not place undue reliance on any forecasts and forward-looking statements in this section and should make their own independent assessment of our future prospects and the risks relating to the markets in which we operate. See "Risk Factors", "Forward-Looking Statements" and "Presentation of Industry and Market Data."

Global Market Overview

There are a number of products that comprise the global flooring industry. The two major product segments are: hard-flooring, which is composed of non-resilient flooring and resilient flooring, and soft-flooring, which is also known as carpets and rugs. Global demand for flooring includes both hard-flooring and soft-flooring (collectively, "**Global Flooring Demand**").

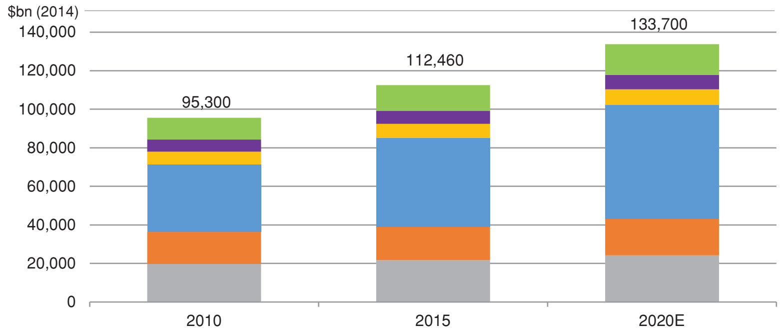
Non-resilient flooring includes ceramic tiles, laminate and wood flooring, as well as other miscellaneous items such as bamboo, glass, plastic and grating. Relative to other flooring products, non-resilient flooring benefits from durability and ease of maintenance. In 2015, non-resilient flooring accounted for approximately 61.6% of flooring demand (Source: Freedonia Report). It is forecast that non-resilient flooring will be the fastest-growing segment of the flooring market from 2015 to 2020, with an expected compound annual growth rate ("**CAGR**") of approximately 3.5% (Source: Freedonia Report).

Resilient flooring products mainly consist of vinyl but also include asphalt, cork, linoleum and rubber. Resilient flooring products are relatively lower in cost compared to other flooring products and benefit from high underfoot comfort, noise absorption, durability and wear resistance. Also included in this category are LVT, which have been gaining popularity in recent years with demand expected to continue to increase. Resilient flooring demand is forecast to grow at a CAGR of approximately 3.0% in the period from 2015 to 2020 (Source: Freedonia Report).

Soft-flooring products are textile floor coverings. These products range from braided, hooked and needle-punched products, as well as tufted products such as broadloom carpeting, scatter rugs, bath mats and artificial grass. In contrast to the other types of flooring, soft-flooring is expected to show more modest growth over the 2015 to 2020 period, with a forecast CAGR of approximately 2.4% (Source: Freedonia Report). Tufted products constitute the vast majority of this segment, and their lower cost and improving product performance are expected to contribute to demand growth for tufted products.

The level of economic growth has an impact on Global Flooring Demand. Global real gross domestic product ("**GDP**") is projected to grow at a CAGR of approximately 3.5% from 2015 through to 2020, with the Asia/Pacific region expected to experience the highest growth rate over the forecast period (Source: Freedonia Report). The forecasted global real GDP growth rate is slightly higher than the global real GDP growth rate experienced for the 2010 to 2015 period. The following chart shows GDP by region for 2010 through to the forecasted GDP for 2020.

Gross Domestic Product by Region (billion 2014 dollars)



	2010	2015	2020E	2010-2015 CAGR	2010-2020E CAGR
GDP	**95,300**	**112,460**	**133,700**	**3.4%**	**3.5%**
North America	19,470	21,880	24,270	2.2%	2.3%
Western Europe	16,640	17,350	18,800	0.8%	1.6%
Asia / Pacific	34,930	46,010	59,200	5.7%	5.2%
Central & South America	6,634	7,402	8,100	2.2%	1.8%
Eastern Europe	6,396	6,858	7,550	1.4%	1.9%
Africa / Mideast	11,230	13,160	15,780	3.2%	3.7%

Source: Freedonia Report

Global Flooring Demand is forecasted to reach approximately 18.7 billion square meters (“**m²**”) with a valuation of approximately $295 billion by 2020 (Source: Freedonia Report). This represents a CAGR of approximately 3.2% from 2015 to 2020 (Source: Freedonia Report). The Asia/Pacific region and the Africa/Mideast region are projected to contribute to most of this growth, as personal income for individuals in developing countries in these regions is expected to grow. Growing personal income in these areas is also expected to translate into increased demand for flooring products as an alternative to traditional unimproved floor surfaces.

Our largest markets are Western Europe, the United Kingdom and Australia. The Western European region is projected to record a CAGR of approximately 1.2% over the 2015 to 2020 period (Source: Freedonia Report). The United Kingdom is expected to have a similar growth profile over the same period, with demand also forecasted to grow at a CAGR of approximately 1.2% (Source: Freedonia Report). Demand in Australia, where soft-flooring dominates the market, is forecasted to grow at a CAGR of approximately 1.1% over the 2015 to 2020 period (Source: Freedonia Report).

Flooring has three predominant end-markets: (i) residential buildings, (ii) non-residential buildings and (iii) transportation equipment and other uses.

The residential buildings end-market encompasses single-family homes, multi-family structures (for example, apartments) and manufactured housing. This end-market can be further segmented into (i) new construction (i.e. the building of new structures) end-market and (ii) improvement and repair (**“I&R”**) end-market. The I&R end-market constitutes the majority of the market.

The non-residential buildings end-market includes office, retail, institutional, industrial, and other business / government facilities. Like the residential buildings end-market, flooring in this end-market can also be further segmented into new construction and I&R. The new construction end-market is smaller relative to the I&R end-market, both globally and in Western Europe.

The transportation equipment and other uses end-market consists of a variety of vehicle types (for example, automobiles and boats) and other miscellaneous applications such as power plant control rooms and water treatment facilities. Nearly all of the transportation related flooring products are installed at the OEM level an remain throughout the vehicle’s life, unless it is refurbished.

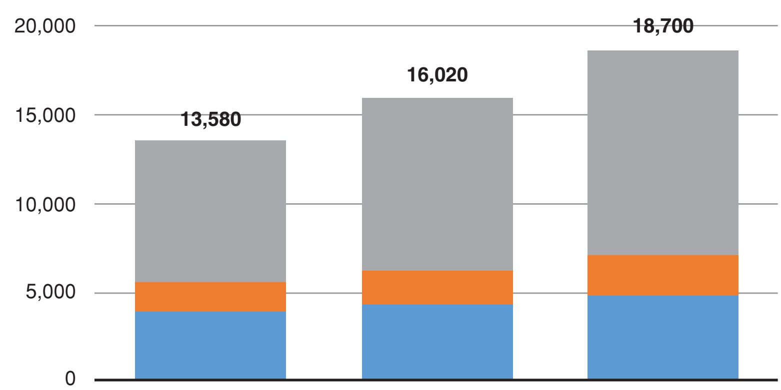
The primary driver of Global Flooring Demand is construction activity. Construction activity varies from new construction to I&R. Economic and demographic factors have an impact on the level of construction activity. For example, residential construction expenditure is influenced by real interest rates, population growth, employment rates and personal income. On the other hand, non-residential construction expenditure is impacted by the general business cycle and the supply of buildings within a particular area. Additionally, higher income countries (such as Australia, the United States and Japan) typically have well-developed building construction and/or transportation equipment manufacturing sectors, making new construction and renovations more affordable for their respective populations.

Global Flooring Demand by Product

Flooring product demand varies greatly across jurisdictions with flooring decisions influenced by a number of factors. Cultural preferences are one factor that influence flooring demand. For example, soft-flooring accounted for the majority (approximately 58%) of flooring demand in the United States in 2015 (Source: Freedonia Report). In contrast, soft-flooring accounted for approximately 8.0% in China in 2015 (Source: Freedonia Report). Additionally, climate can impact flooring choices across geographies, with ceramic flooring being more popular in warmer regions.

In 2015, non-resilient flooring was the most popular flooring product accounting for approximately 61.6% of flooring demand (Source: Freedonia Report). Non-resilient flooring is forecast to grow at the fastest rate between 2015 to 2020 at a CAGR of approximately 3.5% (Source: Freedonia Report). In contrast, soft-flooring is expected to grow at a more modest pace over this period at a CAGR of approximately 2.4% (Source: Freedonia Report). The following chart shows Global Flooring Demand by product for 2010 and 2015 as well as forecasted demand for 2020.

Global Flooring Demand by Product: 2010, 2015 and 2020E (million m^2)



	2010	2015	2020E	2015-20 CAGR
Total Demand	13,580	16,020	18,700	3.1%
Nonresilient	8,060	9,865	11,700	3.5%
Resilient	1,740	1,985	2,300	3.0%
Carpets & Rugs	3,780	4,170	4,700	2.4%

Source: Freedonia Report

Non-resilient Flooring

Non-resilient flooring tends to be more costly than other flooring products, though this price differential has decreased as the prices of other products have increased. As the non-resilient flooring segment encompasses a very broad range of products, it is more fragmented than the flooring industry as a whole.

Global demand for non-resilient flooring is expected to reach approximately 11.7 billion m^2 by 2020, representing a CAGR of approximately 3.5% from 2015 through to 2020 (Source: Freedonia Report). In 2015, ceramic tiles were the most popular category of non-resilient flooring globally, representing approximately two thirds of the global demand for non-resilient flooring (Source: Freedonia Report). The two other significant non-resilient flooring products in 2015 were wood and laminate, accounting for approximately 13.0% and 8.0% of global non-resilient flooring demand, respectively (Source: Freedonia Report).

Laminate is forecast to grow at the fastest rate among non-resilient flooring products, with an estimated CAGR of approximately 7.3% from 2015 to 2020 (Source: Freedonia Report).

Resilient Flooring

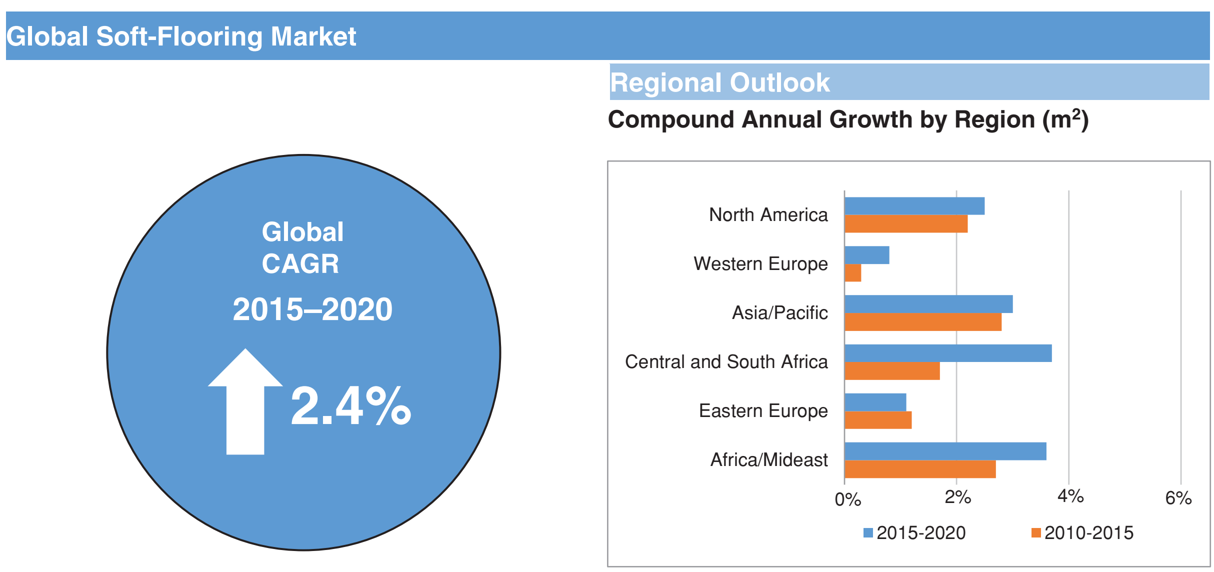
Resilient flooring products primarily encompass vinyl-based products but the segment also includes asphalt, cork, linoleum and rubber. The key benefits of resilient flooring products include high underfoot comfort, noise absorption, durability, high wear resistance and relatively lower cost. LVT have been gaining popularity in recent years and demand is expected to continue to increase.

Global demand for resilient flooring is expected to reach approximately 2.3 billion m^2 by 2020, representing a CAGR of approximately 3.0% from 2015 through to 2020 (Source: Freedonia Report). In 2015, vinyl accounted for approximately 73.3% of global resilient flooring demand (Source: Freedonia Report). Vinyl is forecast to grow at the fastest rate at an estimated CAGR of approximately 3.0% from 2015 to 2020 (Source: Freedonia Report).

Soft-flooring

Soft-flooring products comprise woven and tufted broadloom carpets and carpet tiles, area rugs, bath mats, door mats, staircase runners, as well as carpets for aircraft, motor vehicles and other products. In recent years, global demand for soft-flooring products has lost market share to hard-flooring products, with soft-flooring products market share declining from approximately 34.7% of Global Flooring Demand in 2005 to approximately 26.0% in 2015 (Source: Freedonia Report). This trend is expected to stabilize by 2020, with soft-flooring products projected to account for approximately 25.1% of Global Flooring Demand (Source: Freedonia Report).

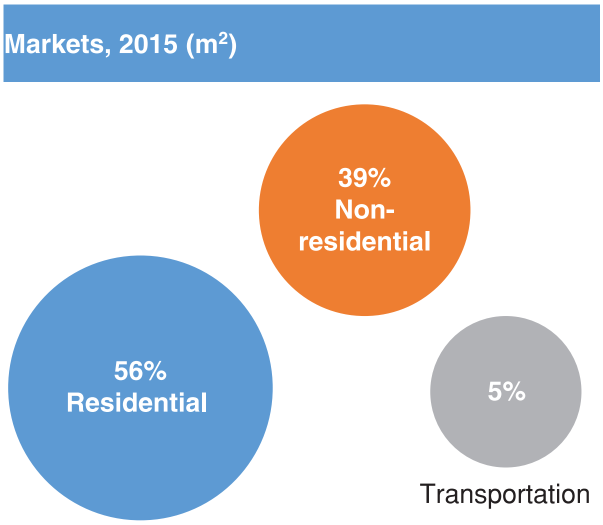
Global demand for soft-flooring products is forecast to reach approximately 4.7 billion m^2 in 2020, representing a CAGR of approximately 2.2% from a demand of approximately 3.8 billion m^2 in 2010 (Source: Freedonia Report). In 2015, tufted products accounted for approximately 71.0% of global soft-flooring demand (Source: Freedonia Report). Tufted products are forecast to grow at the fastest rate at an estimated CAGR of approximately 2.5% from 2015 to 2020 (Source: Freedonia Report).

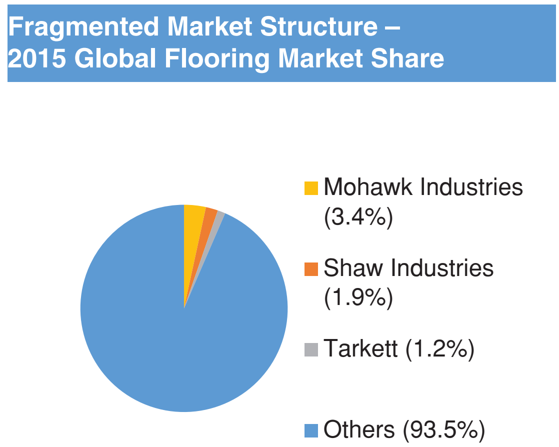


Source: Freedonia Report.

Global Flooring Demand by Market

The following chart outlines the market share of Global Flooring Demand of each end-market as well as the key industry players.





Source: Freedonia Report.

We focus on the I&R end-market, which is significantly larger than the new construction end-market, demonstrating our limited dependence on new construction activity. Additionally, the I&R end-market is more price inelastic as flooring refurbishment is a cost-efficient method of aesthetic improvement relative to other refurbishment alternatives.

Residential Buildings

Demand growth in the residential buildings end-market is forecasted to be constrained as a result of a predicted decrease in global residential construction spending. Demand for flooring in the residential buildings end-market is forecasted to reach approximately 10.1 billion m^2 by 2020 from approximately 8.9 billion m^2 in 2015, representing a CAGR of approximately 2.6% from 2015 through to 2020 (Source: Freedonia Report). This growth is broadly in-line with the CAGR for the 2010 to 2015 period (Source: Freedonia Report).

The I&R end-market is expected to grow at a CAGR of approximately 2.2%, reaching approximately 6.8 billion m^2 in 2020 compared to 6.1 billion m^2 in 2015 (Source: Freedonia Report). This is slower than the expected CAGR for the new residential segment of approximately 3.3% over the same period (Source: Freedonia Report). The growing popularity of hard-flooring products, which are more durable than textiles and can often last at least two decades, are expected to limit growth rates in the I&R end-market. However, demand is expected to benefit from increased personal income levels in developing countries, making I&R projects more affordable.

Non-residential Buildings

Demand for flooring in the non-residential buildings end-market is projected to reach approximately 7.6 billion m^2 by 2020 from approximately 6.3 billion m^2 in 2015, representing a CAGR of approximately 3.8% over this period (Source: Freedonia Report). This expected CAGR is less than the CAGR of this segment from 2010 to 2015 (Source: Freedonia Report).

Similar to the residential construction market, the non-residential I&R end-market is significantly larger than the non-residential construction end-market, with non-residential I&R accounting for approximately 73.3% of global non-residential flooring demand in 2015 (Source: Freedonia Report). Demand for flooring products in the non-residential I&R end-market is expected to grow at a CAGR of approximately 4.0% for the period from 2015 to 2020, reaching around 5.6 billion m^2 by 2020 (Source: Freedonia Report). The expected CAGR in this segment is slightly higher than the CAGR experienced in this segment from 2010 to 2015 (Source: Freedonia Report).

Transportation Equipment and Other Uses

The transportation equipment and other uses market includes a variety of vehicle types, from automobiles, boats, recreational vehicles, vans, and other consumer-type equipment to aircraft, buses, rail cars, ships, trucks, and other commercial vehicles. We do not have a significant presence in this end-market.

Key Markets Overview

Our key markets are the Germany, the United Kingdom, France and Spain (all of which are part of the Western European market) as well as Australia (which is part of the Asia/Pacific market). We have provided a general overview of these markets below.

United Kingdom Market Overview

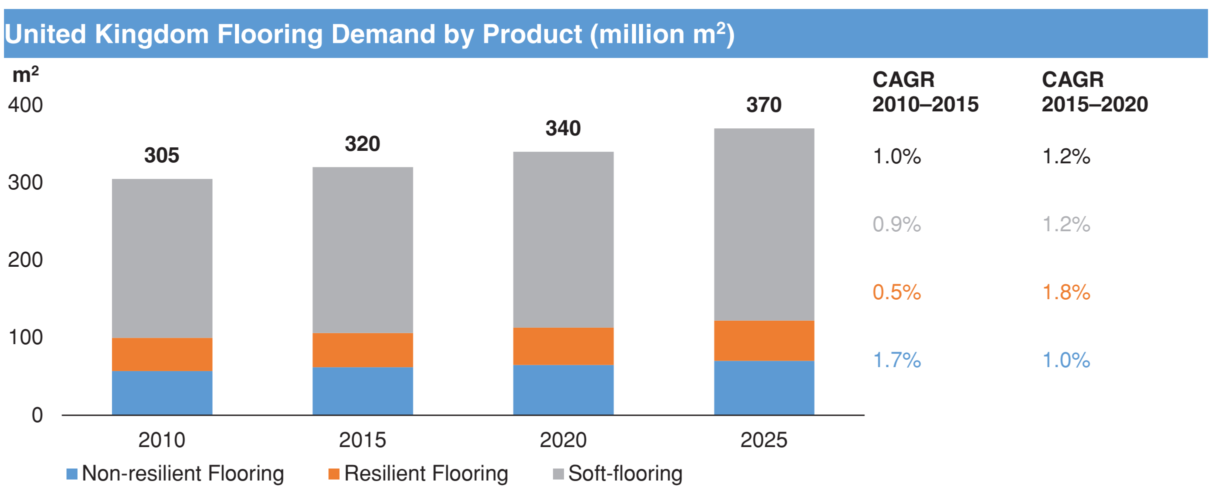
Overview

The United Kingdom's economy began a sustained recovery in 2013 as a result of improved conditions in the manufacturing sector, recovery in the residential housing market and increases in business investment spending. The United Kingdom is Western Europe's second largest economy and is a key regional financial hub. In June 2016, the United Kingdom voted to exit the European Union ("**Brexit**"). To date, the potential effects of Brexit on foreign trade and investment remain unclear. GDP growth is forecasted to slow, increasing at 1.8% annually up to 2020 (Source: Freedonia Report).

In 2015, the United Kingdom accounted for approximately 15.8% of total flooring demand in Western Europe. Flooring demand in the United Kingdom is forecast to reach approximately 340 million m^2 in 2020, representing a CAGR of approximately 1.2% from 2015 to 2020, which is largely consistent with the CAGR of approximately 1.0% from 2010 to 2015 (Source: Freedonia Report). The United Kingdom is projected to increase its share of the Western European flooring market from 15.8% in 2015 to 15.9% in 2020 (Source: Freedonia Report).

Demand by Product

In 2015, soft-flooring accounted for the largest portion of flooring demand in the United Kingdom, accounting for approximately 66.9% of total United Kingdom flooring demand (Source: Freedonia Report). The graph below shows flooring product demand per segment from 2010 up to the expected demand in 2025.

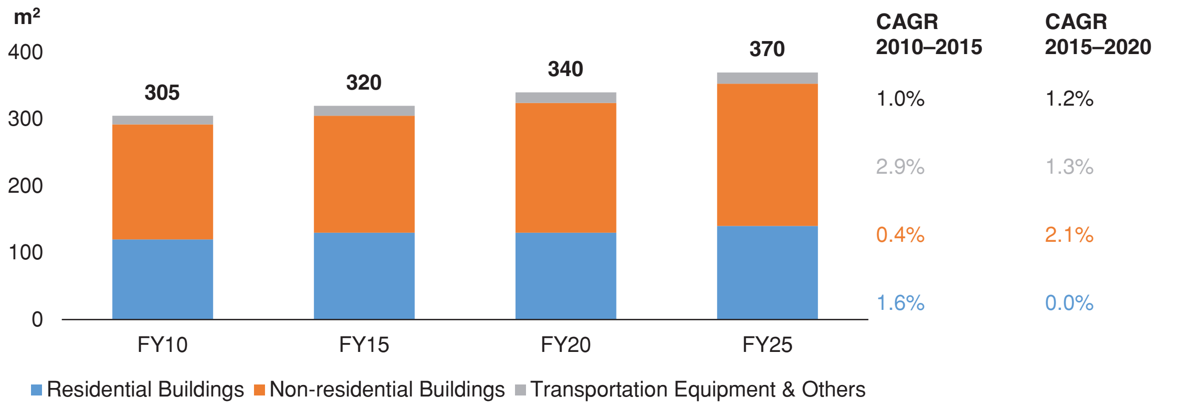


Source: Freedonia Report

Demand by End-market

In 2015, the non-residential building end-market accounted for the largest portion of flooring demand in the United Kingdom, accounting for approximately 54.7% of flooring demand (Source: Freedonia Report). The graph below shows flooring product demand per segment from 2010 up to the expected demand in 2025.

United Kingdom Flooring Demand by End-market (million m²)



Source: Freedonia Report

Spain Market Overview

Overview

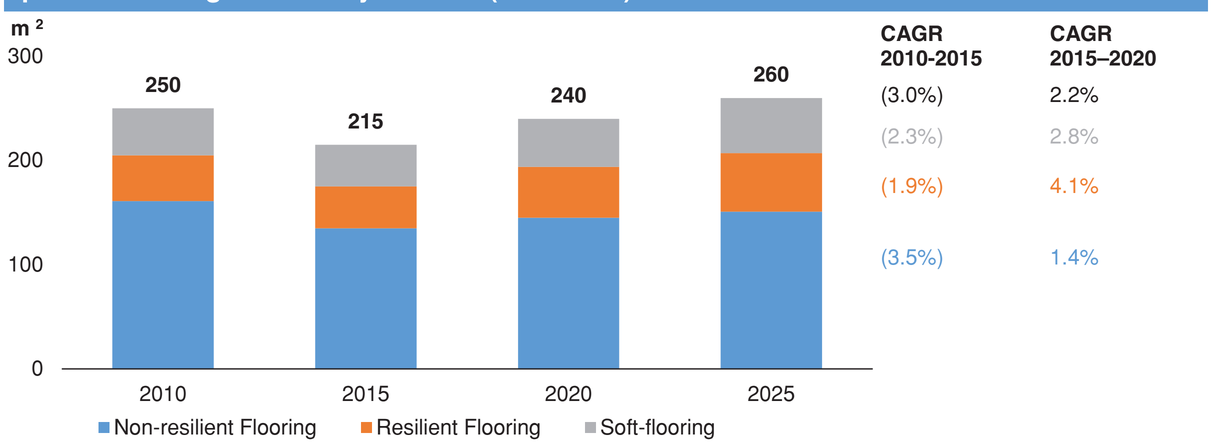
Spain was one of the fastest growing economies in Western Europe prior to the 2008 global financial crisis and is Western Europe's fifth largest economy. Since 2013, Spain has experienced modest growth.

In 2015, Spain accounted for approximately 10.6% of total flooring demand in Western Europe (Source: Freedonia Report). Flooring demand in Spain is forecast to reach approximately 240 million m^2 in 2020, representing a CAGR of approximately 2.2% from 2015 to 2020, as compared to the negative CAGR of approximately 3.0% from 2010 to 2015 (Source: Freedonia Report). Spain is projected to increase its share of the Western European flooring market from 10.6% in 2015 to 11.2% in 2020 (Source: Freedonia Report).

Demand by Product

Due to the popularity of ceramic tiles, non-resilient flooring accounted for the largest portion of flooring demand in Spain in 2015, accounting for approximately 63.0% of total Spanish flooring demand (Source: Freedonia Report). The graph below shows flooring product demand per segment from 2010 up to the expected demand in 2025.

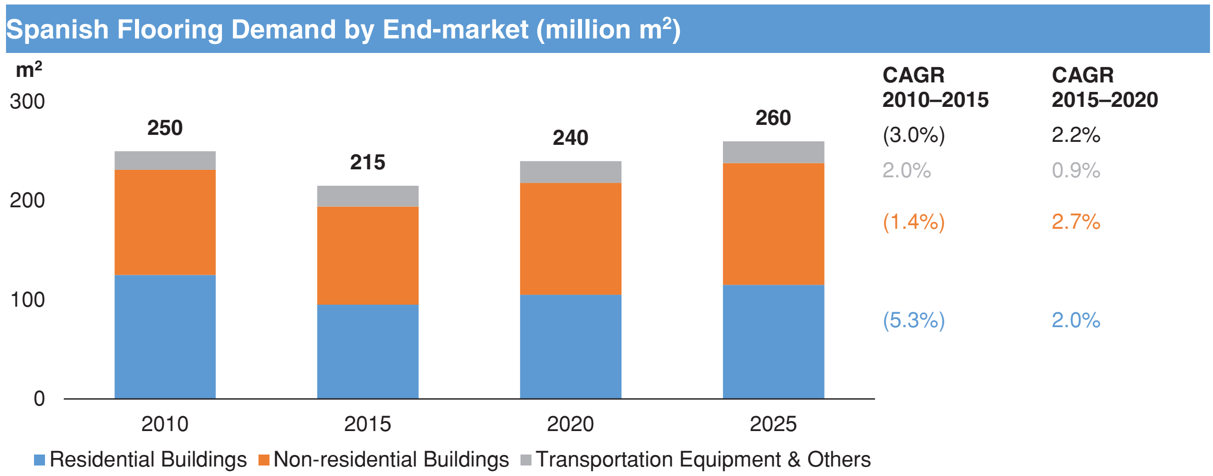
Spanish Flooring Demand by Product (million m²)



Source: Freedonia Report

Demand by End-market

In 2015, the non-residential building end-market accounted for the largest portion of flooring demand in Spain, accounting for approximately 46.0% of flooring demand (Source: Freedonia Report). The graph below shows flooring product demand per segment from 2010 up to the expected demand in 2025.



Source: Freedonia Report

Australia Market Overview

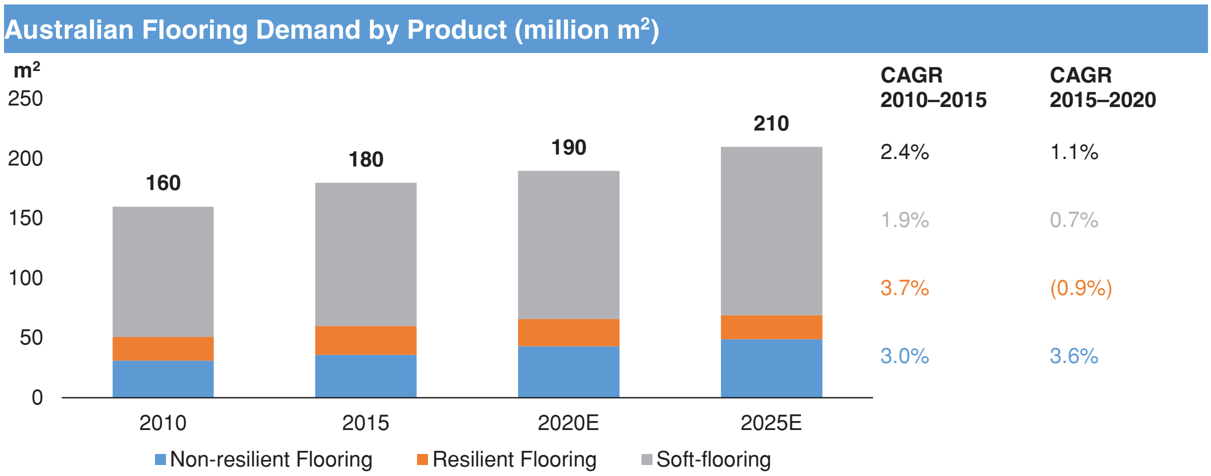
Overview

Australia is a developed economy characterized by significant mining and manufacturing sectors and has evolved to be a regional financial services hub. Australian real GDP is forecast to grow at 2.7% annually up to 2020, which is consistent with the growth experienced from 2005 to 2015 (Source: Freedonia Report).

Australia forms part of the Asia/Pacific region. In 2015, the Asia/Pacific flooring market was the largest regional market, with flooring demand at around 7.8 billion m^2, equating to nearly half of the Global Flooring Demand in 2015 (Source: Freedonia Report). Australia accounted for approximately 2.3% of this demand (Source: Freedonia Report). Flooring demand is forecast to reach around 190 million m^2 in 2020, representing a CAGR of approximately 1.1% from 2015 to 2020, which is less than half the CAGR achieved from 2010 to 2015 (Source: Freedonia Report). Australia's share of the Asia/Pacific flooring market is projected to decrease from 2.3% in 2015 to 2.0% in 2020 (Source: Freedonia Report). Australia's per capita demand for flooring products is one of the highest in the world (Source: Freedonia Report).

Demand by Product

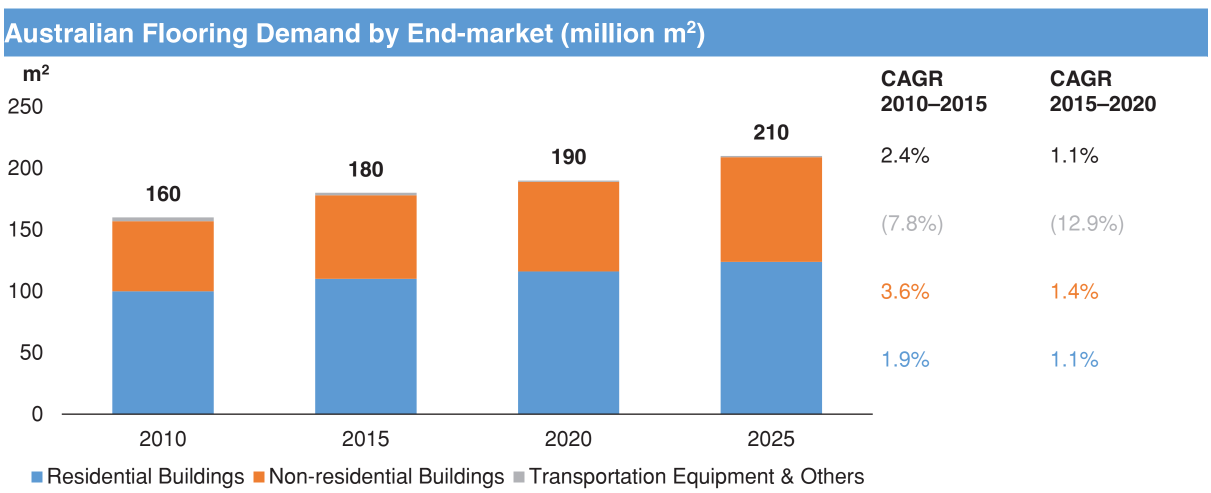
In 2015, soft-flooring accounted for the largest portion of flooring demand in Australia, accounting for approximately two thirds of total Australian flooring demand (Source: Freedonia Report). The graph below shows flooring product demand per segment from 2010 up to the expected demand in 2025.



Source: Freedonia Report

Demand by End-market

In 2015, the residential building segment accounted for the largest portion of flooring demand in Australia, accounting for approximately 61.1% of flooring demand (Source: Freedonia Report). The graph below shows flooring product demand per segment from 2010 up to the expected demand in 2025.



Source: Freedonia Report

Germany Market Overview

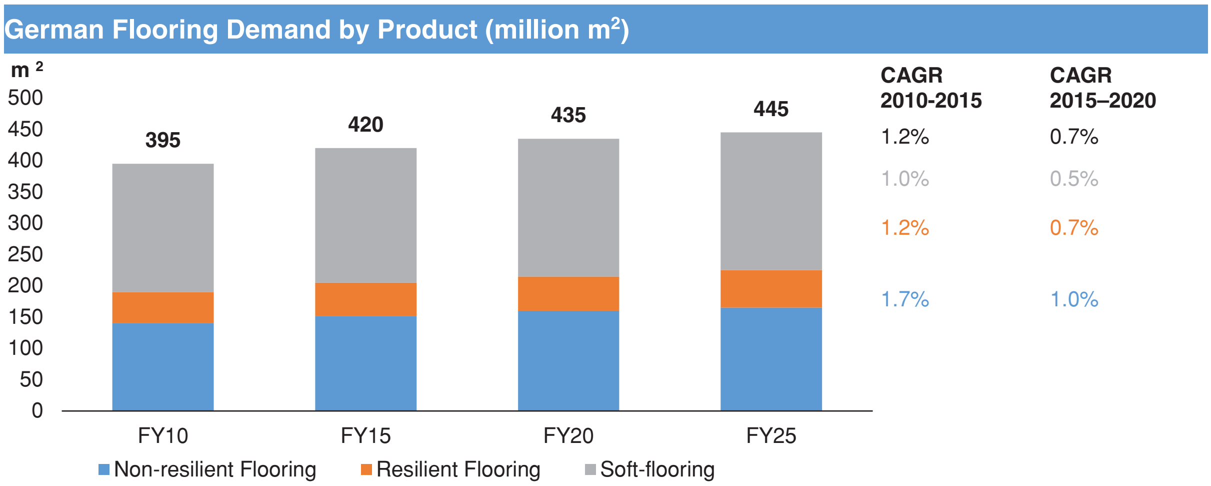
Overview

Germany is the largest Western European economy with strong economic indicators, including a highly productive labor force, high investment levels, comparatively low unemployment levels and GDP per capita above the regional average. Germany's economy is forecasted to grow at 1.4% annually through to 2020, with the growth expected to be sustained by both domestic and external demand (Source: Freedonia Report).

In 2015, the Western European flooring market was the third largest regional market behind the Asia/Pacific and North American regions, with flooring demand at around 2.0 billion m^2 (Source: Freedonia Report). Germany accounted for approximately 20.8% of this demand (Source: Freedonia Report). Flooring demand in Germany is forecast to reach around 435 million m^2 in 2020, representing a CAGR of approximately 0.7% from 2015 to 2020, which is lower than the CAGR of approximately 1.2% from 2010 to 2015 (Source: Freedonia Report). Germany's share of the Western European flooring market is expected to decrease from 20.8% in 2015 to 20.3% in 2020 (Source: Freedonia Report).

Demand by Product

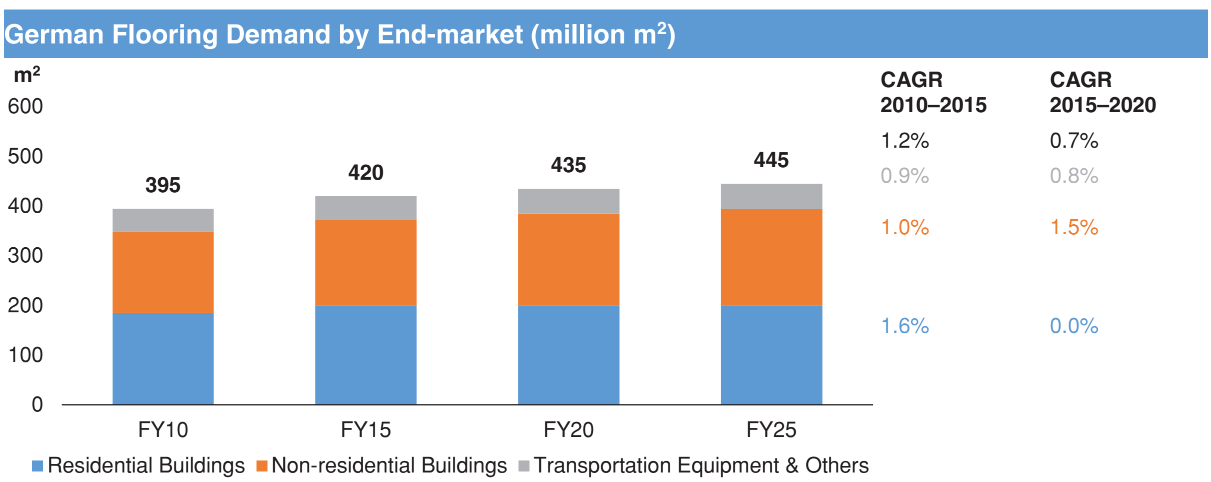
Soft-flooring products were the most popular floor covering products in Germany in 2015, accounting for just over half of total German flooring demand (Source: Freedonia Report). The graph below shows flooring product demand per segment from 2010 up to the expected demand in 2025.



Source: Freedonia Report

Demand by End-market

In 2015, the residential building end-market accounted for the largest portion of flooring demand in Germany, accounting for approximately 47.6% of flooring demand (Source: Freedonia Report). The graph below shows flooring product demand per end-market from 2010 up to the expected demand in 2025.



Source: Freedonia Report

France Market Overview

Overview

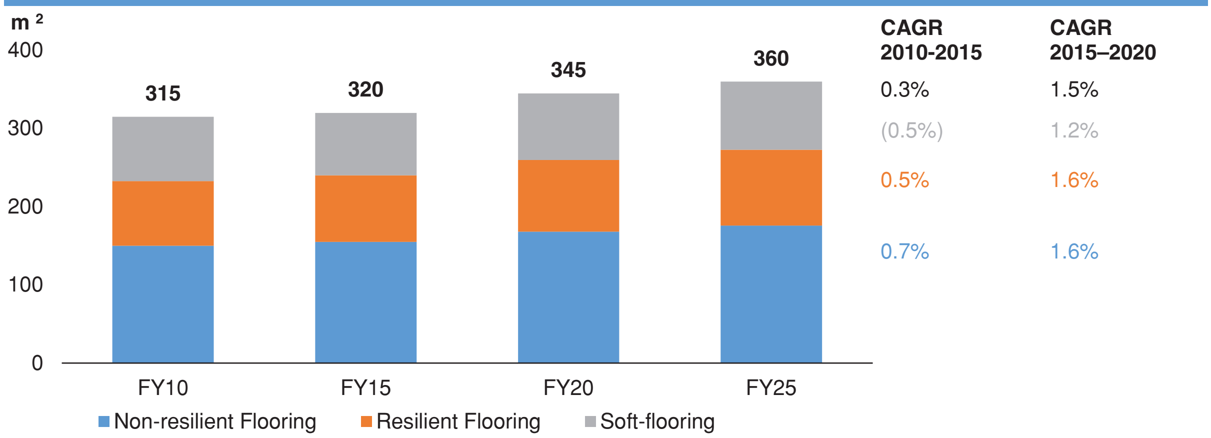
France is Western Europe's third largest economy behind Germany and the United Kingdom. The economy of France is expected to grow at a modest pace as the economic climate in Western Europe improves (Source: Freedonia Report).

In 2015, France accounted for approximately 15.8% of total flooring demand in Western Europe. Flooring demand in France is forecast to reach approximately 345 million m^2 in 2020, representing a CAGR of approximately 1.5% from 2015 to 2020, as compared to a CAGR of approximately 0.3% from 2010 to 2015. France is projected to increase its share of the Western European flooring market from 15.8% in 2015 to 16.1% in 2020 (Source: Freedonia Report).

Demand by Product

Non-resilient flooring products (particularly ceramic tiles and laminate flooring) were the most popular floor covering option in France in 2015, accounting for nearly half of the total French flooring demand (Source: Freedonia Report). The graph below shows flooring product demand per segment from 2010 up to the expected demand in 2025.

French Flooring Demand by Product (million m²)

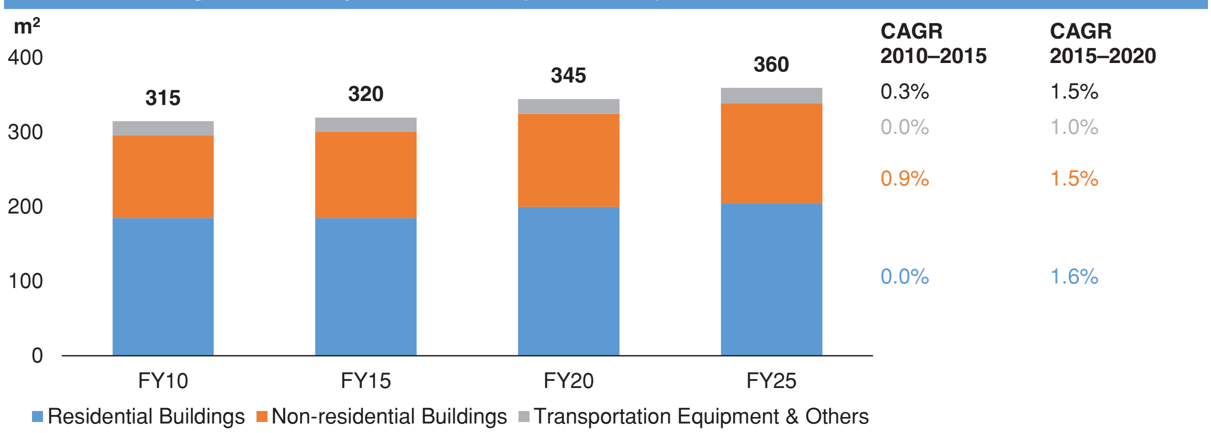


Source: Freedonia Report

Demand by End-market

In 2015, the residential building end-market accounted for the largest portion of flooring demand in France, accounting for approximately 57.8% of flooring demand (Source: Freedonia Report). The graph below shows flooring product demand per segment from 2010 up to the expected demand in 2025.

French Flooring Demand by End-market (million m²)



Source: Freedonia Report

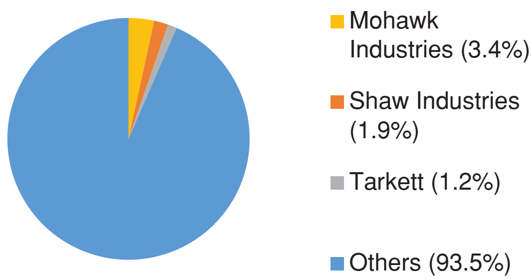
Industry Composition

Overview

The global floor covering industry is highly fragmented, consisting of a large number of manufacturers and distributors offering a diversity of products. These companies range from small, privately-held businesses focused on producing a single type of floor covering, to state-owned enterprises, to multinational corporations with a diverse product offering. While there are a number of large players in the industry, small and mid-sized companies dominate overall production.

In 2015, the top three producers, Mohawk Industries, Shaw Industries and Tarkett, collectively accounted for approximately 6.5% of Global Flooring Demand market share (Source: Freedonia Report).

**Fragmented Market Structure –
2015 Global Flooring Market Share**



Source: Freedonia Report

Competitors

We primarily operate within the residential segment of the flooring market, with a focus on supply to the retail channel. We believe that we do not have any directly comparable competitors due to our diverse product offering within our core markets in Europe and Australia. In our view, the industry landscape within which Victoria operates can be broadly divided into three competitor market segments, namely, soft-flooring specialists, ceramic tile specialists, and large multi-class producers.

Within the soft-flooring specialists segment, Balta, Condor Carpets and Associated Weavers are some of the key, larger players with a strong presence in Europe. However, these companies do not have any offering within resilient or non-resilient hard flooring. Furthermore, whilst all of these companies export to the UK market, which is both the largest broadloom carpet market within Europe and our primary focus within this segment, they do not have comparably broad distribution capabilities and are more reliant than Victoria on local wholesalers and larger national retailers.

Within the ceramic tile specialists segment, Porcelanosa, Pamesa Ceramica and Baldocer, each based in Spain, and Florim and Marazzi (the latter owned by Mohawk), based in Italy, are examples of key competitors. However, none of these companies have resilient hard-flooring or soft-flooring product offerings.

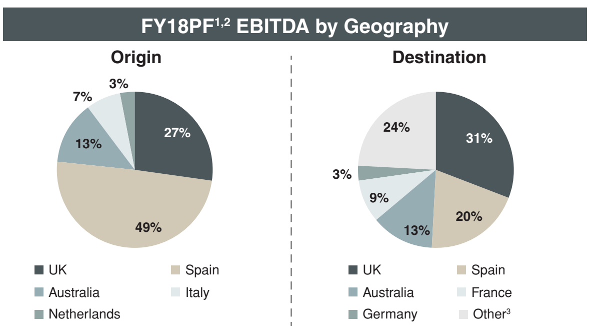
In terms of large multi-class producers, Tarkett, Forbo and Beaulieu International (Flooring Solutions division) are the main players within Europe. Tarkett and Forbo are predominantly focused on the manufacture and distribution of resilient hard-flooring products (where Victoria currently has a smaller, selective presence) as well as products for commercial end-markets. The Flooring Solutions division of Beaulieu International has a broader product offering, including a range of resilient and non-resilient hard-flooring products as well as broadloom carpets, although no ceramic tile offering.

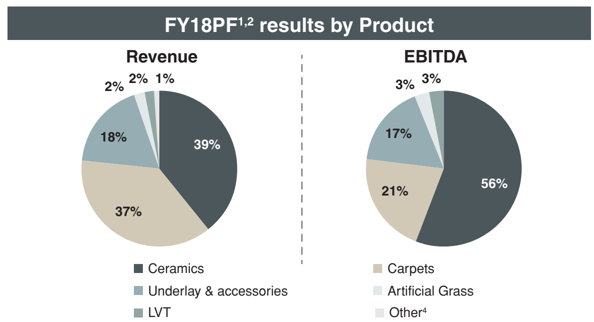
BUSINESS

Overview

We are a leading designer, manufacturer and distributor of innovative flooring products across the United Kingdom, Continental Europe and Australia, established in 1895 and publicly listed since 1963. We are the largest carpet manufacturer in the United Kingdom, the second largest carpet manufacturer in Australia and the largest flooring underlay manufacturer in both countries, in each case by volume. We are also a leading Continental European ceramic tile manufacturer. We manufacture and supply a range of carpet, ceramic tiles, flooring underlay, LVT, artificial grass and flooring accessories. The majority of our products are for residential use and are sold through our retail customer base. We primarily target mid- to upper-market product segments of the flooring industry as well as certain niche product segments. For the 52 weeks ended June 30, 2018, we generated £630.6 million of Adjusted *Pro Forma* Revenue and £111.7 million of Adjusted *Pro Forma* EBITDA (17.7% Adjusted *Pro Forma* EBITDA margin). While we have grown over this period largely through strategic acquisitions, like-for-like growth was 2.8%, 4.6% and 1.6% (adjusted for the restructuring of certain UK operations and the impact of a weather-related business interruption).

We offer a diversified product portfolio of flooring products, both in terms of product category and target price point. Although originally focused on soft-flooring offerings, we have gained scale in the large and fragmented flooring industry through a combination of acquisitions and organic initiatives to become a major competitor in both the soft- and hard flooring markets. The following charts set forth our *Pro Forma* Revenue and *Pro Forma* EBITDA by geography and product segment for the 2018 financial year.





(1) *Pro forma* for the Acquisitions.

(2) This split assumes a consistent margin on sales across all geographies and for each business unit.

(3) Other includes, among others, Italy (1.6%), Netherlands (1.6%), Romania (1.6%), Poland (1.1%), Hungary (0.9%), Ireland (0.8%) and New Zealand (0.7%).

(4) Other includes Carpet tiles (1.0%) and Wood (0.3%).

We have a strong and long-standing presence in the UK carpet industry. To build on this competitive advantage, we expanded into the complementary flooring underlay market by adding flooring underlay operations in both the United Kingdom and Australia in 2015 and 2016. This was achieved through the acquisitions of Interfloor in 2015 and Ezi Floor in 2016, flooring underlay manufacturers based in the United Kingdom, and the 2016 acquisition of Dunlop, a flooring underlay manufacturer based in Australia. In response to robust growth in demand for artificial grass, we further expanded into the artificial grass market through our acquisitions of GrassInc and Avalon in the Netherlands in 2017. Most recently, we entered the ceramic flooring segment in Continental Europe through our acquisitions of Serra (Italy) and Keraben (Spain) in 2017, and of Saloni (Spain) in 2018.

We have a highly successful multi-brand strategy with over 30 brands encompassing mid- to upper-priced products. These include 14 carpet brands covering a broad range of wool and synthetic products, such as Victoria, Whitestone Weavers, StainFree and Quest; Westex and Hugh Mackay, two of our premium carpet brands; Duralay, Dunlop and Tredaire, leading and innovative flooring underlay brands; Keraben and Saloni, mid- to upper-market ceramic flooring brands; Distinctive and Heartridge, under which we sell high-end LVT products; and GrassInc and Avalon, under which we sell artificial grass products for a wide range of applications, including parks, sports grounds, lawns and indoor applications.

We benefit from economies of scale through our consolidated manufacturing facilities in the United Kingdom, Belgium, the Netherlands, Spain, Italy and Australia. Our business is selectively vertically integrated, comprising three components: (i) the design and specification of the majority of our products; (ii) the manufacturing of the substantial majority of our products, with limited outsourcing in circumstances in which doing so is financially and operationally beneficial; and (iii) the distribution of our products based on their product category and customer proposition, which maximizes the turnover of our inventory and product efficiency. We believe that this balanced approach to vertical integration creates robust margins and increases our competitive advantage in our target markets. We believe we have competitive advantages in the markets in which we operate, including our design capabilities, large-scale and efficient in-house manufacturing facilities and our long-standing direct relationships with retailers across all operating businesses.

We operate nine manufacturing sites in the United Kingdom and Continental Europe and five manufacturing sites in Australia. Our integrated in-house capabilities allow us to operate our production facilities flexibly, varying production levels as appropriate, while maintaining a low fixed cost base, high efficiency and rigorous quality control. Where advantageous to do so, we have consolidated the design, manufacturing and distribution of certain of our products.

Our core markets are the United Kingdom, Continental Europe and Australia, where we employ over 3,000 people across more than 20 sites. The largest end-market for our products is the I&R end-market, and, therefore, our business is less exposed to the economic cycles that otherwise commonly affect the cyclical construction end-market. We sell the substantial majority of our products in the same geographical segments in which they are manufactured, placing us in close proximity to our customer bases across core markets. Our relationships with our customers, the thousands of flooring retailers and small number of distributors and direct sales customers we supply across the United Kingdom, Continental Europe and Australia, are central to our success. We primarily sell directly to retailers. In the United Kingdom alone, our 3,000-plus customers range from independent retailers to distributors and large format chains. Some of these relationships, across operating geographies, are multi-generational and we believe the strength and depth of these relationships represent a significant competitive advantage. When coupled with our recent expansion, these relationships allow us to offer a broad range of products to our customers and further our cross-selling opportunities. We benefit from a large, diverse customer base with limited concentration. For the 2018 financial year, our top ten customers constituted approximately 15% of our *Pro Forma* Revenue, with our largest customer constituting approximately 4% of our *Pro Forma* Revenue.

Strengths

Market-leading business with an efficient global footprint

We have built a market-leading business across our core markets with a wide product range and global production and distribution capabilities. We are the largest carpet manufacturer in the United Kingdom, with approximately 9% market share, the second largest carpet manufacturer in Australia, with approximately 7% market share, and the largest flooring underlay manufacturer in both jurisdictions, in each case by volume. We are also a leading Continental European ceramic tile manufacturer in the mid- to upper-market ceramic flooring segment by volume, with approximately 5% market share.

We manufacture a broad range of innovative products, which we distribute to leading retailers and wholesalers across commercial and residential end-markets globally. The Group is headquartered in the United Kingdom, with operations across the United Kingdom, Spain, Italy, the Netherlands, Belgium and Australia, employing over 3,000 people at more than 20 sites, including highly automated, flexible and efficient manufacturing facilities. Our production sites across the United Kingdom, Continental Europe and Australia enable us to service demand in local as well as nearby markets. Through our recent acquisitions of Keraben and Saloni in Spain, Serra in Italy, GrassInc and Avalon in the Netherlands and Millennium in Belgium, we have increased our distribution of revenues across Continental Europe while maintaining our efficient margin strategy.

We have increased efficiencies across our business by consolidating production in locations with excess capacity while rationalizing our manufacturing footprint. At the same time, we enhanced our logistics capabilities in the United Kingdom, which is our largest geographical segment. In 2017, we began the reorganization of our United Kingdom manufacturing footprint and logistics operations to improve productivity, manufacturing capacity and customer service. This process included the closure of our Kidderminster factory, which we completed in September 2017, and the ongoing relocation of our distribution center in the Midlands. Closure of the Kidderminster factory resulted in our United Kingdom carpet production being shared between two factories located in Yorkshire and South Wales. We anticipate that further efficiency gains will be made from the completed opening of our Southern Distribution Center near London, servicing all of our brands, and the potential for a further new distribution center in northern England.

We believe that our market-leading positions across our key end-markets, together with our wide product range and our global distribution capabilities allow us to closely track and adapt to customer behavior while adjusting our production levels to match demand. Specifically, as a result of our presence in multiple product segments, our vertical integration and significant contacts across retailers, we are able to receive substantial feedback as to end-consumer trends in design and supply volumes on a timely basis.

Stable flooring market dominated by the less cyclical improvement and repair end-market

The United Kingdom, Continental European and Australian flooring markets are stable, mature and attractive end-markets. Our core markets, the United Kingdom, Continental Europe and Australia, are expected to undergo stable economic growth in the coming years. According to the Freedonia Report, this economic growth is expected to translate into increased overall demand in the flooring industry across our core markets. The combined United Kingdom, Continental European and Australian flooring market is forecast to grow at a CAGR of approximately 1.2% between 2015 and 2020, with the I&R end-market forecast to grow at a CAGR of approximately 1.8% over the same period. The hard-flooring market is expected to experience the most substantial growth in the flooring industry. Demand for resilient flooring (consisting primarily of vinyl, rubber and linoleum) is expected to grow at a CAGR of approximately 3.0%, followed by non-resilient flooring (consisting primarily of ceramic, laminate and wood) at a CAGR of approximately 3.5%. The non-resilient flooring market is expected to grow at a particularly robust pace in Australia, a market characterized by a large building and construction sector, a high standard of living and positive macroeconomic environment, at a CAGR of approximately 3.6% between 2015 and 2020. We believe that our rapid and successful expansion into the hard-flooring market in Continental Europe, as well as our sizeable presence in Australia supported by our current optimization initiatives, collectively enable us to defend our position and take advantage of these growth trends.

In addition to the stable growth forecast for the flooring industry generally, our business benefits specifically from our focus on the I&R end-market. The I&R end-market in the United Kingdom and Continental Europe is approximately four to five times larger than the new construction end-market and has limited dependence on new construction activity. Demand for new flooring in the new construction end-market tends to lag overall growth in new construction and is typically more volatile than the I&R end-market due to the cyclical nature of new construction activity. Conversely, the I&R end-market, which is driven by consistent wear-and-tear damage and the desire to upgrade the appearance of existing homes, is characterized by greater price inelasticity and is typically less susceptible to business cycles. Based on the composition of our customer base, we believe that over 80% of our revenues are generated from the I&R end-market.

Established market position in an industry with high barriers to entry

Over the course of our operating history, we have developed sufficient scale, expertise and breadth of product offering to succeed notwithstanding the significant barriers to entry in the flooring industry. We believe this business model would be difficult to replicate due to the following structural barriers to entry:

- **Fragmented customer base:** Our broad customer base is dominated by independent retailers, with whom we enjoy long-standing and, we believe, mutually beneficial relationships;
- **Strength of brands:** We have a diverse portfolio of over 30 brands that we believe enjoy strong recognition with customers;
- **Globally priced key raw materials costs:** Raw materials constitute the majority of our cost of production. Our primary raw materials are synthetic yarn, clay, natural gas, polyurethane foam and trim and rubber, which have relatively consistent global pricing. As a result, we are able to keep certain of our costs competitive with low-cost international manufacturers looking to distribute their products within our geographical segments;
- **Difficulty in transport of products:** Carpets are large, non-palletized goods and ceramic tiles are heavy, making both products difficult and expensive to transport. High transportation costs are another barrier preventing low-cost international manufacturers from distributing their products within our geographical segments. We sell the substantial majority of our products in the same geographical segments in which they are manufactured, which minimizes our transportation costs;

- **Difficulty in contract manufacturing:** Long production runs are required in our industry in order to enable cost-effective manufacturing. As a result, contract manufacturing is not a feasible alternative to the owned production capabilities that we have; and

- **Capital barriers and technical expertise:** New entrants seeking to establish operations locally would face significant up-front capital costs and a scarcity of technical and production expertise.

We believe these barriers to entry protect our business from both the threat of inexpensive, international imports as well as new entrants to our local markets.

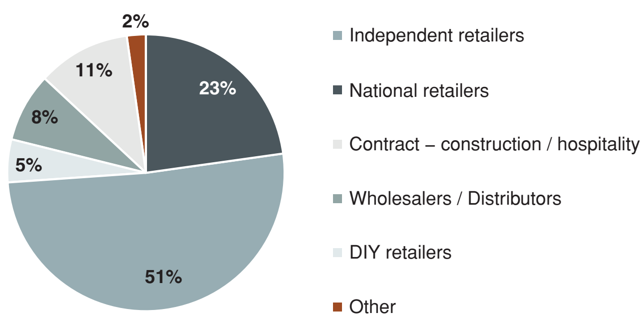
Highly diversified business across products, geographies and customers

We have a diverse product portfolio consisting of wool and synthetic broadloom carpets, ceramic tiles, laminate, flooring underlay, LVT and other hardwood flooring products, artificial grass, carpet tiles and flooring accessories. These products are spread across over 30 brands. Notably, while we have sought to selectively expand our product portfolio, we have strategically elected not to enter into product markets characterized by low margins and high price competition, such as linoleum. We primarily target the mid- to upper markets and employ a commercially focused product development process to proactively manage our margins. Our design, quality control, production and cost control processes inform one another and are designed to yield product specifications that align with our target customers' price points while optimizing margins.

Our customer relationships and manufacturing flexibility also aid diversification of our product portfolio. Our close relationships with our customers provide us with valuable feedback and enable us to adapt to changes in end-customer preferences. We are also able to avoid large-scale product warehousing because of our ability to rapidly scale production on short notice, allowing us to maintain lean inventory levels which further aid product diversification.

The evolution of our product range has been targeted and deliberate, underpinned by selective acquisitions through which we have increased production flexibility and our product and geographical diversification. As a result of this careful expansion, we are not overly dependent on any particular product segment, with ceramic flooring products, carpet products and flooring underlay constituting 39%, 37% and 18% of our revenue for the 2018 financial year after giving *pro forma* effect to the Acquisitions. Additionally, we are not unduly dependent on any particular brand (with Keraben constituting the largest proportion of our sales at 18.3%) or geographical segment and have the flexibility to produce and serve multiple geographies and shift production as needed based on fluctuations in demand. After giving *pro forma* effect to the Acquisitions, 60.6% of our revenue by origin was generated outside of the United Kingdom for the 2018 financial year.

Through our portfolio of over 30 brands, we offer a broad, differentiated and regularly evolving product portfolio for a variety of end-markets, including residential, office and hospitality and leisure. The breadth of these offerings provide us with a diverse customer base consisting of independent retailers, national retailers, DIY retailers and buying groups, with over 3,000 customers in the United Kingdom, over 2,000 customers in Continental Europe and approximately 800 customers in Australia. These retailers are highly diversified across specialist, non-specialist, general and DIY sales channels. The chart below sets forth our customer distribution by sales channel through the 2018 financial year, pro forma for the Acquisitions.



Significantly, the vast majority of our products are sold directly to independent flooring retailers rather than third-party distributors, which we believe drives brand loyalty and long-term relationships. Our involvement in the supply chain tends to end at distribution, with products rarely being sold directly to consumers, optimizing margins. Unlike some of our competitors, a minority of our revenue is generated from large retail chains. Approximately 55% of our revenue comes from independent retailers (including

DIY retailers) while approximately 25% comes from large retail chains. Additionally, in the 2018 financial year, no customer represented more than 4% of our revenue with our largest ten customers accounting for approximately 15% of our revenue.

We believe that the breadth of our product offering and the diversity of our revenue streams support the resilience of our business and that our sales of products across a number of attractive flooring segments increases our cross-selling opportunities, visibility and pricing power. We further believe that our wide product offering, expansive geographic footprint and diverse base of customers strengthen our position as a leading designer, manufacturer and distributor of innovative flooring products while positioning us for future growth.

Low operational gearing through a flexible cost base and low capital expenditure requirements

We benefit from low operational gearing, with 54% of our costs (46% of our cost base as a percentage of our revenues) for the 2018 financial year (*pro forma* for the Acquisitions) varying directly with revenue. A further 31% of our costs (26% of our cost base as a percentage of revenues) for the 2018 financial year (*pro forma* for the Acquisitions), is semi-variable, with the ability to adapt within a few months. We have been able to maintain this low operational gearing despite being a manufacturing business by automating certain processes and because our equipment generally has a very long useful life. We also benefit from multiple production sites with the flexibility, capacity and cost structure to vary production levels, enabling our business to maintain efficiency in favorable markets and resilience through the more challenging parts of the business cycle.

Further, as much of our plant and equipment is relatively inexpensive and can be replaced on a modular basis, our business requires a limited amount of maintenance capital expenditures relative to our cash flows. Of our capital expenditures for the 2018 financial year, £14.1 million related to maintenance and £15.2 million related to growth. While our maintenance capital expenditures have increased on an absolute basis over the last three years, our maintenance capital expenditures as a percentage of our total revenue remained relatively stable, at 4.0%, 3.3% and 3.3% for the 2016, 2017 and 2018 financial years, respectively.

Strong financial performance with resilience through economic downturns

We were resilient throughout the financial crisis, increasing revenue in each of 2006–2011. Our focus on the less cyclical I&R end-market made us less susceptible to from the worst effects of the financial crisis, during which time consumers opted for less expensive forms of home improvement. While we shifted our sales mix to lower than average selling prices in order to protect sales volumes, we were able to utilize our flexible cost base to maintain our margins.

Since the financial crisis, we have expanded our product portfolio, developed a more efficient production footprint and introduced better inventory management. We now offer an expanded product portfolio and have shifted from a pure carpeting business to a hard and soft-flooring group, with a range of carpet, ceramic tiles, flooring underlay, LVT and artificial grass products. As a result of our increased scale through acquisitions and various operational initiatives, we also possess a more efficient production footprint and better inventory management. We believe that these changes have strengthened our underlying business and leave us poised to capitalize on the more favorable macroeconomic backdrop, especially as we have also diversified geographically in both manufacturing and sales without over-exposure to any single geographic market.

Since the change in our management in 2012, we have experienced a period of accelerated growth coupled with improvements in EBITDA margins, increasing from 7.2% in the 2014 financial year to 15.2% in the 2018 financial year. These increases began with a restructuring in the 2013 financial year that included a one-off stock rationalization and mill consolidation to reduce excess capacity. Further, we have maintained consistently high Operating Cash Flow Conversion of 99.4%, 95.4% and 99.7% in the 2018, 2017 and 2016 financial years, respectively. This strong free cash flow generation has allowed us to de-lever following new acquisitions, and has been supported by relatively limited working capital requirements and stable capital expenditures that have grown in proportion to the growth in our business since 2014.

We remain committed to continuing margin growth in our existing businesses. In 2017, we began the reorganization of our UK manufacturing footprint and logistics operations to improve productivity, manufacturing capacity and customer service. This process included the closure of our Kidderminster factory, which we completed in September 2017, and the ongoing relocation of our distribution center in the Midlands. Closure of the Kidderminster factory resulted in our UK carpet production being shared between two factories located in Yorkshire and South Wales. We anticipate that further efficiency gains will be made from the completed opening of our Southern Distribution Center near London, servicing all of our brands, and the potential for a further new distribution center in northern England.

In line with this focus, we announced our intention to rationalize our flooring underlay production facilities in Sydney and Melbourne, Australia, which we acquired in January 2017 and plan to concentrate production in a single facility in the second half of 2019. We acquired these two facilities in Sydney and Melbourne through our purchase of Dunlop Flooring in January 2017. We have decided to concentrate our manufacturing activity at our existing Sydney site while closing the site near Melbourne. Together with an investment of approximately AUD $2.1 million in new technology, this initiative is expected to improve raw material processing, finishing and packaging at the Sydney site. This combination of rationalization and investment are intended to increase our operational agility and result in a more efficient and productive operation.

Proven acquisition track record and ability to realize synergies

Since 2013, we have participated in the consolidation of a highly fragmented industry and believe we have built a reputation as a credible acquirer. Though we aim to maximize the realization of synergies following an acquisition, our strategy is primarily focused on acquiring high-quality, high-margin targets that we intend to operate as stand-alone propositions. We seek to acquire businesses that are growing and profitable, with high-quality facilities and products as well as competitive advantages in production and distribution. Our acquisition targets generally possess sustainable above-average margins and are led by committed and capable management teams. We believe this focus on stand-alone business value allows us to minimize our downside acquisition risk while maintaining room for synergistic upside potential.

Since the change in Group management in 2013, we have made 13 acquisitions, including the recent acquisitions of Keraben, Serra and Saloni. Over this period, our Underlying EBITDA has grown from £2.3 million in the 2013 financial year to £64.7 million in the 2018 financial year, and, after giving effect to the Acquisitions, our Adjusted *Pro Forma* EBITDA in the 52 weeks ended June 30, 2018 was £111.7 million.

Our increased scale through acquisitions has given us significant opportunities for margin improvement. We possess better buying power for raw materials and have consolidated our manufacturing, distribution, warehousing and logistics capacity. Additionally, the acquisition of production capacity and development of distribution facilities in close proximity to our clients is also a competitive advantage, as the high levels of customer dispersion typical in the flooring industry can generate substantial distribution costs. Our strategically located distribution facilities allow us to minimize these costs and access customers in a timely and cost-effective manner. Through our increased scale, we have also been able to rationalize product lines, improve working capital management through SKU reduction and take advantage of cross-selling products through new distribution channels. As a result of the above, our acquisition strategy has resulted in realized margin synergies, as evidenced by the increase in our Underlying EBITDA margin from 3.3% in the 2013 financial year to 15.2% in the 2018 financial year.

We have a long history of creativity and innovation in the flooring industry, both technical and aesthetic, and we are well-positioned to develop, together with our customers, design concepts and create innovative products that are tailored to consumers' tastes and preferences. Our strategic acquisitions in the ceramic tile and artificial grass segments position us to continue to offer products tailored to a contemporary audience. We continue to introduce new product collections every year to meet consumer preferences and trends.

Experienced management team with proven track record of sustainable value creation

We have a strong and experienced management team that has positioned us for continued growth and development. Geoffrey Wilding, responsible for our rapid and successful expansion, joined the Group as Executive Chairman in 2012 and drives overall Group strategy. The 2018 financial year was Philippe Hamers' first full year as our Chief Executive Officer. Mr. Hamers has over 25 years of experience in the flooring industry, most recently chairing Europe's largest carpet manufacturing operation before assuming his role with us.

We operate a "team of teams" structure that minimizes cost friction and red tape, while capitalizing on local expertise and allowing organic local strategies to flourish. Our global operating strategy is generated centrally by Group-level management, including budgeting, capital expenditure planning and cross-business operations. Complementing our Group-level strategy, we maintain a decentralized structure with Managing Directors responsible for the day-to-day management of each of our core operating businesses. Within the limits of our overall strategy and objectives, each Managing Director develops their own strategy and tactics (reviewed by the Board) to deliver their targets.

Our management team has a strong track record of identifying value-accretive acquisition targets, integrating the acquired companies and identifying and achieving synergies. In selectively growing our operations, we look for mature businesses with modern, well-invested production facilities, committed management teams, established distribution channels and competitive advantages in the relevant target market. Once a business has been acquired, we have historically been able to deliver significant production and purchasing synergies, which continue to drive growth in operating margins and improved like-for-like performance, as evidenced by five consecutive years of increasing EBITDA margins.

Importantly, we are focused on retaining the management teams at our operating business level, a strategy that has proved successful for the Group. We have retained nearly all members of management in post-acquisition earn-out periods and, out of the 13 acquisitions made by the Group since 2013, seven are either post earn-out or did not have an earn-out period. In addition, our divisional management teams have extensive experience in the flooring industry and we believe that their collective industry knowledge, technical expertise, and customer and supplier relationships will enable them to continue to grow our business and execute our strategies.

Strategy

Continue to generate sustainable organic top-line growth in selected product segments

Our growth since 2013 has created a consolidated platform in carpeting, flooring underlay, flooring accessories, ceramic flooring and LVT products. While the Group has grown over this period largely through strategic acquisitions, like-for-like growth was 2.8%, 4.6% and 1.6% (adjusted for operations and the impact of a weather-related business interruption) for the 2016, 2017 and 2018 financial years, respectively. We intend to continue to utilize our platform in order to defend our market position, develop new products, and leverage our distribution channels to drive organic top-line growth.

When investing in our organic development, we target product segments in which we benefit from existing high margins and where we can increase operational efficiencies. For example, we benefit from high margins in our ceramic flooring segments, and have planned investments in Keraben to increase ceramic production capacity. These investments include the development of a new production plant anticipated to begin production in 2020, the installation of new clay atomizers in floor and wall plants designed to increase clay reception capacity and the installation of new inkjet printing machines for wall and floor pressing and glazing processes. Additionally, in the 2018 financial year we completed the rationalization of our UK manufacturing footprint by closing our Kidderminster factory, with our UK carpet manufacturing now being shared between factories located in Yorkshire and South Wales. We recently announced a similar initiative in Australia, which will result in the consolidation of our two flooring underlay factories into a single, enlarged facility located in Sydney. We have also strengthened our UK logistics network, including through the establishment of our new Southern Distribution Center and the relocation of our Midlands distribution center. We intend to continue refining the multi-site operation of this distribution network. In addition to optimizing our cost base, these initiatives are a competitive advantage as they allow our customers to distribute their products more efficiently, which we believe will drive increased sales.

While our primary focus is on sales to retailers and the I&R market, we also aim to grow our contract offering directly to end-market consumers, particularly within the hospitality and leisure and construction end-markets. Though our Whitestone operating business currently services clients within these end-markets, we have identified these end-markets as targets for organic expansion as our existing presence is minimal. In light of our growing ceramic tile and LVT product offerings, we have begun designing and creating products specifically for these product segments with our sales teams concentrating marketing efforts in these areas.

We are also making targeted investments into new product development and associated marketing materials, aided by our selective acquisitions in new strategic areas in which we believe there is superior and sustainable market growth and high margins. For example, we have expanded into the attractive Continental European ceramic flooring industry with our acquisitions of Keraben, Saloni and Serra. Non-resilient flooring, mostly consisting of the ceramic flooring segment, remains the most popular flooring solution across Continental Europe. Additionally, our acquisitions of GrassInc and Avalon give us a foothold in the rapidly expanding global artificial grass industry. We believe there are large, underpenetrated markets for these and other products and we intend to leverage the scale of our footprint and our diverse distribution channels in order to capitalize on these opportunities.

Acquisitive growth to realize margin-driving synergies and integration

Since 2013, we have become a consolidator in a highly fragmented industry and have built a reputation as a disciplined and credible acquirer. Through a combination of acquisitions and organic initiatives, the Group has grown from having Underlying EBITDA of £2.3 million in the 2013 financial year to Adjusted *Pro Forma* EBITDA of £111.7 million in the 52 weeks ended June 30, 2018.

This growth supports our belief that the flooring market is suitable for further consolidation. Manufacturing in our industry is characterized by many small, inefficient and privately owned manufacturers; for example, there are over 250 manufacturers in the United Kingdom and Continental Europe. The 20 largest flooring producers globally only represented approximately 12% of global revenues in 2015. Further, we are generally insulated from large-scale competition within the United Kingdom and Continental Europe as the largest global manufacturers operate in the United States.

Small manufacturers offer potential economies of scale, stable backgrounds and typically operate in the I&R end-market, which is less sensitive to economic cycles. Most carpet manufacturers trade at or below net asset value and, therefore, incumbent owners are often keen to exit. With many retiring owners lacking a succession plan, we are seen as an ideal buyer among few buying players in the market. We are constantly sourcing new opportunities for acquisitive growth and aim to make two-to-three high-quality, complementary acquisitions per year.

The acquisition origination process begins with a long list of market participants. Our policy is to avoid acquiring turnarounds, so we only invest in currently profitable and cash-generative businesses. After months of contact with the target's management, and due diligence on the target's operating sites and financials, we consider commercial and cultural fit, possible synergies and terms of the possible acquisition. In addition to our focus on well-run businesses with strong management teams, we stress contingent structuring of consideration, to motivate the target and to share downside risk. With strong, rational adherence to our acquisition strategy, we have been able to limit our downside risk.

Our consistent growth through acquisitions has allowed us to use our scale to drive operating margins. After an acquisition, we maintain the target's customer-facing teams, such as design, branding, sales and marketing. This feet-on-the-ground approach allows for product and brand differentiation while simultaneously maintaining responsiveness to dynamic customer demand. At the same time, operational integration drives the realization of cost-savings synergies in procurement, production, logistics and IT. These initiatives result in better buying terms with suppliers of raw materials, better working capital management through SKU reduction and rationalization of product lines and manufacturing assets. Importantly, our acquisition strategy creates the potential for further future consolidation of manufacturing capacity. We are able to realize depot, fleet and load consolidation for a more efficient logistical process. More efficient retail network relationships created through consolidation also yield commercial synergies such as product bundling and cross-selling while further driving sales growth and SKU reduction.

Generate free cash flow to enable de-leveraging

A hallmark of a successful flooring business is its generation of free cash flow and high cash conversion rates. These are due to the longevity of flooring manufacturing plants, the relatively low capital requirements of those plants, relatively inelastic demand, and price inelasticity. When coupled with our synergistic acquisitions, we have consistently been able to consolidate production capability, increasing utilization, reducing SKUs, increasing stock turnover and establishing favorable trading terms with suppliers and customers. Together, these elements have the effect of further increasing our free cash flow. High free cash flow, in turn, allows us to rapidly de-lever.

Despite our consistent track record of growing through acquisitions, we have successfully maintained stable net leverage. Maintaining low leverage ensures the long-term health of the Group and gives us headroom for further acquisitions. While we expect our *pro forma* senior net leverage to increase to 3.0x after giving effect to the Transactions, we intend to return to historical leverage levels in the near future.

History

We were established in 1895 as a carpet manufacturing business and have grown to an international scale in subsequent years. We have been publicly listed since 1963, moving from the London Stock Exchange's Main Market to its AIM Market in 2013. When Geoffrey Wilding joined as Executive Chairman in 2012, a new board was appointed to conduct a full strategic review of the Group. In 2014, Mr. Wilding acquired a controlling stake in the Group. Since our formation, we have grown beyond our initial soft-flooring offerings and gained scale through acquisitions in the fragmented flooring industry diversifying both by product and geography.

Since 2013, we have made 13 acquisitions across the United Kingdom, Continental Europe and Australia to become a global player in the flooring industry. In late 2017, we expanded our position in Continental Europe, with the acquisition of Serra in Italy and Keraben in Spain. Both Serra and Keraben are Continental European hard flooring manufacturers. Also, in early 2017, in response to the robust growth of the artificial grass market, we gained artificial grass-manufacturing capability through our acquisitions of GrassInc and Avalon in the Netherlands. We have additionally acquired the business and assets of Millennium in 2017, a carpet distribution business based in Belgium, further enhancing our presence in the UK high-volume market. Most recently, in August 2018, we further increased our presence in the Continental European hard flooring market with our acquisition of Saloni, a Spanish ceramic tile manufacturer.

In 2013, Victoria Carpets Limited, one of our core historic operating subsidiaries, was awarded the Queen's Royal Warrant and further supplied the red carpet for the wedding of Prince William and Catherine Middleton, Duke and Duchess of Cambridge.

Operating Businesses and Products

Our business is principally divided according to geographical location, with our businesses in the United Kingdom and Continental Europe operating largely independent of our businesses in Australia. Within these geographical segments, we own a number of operating businesses that service a range of product categories. Outside of these core geographical segments, we also sell a small amount of our products into other geographies, such as North America and Asia.

Our UK & Europe segment is comprised of 12 operating businesses and more than 20 brands, spanning a product offering which includes broadloom carpeting, ceramic tiles, flooring underlay and flooring accessories, LVT, artificial grass and hardwood flooring. Our Australia segment comprises three operating businesses and includes our Quest, Dunlop, Victoria (Australia) and Heartridge brands, spanning a product offering which includes broadloom carpeting, flooring underlay and LVT. Our brands typically benefit from a focus on mid- to upper-market product segments, our long operational track record in developed markets and our reputation for quality production among our customers.

The following table sets forth our *Pro Forma* Revenue by geography of product origin (i.e. where products are manufactured) for the 2018 financial year.

	For the 52 weeks ended March 31, 2018
	(£ million)
United Kingdom & other European Countries[(1)]	265.4
Spain	216.4
Italy	28.4
Australia	112.8
Group Total	623.0

(1) Substantially all of the revenue in the United Kingdom & Other European Countries relates to the United Kingdom.

The following table sets forth our *Pro Forma* Revenue by product segment for the 2018 financial year.

	For the 52 weeks ended March 31, 2018
	(£ million)
Broadloom Carpets	230.8
Ceramics	244.8
Flooring underlay and flooring accessories	113.0
Other(1)	34.4
Total	623.0

(1) Includes luxury vinyl tile (LVT), carpet tiles, wood flooring and artificial grass products.

Broadloom carpets

In our carpet segment, we design, manufacture and distribute a broad range of mechanically tufted carpets to independent retailers (such as specialist, home improvement and furniture stores) and to wholesalers. We also manufacture a small amount of carpet products which are used for niche end-market uses, such as for use in feature films or bespoke automobiles. We provide carpeting products for both indoor and outdoor use, with our offerings including braided, hooked, needle-punched and tufted carpeting. The carpet products we sell are mid- to upper-market offerings made of wool and synthetic materials.

We manufacture our carpet products within the United Kingdom and Australia and sell locally within these markets. We benefit from their historical carpeting production infrastructure and the clear local consumer preference for carpeting over other types of flooring products.

Our carpet segment accounted for £230.8 million, or 37.0%, of our *Pro Forma* Revenue for the 2018 financial year.

Ceramic flooring

In our ceramic flooring segment, we design, manufacture and distribute mid- to upper-market ceramic flooring products, selling mainly to specialist retailers of ceramic flooring and smaller DIY retailers. Ceramic tiles constitute the large majority of non-resilient flooring demand throughout our geographical segments, and we export significant amounts of our ceramic products outside of the traditional ceramic tile manufacturing bases of Spain and Italy. We export these products primarily to countries within Continental Europe.

In 2016, we expanded from our historic focus on carpeting with the aim of capturing opportunities in the ceramic tile market, as an increasing proportion of flooring sold is ceramic tiles. In November 2017, we acquired Serra in Italy and Keraben in Spain. Serra is an efficient, mid-market manufacturer of ceramic flooring products, supplying retailers, distributors and DIY chains throughout Continental Europe. Keraben is one of Spain's largest ceramic tile manufacturers with a reputation for high quality products and customer service. We further increased our footprint in the ceramic flooring segment with our recent 2018 acquisition of Saloni, a Spanish manufacturer of upper-market ceramic tiles, giving us better access to the ceramic flooring market. As a result of these acquisitions we have a high-quality operating presence in two of the world's premium regions for ceramic production.

Our ceramic flooring segment accounted for £244.8 million, or 39.3%, of our *Pro Forma* Revenue for the 2018 financial year.

Flooring underlay and flooring accessories

We design, manufacture and distribute mid- to upper-market flooring underlay products for both soft- and hard flooring. Flooring underlay is a thin layer of cushioning, often made from synthetic materials, and placed under flooring products such as carpeting or hardwood to increase underfoot comfort. These products are produced by our flooring underlay operating businesses in the United Kingdom and Australia, and are sold locally through a mixture of independent and large national retailers. As underlay benefits from ease of large-scale storage, we are able to supply large national retailers for this product segment in contrast to our traditional focus on independent retailers.

Flooring accessories generally include materials which assist with the fitting of soft-flooring products. These flooring accessories include products such as carpet gripper rods, which prevent carpet movement and slippage, and which can be glued, taped or nailed to wooden or concrete sub-floors. We manufacture these products through Interfloor, one of our operating businesses in the United Kingdom.

Our flooring underlay and flooring accessory segment accounted for £113.0 million, or 18.1%, of our *Pro Forma* Revenue for the 2018 financial year.

Other

Artificial grass, LVT and other flooring products together accounted for £34.4 million, or 5.5%, of our *Pro Forma* Revenue for the 2018 financial year.

Artificial Grass

Our artificial grass products are designed and specified by our artificial grass operating businesses in the Netherlands, and manufactured by third party manufacturers also based in the Netherlands. These upper-market products are subsequently distributed across the United Kingdom and Continental Europe, serving the rapidly growing artificial grass industry.

LVT

Luxury vinyl tile is a resilient hard flooring product, which currently is a small but fast-growing area of the hard flooring segment. LVT is offered at a lower price point than non-resilient flooring and benefit from high underfoot comfort, noise absorption, durability and wear resistance. Our LVT products are designed and specified by our LVT operating businesses in the United Kingdom and Australia, and are manufactured by third party manufacturers in Asia before being distributed in the United Kingdom and Australia. Unlike other flooring products such as broadloom carpet and ceramic tile, LVT is easily manufactured and transported, which allows us to outsource our manufacturing production.

Other flooring products

We design, manufacture and distribute small quantities of carpet tiles under our historic Victoria Carpets brand in the United Kingdom. Carpet tiles are modular carpet products, sold in squares, which are almost exclusively used in offices or for other commercial uses.

We also design, manufacture and distribute small quantities of hardwood flooring in Australia under our Heartridge brand as part of our Dunlop operating business.

Sales

We generally operate a business-to-business sales model and therefore rarely access our end-consumers directly. Consequently, we rely on our customers' ability to sell and market our products effectively in order to increase our revenue and generate sustainable cash flows. As our customers grow, they tend also to increase their orders with us. We seek to maintain strong relationships with our customers and work collaboratively with them to help increase store traffic and grow their business.

Significantly, we sell the vast majority of our products directly to flooring retailers, which comprise approximately 80% of our sales on a *pro forma* basis, rather than third-party distributors, driving brand loyalty and long-term relationships. In order to maximize our profit margins, our involvement in the supply chain tends to end at distribution, with products rarely being sold direct to consumers. A small portion of our revenue is generated from large retail chains, and we benefit from a diversified customer base. Unlike some of our competitors, approximately 55% of our revenue comes from independent retailers (including DIY retailers) while 25% comes from large retail chains. Additionally, in the 2018 financial year and *pro forma* for the Acquisitions, our largest ten customers only accounted for approximately 15% of our revenue, with our largest customer accounting for approximately 4% of our revenue. No single customer represented more than 10% of our revenue for the 2018 financial year. Outside the top 10 customers, we have a diversified base of over 5,000 customers. We also sell certain of our products in certain jurisdictions to wholesalers where there is a structural or commercial rationale for doing so, and engage in a small amount of contract work for the construction or hospitality industry (approximately 10% of Group revenue *pro forma* for the Acquisitions).

We maintain a decentralized operating structure, with each of our operating subsidiaries possessing its own front-office sales team. Each sales office has its own organization, responding to the structural particularities of that geographical segment and the preferences of the local region. One of the strengths of our sales force is its ability to respond to local demand. Our sales professionals use a variety of sales tools and techniques to promote our products. These include the distributing of samples, advertising in trade publications, participating in trade fairs, distributing point of sales materials, and establishing showrooms.

In keeping with industry practices, we do not have formal purchase arrangements with a substantial majority of our customers. Purchase arrangements do not have standard terms and conditions, are typically on a non-exclusive basis, contain no minimum purchase obligations and do not have a fixed term or may be terminated on short notice.

We believe that our market-leading positions across our core markets, together with our wide product range and our global production and distribution capabilities, allow us to closely track and adapt to customer behavior and adjust our production levels to match demand. We analyze our sales data and we are able to identify target end-customers and price points. We also use our data to identify product range gaps or product ranges that require replacement. Our analysis drives our design process.

End-Market

We believe, based on the composition of our customer base that the majority of our products are for residential use. Residential buildings encompass single-family homes, multi-family structures and manufactured housing. This residential end-market can be further classified as either new construction or I&R (with I&R constituting the majority of the residential flooring market). Based on the high number of independent retailers we supply, we believe the I&R end-market also constitutes the large majority of our sales. New residential construction flooring demand follows the growth in new building construction, while I&R is directly linked to personal income levels. The non-residential end-market consists of office, retail, institutional, industrial and other business or government facilities. Flooring in the non-residential end-market can also be classified as either new construction or I&R, with the latter also representing around three-quarters of demand in the non-residential end-market. In particular, businesses with heavy decorative flooring needs (e.g. hotels and other hospitality facilities) drive growth in the non-residential I&R end-market.

Design

We believe we are at the forefront of design in the flooring industry. We employ a commercially-focused design process, centered on four strategic pillars: aesthetic design, quality, operations and cost. The product design and development team leverages the strong relationships we have with our customers in order to coordinate our product development strategy and to ensure the rapid development and launch of innovative offerings and product upgrades. In particular, as a result of our vertical integration, our significant contacts with retailers and our presence in multiple product segments, we are able to receive substantial feedback regarding end-consumer trends in design, pricing and supply volumes.

We follow consumer preferences and demand trends closely. We use a systematic approach to collection planning, and we maintain a short design-to-product cycle. Our design, quality control, production and cost control processes are mutually reinforcing, resulting in product specifications that align with our target customers and price points while ensuring optimal margins. We have the ability to set up our machines and re-engineer our production facilities, as well as increase our production capacity to manufacture new and different products in response to changing trends and consumer preferences. In addition, the breadth of our product offerings and our ability to redeploy our machines to make new designs makes us less subject to the success or failure of any given collection.

New products must also meet our high-quality standards; and, weight, thickness, durability and finish are among the elements that we evaluate. Because of our high-quality standards, manufacturing feasibility is another primary consideration. We also assess our existing production capacity; from an operations perspective, we assess the ease of integration of a new potential product into existing production runs and its impact on SKU and stock management. We also perform standard cost and margin assessments of a potential new offering.

Manufacturing

Raw Materials

Our in-house manufacturing is centered around our carpeting, ceramics and underlay segments. For carpeting products, synthetic yarn remains the largest single raw material expense. Though synthetic yarn is an oil-based product, we benefit from minimal price-pressure because we source materials globally from a large number of suppliers. The primary raw materials of our ceramic offerings are clay, which we are able to source locally in Spain and Italy, and natural gas supply, for which we maintain a 12-month forward-hedging policy. Underlay can also be manufactured using polyurethane foam ("**PU**") trim or rubber: PU is a "virgin" waste product from other manufacturing industries, such as furniture manufacturing, and can be sourced from a global market. Rubber prices have consistently declined over the last decade. Because we manufacture underlay using both PU and rubber, we can alternate production to reflect price increases in either PU or rubber.

Our raw materials expense was £287.1 million, which is equivalent to 46% of our Adjusted *Pro Forma* Revenue for the 2018 financial year.

Supply Chain

We have a broad range of suppliers, with minimal concentration risk. Our suppliers are generally located in the United Kingdom, Continental Europe, Turkey and China. For the 2018 financial year (after giving *pro forma* effect to the Acquisitions), our top 10 suppliers accounted for approximately 18% of our total expenditure with third parties. We can easily pass supplier price increases to our customers, and we maintain a low foreign currency risk profile, as only 15.0% of our cost base is incurred in foreign currencies. We also offset currency fluctuation through our Group-wide hedging strategy; for example, we use our local currency income first to satisfy local currency costs, and then we apply a forward-hedging policy on the remainder. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Qualitative and Quantitative Disclosure About Market Risk.*"

Bulk purchases of a small number of raw materials such as synthetic yarn are coordinated at the Group level, and prices of these Group-level bulk purchases are reviewed every six-to-twelve months by senior management. We do not utilize a central purchasing department, though our operating businesses' purchasing functions operate in accordance with a Group-defined framework. For key raw materials, we run a competitive auction process with a range of approved suppliers.

In the case of certain raw materials, such as PU and natural gas, prices are fixed through long-term agreements. However, we generally prefer shorter-term agreements, as the scale of our business, the fungibility of certain key raw materials suppliers (we maintain relationships with alternative raw materials suppliers with whom we do not currently trade) and the competitive nature of the markets for a number of our raw materials give us significant purchasing power and leverage over our supply partners. We are therefore able to manage third-party costs tightly while ensuring supply security through supply chain redundancy.

We have robust in-house manufacturing capabilities, and we do not outsource a significant amount of manufacturing operations. We, however, utilize some contract manufacturers and other manufacturers' spare capacity on a small scale to balance our own carpet and ceramic manufacturing capacity and cost, and to increase manufacturing flexibility.

For certain smaller product segments of our offering, commercial sense requires that we outsource the full production. For example, luxury vinyl tile (LVT) is considerably easier than other flooring products to transport and warehouse, and there is a well-established and cost-effective manufacturing base in Asia.

Production

Our core manufacturing activities are centered around three product segments: carpet, ceramic tile and flooring underlay. Manufacturing processes between these products differ significantly. For example, our tufted carpet manufacturing process begins with yarn extrusion (extraction of yarn filaments from synthetic granulates). The resulting yarn filaments are then dyed and spun, set up on beams and creels, and finally tufted, backed and cut. Our ceramic tiles are milled from raw materials, pressed, then dried and glazed. After rolling into shape, the tiles are fired in a kiln before being cut into squares. Our PU underlay manufacturing begins with the manufacture of PU foam and subsequent exposure to binding agents. Once bonded under high-pressure steam, the underlay is dried, peeled, laminated and cut. Rubber underlay is manufactured by combining manufacturing liquids and powdered rubber, extruding and rolling flat the resulting putty, then baking in a "heat-setting" process before cutting the final product into shape.

We have robust in-house manufacturing capabilities and we do not outsource a significant portion of our manufacturing. Broadloom tufted carpets, one of our key carpeting products, are large and heavy, difficult to manufacture in short runs and because they are large and non-palletized, they are difficult to transport over long distances and relatively easy to damage. Ceramic tiles generally are similarly heavy and difficult to transport. These factors represent significant barriers to entry for low-cost international imports and are why the vast majority of carpet and ceramic flooring in the United Kingdom and Continental Europe is produced by locally-based manufacturers. The location of our production facilities in the United Kingdom and in the center of Continental Europe in close proximity to our key United Kingdom and Continental European end-markets is a key competitive advantage, helping to minimize end-product transportation costs and delivery lead times to these markets. In certain instances, we also utilize contract manufacturers and other manufacturers' spare capacity on a small scale to balance our own carpet and ceramic manufacturing capacity and cost, and to increase manufacturing flexibility.

Most individual steps in our manufacturing processes across all our manufactured products are modular, such that multiple processes for the same product can be run simultaneously—we are therefore rarely limited by manufacturing infrastructure bottlenecks. Outsourcing is occasionally utilized in parts of the production process (for example, in the yarn extrusion process) to provide manufacturing flexibility and downside protection.

For certain smaller product segments, there is a strong commercial rationale for fully outsourcing our production. For example, luxury vinyl tile (LVT) can be palletized and is therefore considerably easier than other flooring products to transport and warehouse, with a well-established and cost-effective manufacturing base in Asia.

Our manufacturing activities are spread across 12 factories (five in the United Kingdom, three in Continental Europe and four in Australia). In the 2018 financial year, we consolidated our United Kingdom carpet manufacturing at our Yorkshire and South Wales factories while closing our Kidderminster factory as well as insourcing certain production. We recently announced a similar initiative in Australia, which will result in the consolidation of our two underlay factories into a single, enlarged facility.

The following table sets forth the number, production area, production capacity and ownership status of our production facilities.

Product Type	Broadloom Carpet	Ceramic Tile	Flooring Underlay
Number of Factories	8	6	5
Production area (in m^2)	59,545	220,861	28,250
Total Production Capacity (in m^2)	33,578,450	33,800,000	87,500,000
Number of Facilities Owned	2	3	1
Number of Facilities Leased	6	3	4

For those facilities that we lease, the lease terms are between one and eighteen years remaining. Our total property, plant and equipment amounted to £179.5 million as at June 30, 2018.

Our carpeting products are manufactured in Newport, South Wales; Cleckheaton, Yorkshire; and Melbourne, Australia.

Our flooring underlay and flooring accessories are produced in Rossendale, Lancashire; Keighley, Yorkshire; Melbourne, Australia; and Sydney, Australia.

Our artificial grass products are designed and specified in Dutch facilities in Aalten, Netherlands.

Our ceramic products are produced in our facilities in Castellón, Spain and Sassuolo, Italy.

Warehousing and Distribution

We operate a total of 31 warehouses with a combined warehousing capacity of over 25 million square meters, of which approximately 35%, 45% and 20% are dedicated to carpeting, ceramics and underlay, respectively. Our in-house warehousing capability is a competitive advantage, and is a barrier to entry for future potential competition. By holding stock for certain products on our customers' behalf, and by subsequently delivering upon receipt of orders, we benefit from real-time market data and feedback while limiting our de-stocking risk. This service is a core part of our customer offering, and a key structural strength. The combination of our stocking services with our design and manufacturing capabilities results in vertical integration that differentiates us from much of our competition.

In general, stock management, warehousing and transport differ by product segment.

Among our product offering, broadloom carpet is the most complex to distribute. As a result of the size and weight of broadloom carpets, and the equipment required to cut them into end-product sizes, many independent retailers are not able to hold stock. For these customers, the Group often holds stock on their behalf, while the customer retains Group-branded display stands and samples in-store. Our sales teams are subsequently provided a summary of end-consumer orders which are then cut from "mother rolls" in our distribution centers, wrapped and delivered in-store. Typical stock turn in our carpet distribution centers is approximately three times per year.

Ceramic tiles are also stocked to meet ongoing customer demand, but without the need for any further processing (e.g. cutting) as with broadloom carpets. Similar to our carpet offering, specialist retail customer deliveries follow from in-store consumer orders based on samples we provide. Ceramics, however, have a larger wholesale market and are also sold for use in the DIY market—these retailers are able to hold stock and are suited to bulk delivery. Given the structure of the Continental European ceramic tile production market (with producers concentrated in Spain and Italy), customers arrange transport rather than manufactures. Typical stock turn is approximately three-to-four times a year for specialist retailers and nine-to-ten times a year for DIY retailers.

Underlay is more commonly sold through distributors and large-chain retailers. As a result, inventory turnover of finished goods is greater, and deliveries tend to be in bulk, direct from the factory warehouse to customer warehouses. These products come in standard widths of four-meter rolls, and are much lighter and easier to handle than carpets or ceramics. Typical stock turn is approximately ten times a year.

Our objectives when we transport our products include maintaining our on-time delivery record while managing transportation costs. Some of our subsidiaries own their own transport infrastructure, with the Group operating a fleet of approximately 350 goods vehicles. Additionally, some subsidiaries utilize third-party service providers to transport products from our production facilities to the relevant warehouse or distribution center, as well as to our customers and end-consumers.

In 2017, we began the reorganization of our United Kingdom logistics operations to improve productivity and customer service. This process included the ongoing relocation of our distribution center in the Midlands to our Kidderminster site. We anticipate that further efficiency gains will be made from the completed opening of our Southern Distribution Center in Hemel Hempstead, England, servicing all of our brands, and the potential for a further new distribution center in northern England.

We distribute our products globally, with sales in over 20 countries in the 2018 financial year.

Employees

During the 2018 financial year, we had an average headcount for the year of 2,500 employees. 84.4% of our employees were based in the UK & Europe, with 15.6% in Australia. The following table sets forth total average employee headcount for the 2016, 2017 and 2018 financial years.

	For the financial year ended		
	2016	**2017**	**2018**
Total Employee Count	1,513	1,802	2,500

We consider our relations with our employees to be good. The terms and conditions for employees, including working hours, termination rights and benefits, are governed by standard employee contracts together with, in certain circumstances, a variety of collective bargaining agreements.

Insurance

We have insurance policies in place that cover liability for public and product liability, death or injury to employees and damage to property, including buildings, plants, machinery and stock. We also have insurance coverage for business interruption.

We work closely with our insurance brokers to ensure that we maintain policies that are suitable for our business and industry. However, our insurance does not cover every potential risk associated with our business. See "*Risk Factors—Risks Related to Our Industry and Our Business—Significant damage to any of our facilities could cause a production disruption.*"

Information Technology and Data

Our IT platform is used to manage our operations, including design software, production, purchasing, sales, customer service, logistics and administration. For many of our operating businesses, we have a complex and heterogeneous application landscape that in part consists of partially integrated systems from prior acquisitions. We support our IT systems through an in-house team of IT specialists. See "*Risk Factors—Risks Related to Our Industry and Our Business—A failure of, or a malicious attack in relation to, our IT systems could adversely affect our reputation, business and results of operations*."

We have taken appropriate measures to secure our systems and data by using standard IT security capability products. We have centralized backup data storage facilities as well as business continuity plans in place. We have not experienced any significant IT problems in recent years.

Legal Proceedings

We are subject to legal, administrative and regulatory proceedings in the ordinary course of our business. We believe that none of the legal, administrative or regulatory proceedings pending against us or with which we are threatened, individually or collectively, will have a material adverse effect on our consolidated financial position, results of operations or cash flow.

Environmental and Health and Safety

In connection with our business, we are subject to environmental laws and regulations in each of the countries where we do business. These laws and regulations impose binding standards, in particular with respect to product safety, air pollution, carbon emissions, noise reduction, waste water, industrial waste, and may impose specific methods for eliminating wastes, or environmental clean-up. Many of these areas of regulation are subject to increasingly stricter levels of security and compliance, in particular relating to carbon emissions. Due to our handling of certain chemicals, we are also subject to safety and security requirements pursuant to various national security regulations of the various jurisdictions in which we operate. See "*Risk Factors—Risks Related to Our Industry and Our Business—We are required to comply with environmental and other regulations and obtain government permits and approvals.*"

Regulation of Our Business

We comply with a large number of regulations, standards and certifications in the various markets in which we operate. These standards vary depending on the geographic region, the type of building in which a product is installed and the type of flooring. We have adopted a monitoring process to ensure that our products are in material compliance with all applicable regulations, standards and certifications.

Regulatory Matters

We are subject to a number of EU and local regulations in the United Kingdom, Continental Europe and Australia, which range in scope from the communication on chemicals in the supply chain to the labeling of fiber compositions, the evaluation of textile fiber mixtures, restrictions of use and authorization of chemicals used during our production cycle.

Mandatory and Non-Mandatory Standards

We are subject to two types of standards: mandatory standards based on legal requirements, and non-mandatory standards that we have chosen to comply with to respond to our customers' needs.

In most cases, compliance with mandatory standards must be certified by independent laboratories and/or organizations as well as by a governmental authority. Their principal objective is to ensure the safety and protect the health of end-market users by demonstrating that the product complies with regulatory requirements, which relate primarily to fire-resistance, slip-resistance and limits on toxic fumes.

Non-mandatory standards are primarily testing standards to determine a product's technical characteristics such as acoustic properties or dimensional stability, and specifications relating to minimum thresholds for a specific use. These standards vary depending on the product and its intended use, such as schools, hospitals or homes. These standards allow buyers, decision-makers and end-market users to be informed of the characteristics of our flooring in order to better differentiate between our products and those of our competitors. The technical specifications that we choose to communicate vary depending on the requirements of the market in question.

Especially in the commercial market, customers often stipulate compliance with non-mandatory standards in their order specifications. Moreover, compliance with non-mandatory standards is also required by certain national or municipal governments for the construction or renovation of buildings that will be used as public administrations or government agencies.

Standard Organizations and Standards Used in Other Jurisdictions

Standard organizations define the technical characteristics and performance that a product must meet, as well as the tests to be used.

At the international level, the principal organization in charge of publishing our applicable standards is the International Organization for Standardization ("ISO"). Compliance with ISO standards is based on the principles developed by the World Trade Organization, and is technically voluntary, although often required by architects and contractors, in particular for government contractors. Furthermore, agreements between ISO and the European Union enable the transposition of an ISO standard into a European standard.

In Europe, standards are established by the European Committee for Standardization ("CEN"). These standards, called "EN" standards, are mandatory when referenced by a European regulation.

European directives also define requirements for each product. "Harmonized" EN standards may be either mandatory or optional. They concern the health and safety of end-market users as well as energy savings. If a product is shown to comply with certain harmonized standards, it is automatically deemed to comply with requirements under European directives.

Compliance with harmonized standards enables a manufacturer to obtain the "CE" label, governed by Regulation (EC) No. 305/2011 of April 24, 2011, which came into effect on July 1, 2013. We market our products in Europe under this label. The CE label indicates that we certify that the product complies with the various harmonized standards and that the flooring has undergone adequate testing. Among the mandatory harmonized standards, fire-retardant and fire-resistance standards, anti-slip standards and toxic emissions standards are the most important. For example, we comply with EN Standard 14041, which details requirements for resilient and laminate hard flooring and carpets.

In addition, we can be required to comply with standards issued by national organizations in various European Union member states. We are subject to national standards in the countries where we sell our products.

Countries such as Australia, also develop standards as well as national regulations with which we may be required to comply. Finally, certain laboratories and private sector organizations have established procedures for labeling products that comply with certain standards. We actively participate with organizations such as ASTM International, ISO and CEN in the process of developing standards.

MANAGEMENT

The Issuer

The Issuer is a public limited company incorporated under the laws of England and Wales, having its registered office at Victoria PLC, Worcester Road, Kidderminster, Worcestershire DY10 1JR, United Kingdom and registered with Companies House with company number 00282204. The Issuer is a holding company with no significant assets other than investments in its subsidiaries and intercompany loan receivables.

Board of Directors of the Issuer

The following table sets out the names, ages and positions of the directors of the Issuer.

Name	Age	Position
Geoff Wilding	55	Executive Chairman
Philippe Hamers	55	Executive Director
Michael Scott	38	Executive Director
Andrew Harrison	56	Non-executive Director
Alexander Anton	59	Non-executive Director
Gavin Petken	47	Non-executive Director

Geoff Wilding has been the Executive Chairman of the Victoria Group since 2012. As Executive Chairman, he is responsible for execution of the Company's strategy. Mr. Wilding is a former investment banker with significant experience in company development and turnarounds. He is a member of the Nominations Committee.

Philippe Hamers has been the Chief Executive Officer and a Director of the Victoria Group since 2017. Mr. Hamers has over twenty-five years' experience in the flooring industry and headed Europe's largest carpet manufacturing operation at Balta Group until 2016. Prior to joining the Balta Group, he was General Manager of the Tufted and Woven Division of Beaulieu International Group.

Michael Scott has been Chief Financial Officer and a Director of the Company since 2016. Prior to assuming his role at the Company, Mr. Scott spent eight years at Rothschild where, as part of their Global Financial Advisory business, he worked across a wide range of public and private company transactions, mergers and acquisitions and debt and equity-related fundraisings. He qualified as a Chartered Accountant with PricewaterhouseCoopers and holds an Engineering degree from the University of Cambridge.

Alexander Anton is a member of the founding family of Victoria Group and has been a Director of the Company since 1995. He is a former Chairman of the Board and is currently Chairman of Legacy Portfolio. He is a member of the Audit, Remuneration and Nominations Committees.

Andrew Harrison has been a Director of the Company since 2012, and is the Senior Independent Non-executive Director. Mr. Harrison has more than twenty years' experience as a solicitor in private practice, specializing in company law. He has advised on a wide variety of corporate transactions, including management buy-outs and buy-ins, corporate acquisitions and disposals and listed company take-overs.

Gavin Petken has been a Director of the Company since 2014. Mr. Petken is the Business Growth Fund's Regional Director for the Midlands and has developed the firm's local investment activities in the Midlands region for smaller entrepreneurial companies. He has also been actively involved with the Business Growth Fund's major strategic initiative to extend the firm's provision of growth capital to listed companies providing similar access to long-term funding. He is a Chartered Accountant, having qualified with Arthur Andersen. Mr. Petken is a member of the Audit and Remuneration Committees.

Senior Management of the Issuer

The Victoria Group senior management has been responsible for making most of the day-to-day operational decisions for Victoria Group. Our group is organized by brand, headed by one or more brand Managing Directors. Our Group hard flooring strategy is led by the Director of Business—Hard Flooring, Jan Debrouwere, who is placed structurally at the Managing Director level. Group-level activity is principally managed by the Executive Directors, Messrs. Wilding, Hamers and Scott. See "*—Board of Directors of the Issuer*".

The following table sets out the names, ages and positions of the Victoria Group senior management.

Name	Age	Position
Geoff Wilding	55	Executive Chairman
Philippe Hamers	55	Chief Executive Officer
Michael Scott	38	Chief Financial Officer

For biographies of Mr. Hamers and Mr. Scott, see "*—Board of Directors of the Issuer*."

Board Committees

Audit Committee

The Audit Committee is chaired by Andrew Harrison and also includes Alexander Anton and Gavin Petken as committee members. The Audit Committee is required to meet at least twice a year. The Audit Committee's principal responsibilities are to:

- review the adequacy of the Group's accounting, financial and operating controls and make recommendations to the Board as appropriate;
- review the proposed accounts of the Group prior to publication and make recommendations to the Board regarding the rate of dividend and any other special appropriations;
- recommend the appointment of the Group auditor to the Board and review the scope and results of its audit;
- review the planning of internal and external audits, receive reports thereon and deal with any control weaknesses identified; and
- monitor the extent of non-audit work that the Group auditor can perform to ensure that the provision of these non-audit services falls within the Group's policies and does not impair its objectivity or independence.

The Audit Committee is required to report its findings to the Board, identifying any matters in respect of which it considers that action or improvement is needed and make recommendations to the Board as to the steps to be taken.

Nominations Committee

The Nominations Committee is chaired by Alexander Anton and also includes Andrew Harrison and Geoffrey Wilding as committee members. The Nominations Committee is required to meet at least twice a year. The Nominations Committee's principal responsibilities are to:

- review the structure, size and composition of the Board and make recommendations to the Board with regard to any changes that are considered necessary, including the continuation of existing Directors in office;
- conduct succession planning for Executive Board appointments;
- identify and nominate candidates for Board approval to fill Board vacancies as and when they arise;
- conduct an annual review and identification of the time commitment required from Non-executive Directors; and
- make recommendations to the Board regarding membership of the Audit and Remuneration Committees in consultation with the Chairman of each committee.

Remuneration Committee

The Remuneration Committee is chaired by Andrew Harrison and also includes Alexander Anton and Gavin Petken as committee members. The Remuneration Committee is required to meet at least twice a year. The Remuneration Committee's principal responsibilities are to:

- determine and agree with the Board, the remuneration policy for the Chief Executive Officer, Chairman, Managing Directors and senior managers;
- review progress made against KPI targets and agree final performance-related bonus awards;

- review the design of share incentive plans for approval by the Board and shareholders and determine the annual award policy for Executive Directors and senior managers under existing plans;
- determine, within the terms of the agreed policy, the remainder of the remuneration packages (principally comprising salary and pension) for each Executive Director; and
- review and note the remuneration trends across the Group.

Key Management Compensation

For the 2016, 2017 and 2018 financial years, the aggregate compensation paid to the members of our senior management was £3.3 million, £4.3 million and £5.4 million, respectively, including cash compensation for salary and bonuses. See Note 30 of the audited consolidated financial statements of Victoria Group as of and for the 2016 financial year and Note 27 of the audited consolidated financial statements of Victoria Group as of and for the 2017 and 2018 financial years.

Long-term Management Incentive Plan

On April 10, 2017, the Board announced a long-term management incentive plan (the "**Plan**") in order to enable the Board to continue to incentivize senior employees in a manner closely aligned with the interests of the Company's shareholders.

The Plan involves the issue of up to 100,000 non-voting shares in Victoria Midco Holdings Limited, a subsidiary of the Company. Participants in the Plan will subscribe for these shares. The initial award of shares (the "**Incentive Shares**") represented only a proportion (approximately 72%) of the total number of shares created, with the balance being reserved for potential future awards to additional employees. The Plan will operate for a five year period, with the value of the Incentive Shares linked to cumulative Total Shareholder Return ("**TSR**") delivered each year above a hurdle, being the current market capitalization of the Company increased annually by 20% per annum on a compounding basis (i.e. within each annual period shareholders have to receive a return of 20% before the participants benefit from the Plan). TSR is equal to the change in market capitalization of the Company plus dividends or return of capital to shareholders, if any.

At the end of the Plan, the Incentive Shares can be exchanged for new ordinary shares in Victoria PLC (at the then prevailing share price averaged over the month prior to exchange). Participants can only choose to exchange at the end of the full five-year period of the Plan. Customary good and bad leaver provisions will apply. The participants will have no right to any payment of cash. For further information, see Note 5 to the 2018 Group Financial Statements.

PRINCIPAL SHAREHOLDERS

The table below sets forth, as of October 9, 2018, information regarding the indirect beneficial ownership of the Issuer's ordinary shares.

Entity	Percentage of share capital
Invesco Limited	19.25%
Camden Holdings Limited(1)	17.10%
Assorted other shareholders	63.65%

(1) Geoffrey Wilding, our Executive Chairman, indirectly owns Camden Holdings Limited.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

From time to time, we may enter into transactions with certain related parties or our affiliates and in the ordinary course of our business. We believe these agreements are on terms no more favorable to the related parties or our affiliates than what they would expect to negotiate with disinterested third-parties.

The BGF Loan

Gavin Petken, a Non-Executive Director of Victoria PLC, is the Business Growth Fund plc's Regional Director for the Midlands. On September 30, 2014, Victoria PLC entered into a loan facility with BGF Investments LP ("**BGF**"), as amended and restated on July 5, 2017, in the aggregate principal amount of £10.0 million maturing in 2021. The loan facility includes a redemption premium of £2.1 million payable in 2019. BGF has also been granted an option over 3,730,000 new ordinary 5p shares in the Group at 57.2p per share (restated for the effect of the five for one share split effective from September 12, 2016), representing 5% of our deemed enlarged issued share capital at the time of grant. Mr. Petken receives an annual fee of £35,000 which is commensurate with that paid to our other Non-executive Directors. See "*Description of Certain Financing Arrangements—BGF Loan.*"

DESCRIPTION OF CERTAIN FINANCING ARRANGEMENTS

Set forth below is a summary of certain of our future significant debt arrangements. The following summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents. The defined terms set forth in this section apply to this section only.

The Amended and Restated Revolving Credit Facility Agreement

New Revolving Credit Facility

The New Revolving Credit Facility will become effective on satisfaction of all conditions precedent under the amendment and restatement agreement pursuant to which the Amended and Restated Revolving Credit Facility Agreement is established. The New Revolving Credit Facility, which will be available to be drawn in Sterling, Euro or Australian Dollars (together with other currencies to be agreed by all lenders party to the relevant facility), is in a principal amount of £60,000,000. Any amounts drawn under the New Revolving Credit Facility will be permitted to be used for the general corporate and working capital purposes of the Victoria Group (including, without limitation, the financing of acquisitions permitted under the Amended and Restated Revolving Credit Facility Agreement). The New Revolving Credit Facility may be utilized by the drawing of cash advances, the issuance of letters of credit and/or the establishment of ancillary facilities with lenders on a bi-lateral basis.

The initial borrower under the New Revolving Credit Facility will be the Issuer.

The Amended and Restated Revolving Credit Facility Agreement includes (in addition to other permissions under the limitation on indebtedness covenant) the ability (without double counting against the limitation on indebtedness covenant) to incur additional indebtedness under one or more uncommitted additional facilities within the Amended and Restated Revolving Credit Facility Agreement up to an aggregate amount of the greater of £75,000,000 and 67% of Consolidated EBITDA (as defined in the section entitled "*Description of the Notes*").

Interest and Fees

The initial rate of interest on each utilization under the New Revolving Credit Facility for each interest period will be the percentage rate *per annum* which is the aggregate of: (a) the applicable margin (subject to a decreasing margin ratchet provision calculated on the basis of the Consolidated Net Leverage Ratio, as defined in the section entitled "*Description of the Notes*"); and (b) LIBOR (or, where applicable to loans in Euro, EURIBOR and in Australian Dollars, BBSY). The Borrower to which a loan has been made shall pay accrued interest on that loan on the last day of each interest period. A commitment fee is also payable on the aggregate undrawn and uncancelled amount of the New Revolving Credit Facility subject to the terms and conditions set out therein.

Default interest is calculated as an additional 1% on the defaulted amount.

Maturity

The New Revolving Credit Facility shall be repaid in full on the date falling 6 months prior to the original maturity of the Notes.

Conditions to borrowing

Utilizations of the New Revolving Credit Facility will be subject to customary conditions precedent.

Prepayment

The New Revolving Credit Facility allows for voluntary prepayments (subject to a £1,000,000 de minimis). Mandatory prepayments of the New Revolving Credit Facility will be required to be made upon the purchase or redemption of the Notes in certain circumstances. The New Revolving Credit Facility also requires the mandatory prepayment by the Issuer of all amounts due to a lender under the New Revolving Credit Facility, in certain circumstances detailed therein, upon a Change of Control or a sale of all or in respect of substantially all of the assets of the Victoria Group.

Undertakings and covenants

The Amended and Restated Revolving Credit Facility Agreement will contain certain incurrence covenants that are substantially similar to those in the Indenture governing the Notes.

The Amended and Restated Revolving Credit Facility Agreement will also require each obligor to observe certain affirmative undertakings subject to materiality and other customary and agreed exceptions. These affirmative undertakings will include, but will not be limited to, undertakings related to (i) compliance with relevant laws, rules and regulations (including environmental), (ii) payment of taxes, (iii) the delivery of annual budgets, (iv) notice of default, (v) the maintenance of and funding of pension schemes, (vi) maintenance of assets and (vii) compliance with and maintenance of material authorizations. There will also be an affirmative undertaking in relation to guarantor coverage (by reference to 80% of Consolidated EBITDA, subject to certain exceptions.

The Amended and Restated Revolving Credit Facility Agreement will also require us to ensure compliance with a financial covenant relating to total net leverage in respect of each relevant 12-month period ending on 31 March, 30 June, 30 September or 31 December (each a "**Quarter Date**") not exceeding an agreed level. The financial covenant will be tested on any Quarter Date on which utilizations under the New Revolving Credit Facility are equal to or greater than 35% of the total commitments under the New Revolving Credit Facility (including any additional facility).

The Company will be permitted to remedy any breach of the financial covenant by applying all or any part of amounts received by the Company in cash pursuant to any new equity or capital contributions (such amount being a cure amount) be included in the calculation of the total net leverage by deducting such amounts from the calculation of consolidated net debt. No more than two cure amounts may be taken into account during the term of the New Revolving Credit Facility or in consecutive financial quarters.

The Amended and Restated Revolving Credit Facility Agreement also contains a "notes purchase condition" covenant which provides that subject to certain exceptions set out in the Amended and Restated Revolving Credit Facility Agreement, the Issuer shall not, and shall procure that each member of the Victoria Group will not, repay, prepay, purchase, defease or redeem (or otherwise retire for value) any Notes or any "**Permitted Refinancing Debt**" (as defined in the section entitled "*Description of the Notes*") (each such prepayment, purchase, defeasance and redemption a "**Notes Purchase**") prior to their scheduled repayment date. The exceptions to such covenant include (among other things) payments that either (i) the aggregate principal face value amount of all Notes and/or Permitted Refinancing Debt that are the subject of Notes Purchases do not exceed 50% of the aggregate of the original aggregate principal face value amount of the Notes as at the Issue Date (the "**Notes Purchase Basket**"), or (ii) to the extent the aggregate principal face value amount of all Notes and/or Permitted Refinancing Debt that are the subject of Notes Purchases has (or would) exceed the Notes Purchase Basket, the Issuer shall ensure that an amount of the commitments under the New Revolving Credit Facility are cancelled and, if applicable, utilizations are prepaid (as the Issuer may select in its sole discretion) in the same proportion by which the Notes and/or Permitted Refinancing Debt in excess of the Notes Purchase Basket are repaid, prepaid, purchased, defeased or redeemed (or otherwise retired for value) until the commitments under the New Revolving Credit Facility (and any additional facility established under the Amended and Restated Revolving Credit Facility Agreement) have been reduced to zero.

Events of default

The Amended and Restated Revolving Credit Facility Agreement will set out certain events of default in relation to the New Revolving Credit Facility that are substantially similar to those in the Indenture governing the Notes. In addition, the Amended and Restated Revolving Credit Facility Agreement will contain other customary events of default, subject to certain agreed exceptions, including (i) cessation of business, (ii) misrepresentation, (iii) breach of the Intercreditor Agreement, (iv) an event of default under certain other loan documents with BGF Investments LP subject to a £2,500,000 de minimis, and (v) expropriation. The occurrence of an event of default will, subject to any applicable grace periods and cure rights, allow the lenders under the Amended and Restated Revolving Credit Facility Agreement to accelerate all outstanding loans and terminate their commitments.

Security, guarantee and indemnity

It is intended that the New Revolving Credit Facility will be secured by the same Collateral as for the Notes as set out under "*Description of the Notes—Security*.".

Under the terms of the Intercreditor Agreement, the proceeds of any enforcement of the Collateral will be applied to repayment of the New Revolving Credit Facility in priority to repayment of the Notes.

The provision and the terms of the Collateral will in all cases be subject to certain limitations and are at all times and in all cases subject to the requirements of applicable law and the other matters set out in the Amended and Restated Revolving Credit Facility Agreement. Please see "*Limitations on Validity and Enforceability of the Security and the Guarantees and Certain Insolvency Law Considerations*.".

The New Revolving Credit Facility will be initially guaranteed by Victoria PLC and Victoria Midco Holdings Limited, each a "Guarantor."

Governing law

The Amended and Restated Revolving Credit Facility Agreement is governed by and construed and enforced in accordance with English law, although the incurrence covenants and certain events of default contained therein, which largely replicate the relevant covenants and events of default from the Notes, shall be interpreted in accordance with the laws of the State of New York.

Intercreditor Agreement

General

In connection with the issuance of the Notes (for purposes of this section, the "Pari Passu Notes") and the entering into the New Revolving Credit Facility (for the purposes of this section only, the "Initial Facilities" and "Credit Facility" means, on or prior to the date on which the New Revolving Credit Facility is discharged, the Initial Facilities and thereafter, any credit facility as permitted under the Pari Passu Debt Documents (as defined below)), the Issuer, the Guarantors and certain other subsidiaries of the Issuer will be party to the Intercreditor Agreement, which will be amended and restated on or about the Issue Date by way of the Amendment and Restatement Agreement The Intercreditor Agreement will govern the relationships and relative priorities among: (i) Barclays Bank PLC acting as security agent for the secured parties (the "Security Agent"); (ii) Barclays Bank PLC acting as Credit Facility agent (the "Credit Facility Agent"); (iii) the revolving lenders under the Initial Facilities and each ancillary lender (the "Revolving Lenders"); (iv) the bridge lenders under the Initial Facilities (but excluding any Revolving Lenders) (the "Senior Lenders"); (v) upon its accession to the Intercreditor Agreement, the Trustee (the "Pari Passu Notes Trustee") on its behalf and on behalf of the holders of the Pari Passu Notes (the "Pari Passu Noteholders"); (vi) any persons that accede to the Intercreditor Agreement as counterparties to certain hedging arrangements (the "Hedging Agreements"), such persons being referred to in such capacity as the "Hedge Counterparties"); (vii) intra-group creditors and debtors; and (viii) HSBC Bank plc and Barclays Bank plc as the arrangers of the Initial Facilities.

The Issuer and each of its subsidiaries that incurs liabilities above a prescribed limit or provides any guarantee under the Initial Facility, Credit Facility or the Indenture are each referred to in this description as a "Debtor" and are referred to collectively as the "Debtors."

The Intercreditor Agreement sets out:

- 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;
- provisions in respect of control of the enforcement process (if undertaken);
- the terms pursuant to which that indebtedness will be subordinated upon the occurrence of certain insolvency events;
- turnover provisions; and
- when security and guarantees will be released to permit a sale of any assets subject to transaction security (the "Collateral").

The Intercreditor Agreement contains provisions relating to future indebtedness that may be incurred by the Issuer and the Guarantors that is permitted by the Intercreditor Agreement, any "Finance Document" under and as described in the Amended and Restated Revolving Credit Facility Agreement and any other facility agreement documenting a Credit Facility (together the "Credit Facility Agreement") (the "Credit Facility Documents"), the documentation required to implement the issuance of the Pari Passu Notes (the "Pari Passu Notes Documents"), the documentation required to implement the issuance of any additional Pari Passu Debt Liabilities (as defined below) (together with the Pari Passu Notes Documents, the "Pari Passu Debt Documents"), the Hedging Agreements, the documentation required to implement the Second Lien Liabilities (as defined below) (the "Second Lien Debt Documents"), the Security Documents (as defined below) and any agreement evidencing the terms of any Intra-Group Liabilities as well as any document designated as such by the Security Agent and the Issuer (together the "Debt Documents") to rank *pari passu* with the liabilities under the Credit Facility Documents and be secured by the Collateral, subject to the terms of the Intercreditor Agreement. The Intercreditor Agreement contains provisions relating to future indebtedness that may be incurred by the Issuer and the Guarantors that is permitted by the Debt Documents to rank *pari passu* with the liabilities under the Pari Passu Notes Documents (the "Pari Passu Notes Liabilities") and be secured by the Collateral, subject to the terms of the Intercreditor Agreement.

The Intercreditor Agreement contains provisions relating to future indebtedness in respect of liabilities owed by the Debtors to Pari Passu Creditors under or in connection with the Pari Passu Debt Documents ("Pari Passu Debt Liabilities") that may be incurred by the Issuer and the Guarantors that is permitted by the Debt Documents that are not subordinated in right of payment to any Super Senior Liabilities (as defined below) or Pari Passu Notes Liabilities and be secured by the Collateral, subject to the terms of the Intercreditor Agreement.

"Super Senior Liabilities" means the Credit Facility Liabilities and the Super Senior Hedging Liabilities.

The Intercreditor Agreement contains provisions relating to Second Lien Debt that may be incurred by the Debtors, subject to the terms of the Intercreditor Agreement.

The Intercreditor Agreement contains provisions empowering the Security Agent to appoint a delegate or co-security agent to perform its obligations under the Intercreditor Agreement.

Unless expressly stated otherwise in the Intercreditor Agreement, the provisions of the Intercreditor Agreement override anything in the Credit Facility Documents, the Pari Passu Debt Documents or any Second Lien Debt Documents. By accepting a Pari Passu Note, holders of the Pari Passu Notes shall be deemed to have agreed to, and accepted the terms and conditions of, the Intercreditor Agreement and to have authorized the Pari Passu Notes Trustee to enter into the Intercreditor Agreement on their behalf.

The following description is a summary of certain provisions, among others, contained in the Intercreditor Agreement. It does not restate the Intercreditor Agreement in its entirety, and the Group urges you to read that document because it, and not the description that follows, defines your rights as holders of the Pari Passu Notes.

Ranking and Priority

Subject to the terms of the Intercreditor Agreement, the liabilities owed by Debtors to the Super Senior Creditors, the Second Lien Creditors and the Pari Passu Creditors, shall rank in right and priority of payment in the following order:

(a) *first*, the liabilities owed by the Company or its successor (for purposes of this section, the "Parent") or any Debtor to or in respect of: (i) the creditors under or in connection with the Credit Facility Documents (the "Credit Facility Liabilities"), (ii) the Pari Passu Creditors under or in connection with the Pari Passu Debt Documents (the "Pari Passu Debt Liabilities"), (iii) the Hedging Liabilities, (iv) Second Lien Creditors under or in connection with the Second Lien Debt Documents (the "Second Lien Liabilities") *pari passu* and without any preference between them;

(b) *second*, the Subordinated Liabilities and the Intra-Group Liabilities

    The Intercreditor Agreement does not purport to rank the any of the Subordinated Liabilities or the Intra-Group Liabilities as between themselves.

In this section:

"Creditor Representative" means:

(a) in relation to the Revolving Lenders or the Senior Lenders, the Credit Facility Agent;

(b) in relation to lenders under any other Credit Facility, the facility agent (or equivalent) in respect of that Credit Facility;

(c) in relation to the Pari Passu Noteholders, the Pari Passu Notes Trustee;

(e) in relation to any Pari Passu Creditors, the Pari Passu debt representative for such Pari Passu Creditors;

(f) in relation to any Second Lien Creditor, the Second Lien debt representative for such Second Lien Creditor; and

(g) in relation to any Hedge Counterparty, each Hedge Counterparty shall be its own Creditor Representative.

"Hedging Liabilities" means the liabilities owed by any Debtor to the Hedge Counterparties under or in connection with the Hedging Agreements.

"Intra-Group Lenders" means each member of the Group which has made a loan available to, granted credit to or made any other financial arrangement having similar effect with another member of the Group, and which is party to the Intercreditor Agreement as an Intra-Group Lender.

"Intra-Group Liabilities" means the liabilities owed by any member of the Group to any of the Intra-Group Lenders.

"Pari Passu Arranger" means the arrangers in respect of the bridge facility under the agreement in respect of the Initial Facilities and any arranger of a credit facility which creates or evidences any Pari Passu Debt Liabilities which becomes a party to the Intercreditor Agreement.

"Pari Passu Creditors" means the Pari Passu Debt Creditors and the Pari Passu Hedge Counterparties.

"Pari Passu Debt Creditors" means each Creditor Representative in relation to any Pari Passu Debt Liabilities, each Pari Passu Arranger, each Pari Passu Noteholder and each Pari Passu Lender.

"Pari Passu Facility Agreement" means the agreement in respect of the Initial Facilities and any facility agreement setting out the terms of any credit facility which relates or evidences any Pari Passu Debt Liabilities.

"Pari Passu Hedge Counterparties" means each Hedge Counterparty to the extent it is owed Pari Passu Hedging Liabilities.

"Pari Passu Hedging Liabilities" means the Hedging Liabilities to the extent they are not Super Senior Hedging Liabilities.

"Pari Passu Lender" means the Senior Lenders and each "Lender" under and as defined in the relevant Pari Passu Facility Agreement (other than the agreement in respect of the Initial Facilities).

"Second Lien Creditors" means the creditors in relation to the Second Lien Liabilities.

"Subordinated Liabilities" means the liabilities of any Debtor to any direct or indirect shareholder (or Affiliate who is not a member of the Group) of the Parent (and their respective transferees and successors) which has made a loan or financial accommodation available to the Parent or another member of the Group, which is not prohibited under the terms of the Debt Documents and which accedes to the Intercreditor Agreement.

"Super Senior Creditors" means the creditors in relation to the Super Senior Liabilities.

"Super Senior Hedge Counterparties" means each Hedge Counterparty to the extent it is owed Super Senior Hedging Liabilities.

"Super Senior Hedging Liabilities" means those Hedging Liabilities owed to a Hedge Counterparty pursuant to a Hedging Agreement permitted to be incurred under the terms of the Debt Documents which have been designated as Super Senior Hedging Liabilities.

"Credit Facility Lender" means the Revolving Lenders and each "Lender" (under and as defined in the relevant Credit Facility Agreement) and ancillary lender, but excluding, for the avoidance of doubt, the Senior Lenders.

Transaction Security

The parties to the Intercreditor Agreement will agree in the Intercreditor Agreement that the Transaction Security is expressed to secure the following liabilities, in the following order:

(a) *first*, the Credit Facility Liabilities, Hedging Liabilities and the Pari Passu Debt Liabilities *pari passu* and without any preference between them; and

(b) *second*, the Second Lien Liabilities *pari passu* and without preference between them.

"Transaction Security" means the security created or evidenced or expressed to be created or evidenced under or pursuant to the security documents granted by the Debtors.

Permitted payments

Payment of Credit Facility Liabilities and Pari Passu Debt Liabilities

The Intercreditor Agreement permits the Debtors to make payments in respect of the Credit Facility Liabilities, the Pari Passu Debt Liabilities at any time in accordance with the terms of the Credit Facility Documents and the Pari Passu Debt Documents respectively, if at the time of payment no acceleration event has occurred and is continuing. The Intercreditor Agreement will permit these payments as set out in "—Application of Proceeds" below.

Permitted Payments: Hedging Liabilities

(a) The Intercreditor Agreement permits the Debtors and any other member of the Group to make payments to any Hedge Counterparty in respect of the Hedging Liabilities then due to that Hedge Counterparty under any Hedging Agreement in accordance with the terms of that Hedging Agreement: (i) if the payment is a scheduled payment arising under the relevant Hedging Agreement; (ii) to the extent that the relevant Debtor's obligation to make the payment arises as a result of the operation of: (A) any of sections 2(d) (Deduction or Withholding for Tax), 2(e) (Default Interest; Other Amounts), 8(a) (payment in the Contractual Currency), 8(b) (Judgments) and 11 (Expenses) of the 1992 ISDA Master Agreement (if the Hedging Agreement is based on a 1992 ISDA Master Agreement); (B) any of sections 2(d) (Deduction or Withholding for Tax), , 8(a) (payment in the Contractual Currency), 8 (b) (Judgments), 9(h)(i) (Prior to Early Termination) and 11 (Expenses) of the 2002 ISDA Master Agreement (if the Hedging Agreement is based on a 2002 ISDA Master Agreement); or (C) any provision of a Hedging Agreement which is similar in meaning and effect to any provision listed in sub-paragraphs (A) or (B) above (if the Hedging Agreement is not based on an ISDA Master Agreement); (iii) to the extent that the relevant Debtor's obligation to make the payment arises from a non-credit related close-out; (iv) to the extent that: (A) the relevant Debtor's obligation to make the payment arises from (a) a credit related close-out in relation to that Hedging Agreement or a consensual close-out in relation to that Hedging Agreement or (b) a permitted automatic early termination under that Hedging Agreement which arises as a result of an event relating to a Debtor; and (B) no Default is continuing at the time of that payment or would result from that payment; (v) to the extent that no Default is continuing or would result from that payment and the relevant Debtor's obligation to make the payment arises as a result of a close-out or termination arising as a result of (A) section 5(a)(vii) (Bankruptcy) of the 1992 ISDA Master Agreement (if the relevant Hedging Agreement is based on a 1992 ISDA Master Agreement) and the Event of Default (as defined in the relevant Hedging Agreement) has occurred with respect to the relevant Hedge Counterparty; (B) section 5(a)(vii) (Bankruptcy) of the 2002 ISDA Master Agreement (if the relevant Hedging Agreement is based on a 2002 ISDA Master Agreement) and the Event of Default (as defined in the relevant Hedging Agreement) has occurred with respect to the relevant Hedge Counterparty; (C) any provision of a Hedging Agreement which is similar in meaning and effect to any provision listed in paragraph (A) or (B) above (if the Hedging Agreement is not based on an ISDA Master Agreement) and the equivalent event of default has occurred with respect to the relevant Hedge Counterparty; or (D) the relevant Debtor terminating or closing-out the relevant Hedging Agreement as a result of a hedging force majeure and the Termination Event (as defined in the relevant Hedging Agreement in the case of a Hedging Agreement based on an ISDA Master Agreement) or the equivalent termination event (in the case of a Hedging Agreement not based on an ISDA Master Agreement) has occurred with respect to the relevant Hedge Counterparty; or (vi) if the Required Super Senior Creditors (excluding the Hedge Counterparties) and the Required Pari Passu Creditors give prior written consent to the payment being made.

(b) No payment may be made to a Hedge Counterparty under (a) above if any scheduled payment due from that Hedge Counterparty to a Debtor under a Hedging Agreement to which they are both party is due and unpaid unless the prior consent of the Required Super Senior Creditors and the Required Pari Passu Creditors is obtained.

(c) Failure by a Debtor to make a payment to a Hedge Counterparty which results solely from the operation of (b) above shall not result in a default (however described) in respect of that Debtor under that Hedging Agreement.

In this section, (i) "Required Pari Passu Creditors" means each Creditor Representative acting on behalf of any Pari Passu Creditors for which it is the Creditor Representative and (ii) "Required Super Senior Creditors" means each Creditor Representative acting on behalf of any Credit Facility Lenders for which it is the Creditor Representative.

Permitted Payments: Second Lien Liabilities

The Intercreditor Agreement permits Debtors to (a) prior to Senior Discharge Date, make payments to the Second Lien Creditors in respect of the Second Lien Liabilities with respect to the Second Lien Debt Documents (i) if: (A) the payment is of: (I) any of the principal amount or capitalized interest of the Second Lien Liabilities which is either (1) not prohibited from being paid by the Credit Facility Documents or the Pari Passu Debt Documents or (2) paid on or after the final maturity date of the Second Lien Liabilities (provided that such maturity date is a date not earlier than the maturity date as contained in the Credit Facility Documents or Pari Passu Debt Documents); or (II) any other amount which is not an amount of principal or capitalized interest; (B) no Second Lien Payment Stop Notice is outstanding (as set out in "—Second Lien Payment Stop Notice"); and (C) no Senior Payment Default has occurred and is continuing; or (ii) if the Majority Super Senior Creditors, and the Majority Pari Passu Creditors give prior consent to that payment being made; or (iii) if the payment is of fees, costs and expenses owed to a Creditor Representative in respect of Second Lien Liabilities; or (iv) if the payment is for the administrative and maintenance costs, fees, expenses (in each case reasonably and properly incurred) and taxes of any member of the Group which is an issuer of any Second Lien Liabilities including reporting or listing requirements, as permitted under the terms of the Debt Documents; (v) if the payment is of any other amount not exceeding £500,000 (or its equivalent in any other currencies) in aggregate in any 12 months period; or (vi) if the payment is of costs, consent fees, commissions, underwriter or lead manager fees (including original issue discount), taxes, premiums and any expenses incurred in respect of (or reasonably incidental to) any financing or refinancing of the Second Lien Liabilities in compliance with the Intercreditor Agreement and the Credit Facility Documents, and the Pari Passu Debt Documents; and (b) on or after the Senior Discharge Date, make payments to the Second Lien Creditors in respect of the Second Lien Liabilities in accordance with the Second Lien Documents.

"Senior Discharge Date" means the latest to occur of (i) the date on which all Super Senior Liabilities have been fully and finally discharged, (ii) the date on which all Hedging Liabilities have been fully and finally discharged, and (iii) the date on which all Pari Passu Debt Liabilities have been fully and finally discharged.

"Senior Payment Default" means:

(a) an event of default in respect of the Initial Facilities or the equivalent provision of any other Credit Facility Document;

(b) any event of default arising by reason of non-payment under the Hedging Liabilities other than in respect of an amount (i) not constituting principal, interest or fees and (ii) not exceeding £500,000 (or its equivalent in other currencies); and/or

(c) any event of default arising by reason of any non-payment under a Pari Passu Debt Document other than in respect of an amount not (i) constituting principal, interest or fees and (ii) not exceeding £500,000 (or its equivalent in other currencies).

Permitted Payments: Intra-Group Liabilities

The Intercreditor Agreement permits payments of the Intra Group Liabilities (whether of principal, interest or otherwise) from time to time when due, if at the time of payment no event of default has occurred or would occur in respect of the Debt Documents unless: (i) the Instructing Group (as defined below) consents to that payment being made; or (ii) that payment is made to facilitate a permitted payment of Credit Facility Liabilities, the Hedging Liabilities, the Pari Passu Debt Liabilities and the Second Lien Liabilities.

Permitted Payments: Subordinated Liabilities

The Intercreditor Agreement permits payments of Subordinated Liabilities from time to time when due, if the payment is not prohibited by the Debt Documents, or the Instructing Group consent to that payment being made.

Restrictions on Enforcement and Permitted Enforcement

Restrictions on Enforcement: Ancillary Lenders

Save as set out below, so long as any of the Super Senior Liabilities (other than any liabilities owed to the lenders who make an ancillary facility available pursuant to the terms of a Credit Facilities Agreement or Pari Passu Facility Agreement (the "Ancillary Lenders")) are or may be outstanding, none of the Ancillary Lenders shall be entitled to take any enforcement action in respect of any of the liabilities owed to it.

Permitted Enforcement: Ancillary Lenders

Each Ancillary Lender may take enforcement action if (i) at the same time as that action, enforcement action has been taken in respect of the Credit Facility Liabilities in which case the Ancillary Lenders may take the same enforcement action; (ii) that action is contemplated by the Credit Facility Agreement or the terms of the relevant section of the Intercreditor Agreement; (iii) that enforcement action is taken in respect of cash cover which has been provided in accordance with the Credit Facility Agreement; (v) at the same time as or prior to that action, the consent of the Majority Super Senior Creditors is obtained; or (vi) an insolvency event has occurred in relation to any member of the Group, in which case after the occurrence of that insolvency event each Ancillary Lender shall be entitled (if it has not already done so) to exercise any right it may otherwise have in respect of that member of the Group to: (A) accelerate any of that member of the Group's Credit Facility Liabilities or declare them prematurely due and payable on demand; (B) make a demand under any guarantee, indemnity or other assurance against loss given by that member of the Group in respect of any Credit Facility Liabilities; (C) exercise any right of set-off or take or receive any Payment in respect of any Credit Facility Liabilities of that member of the Group; or (D) claim and prove in any insolvency process of that member of the Group for the Credit Facility Liabilities owing to it.

Restrictions on Enforcement: Hedge Counterparties

Save as set out below in "—Permitted Enforcement: Hedge Counterparties," or "—Required Enforcement: Hedge Counterparties" (and without prejudice to the Hedge Counterparties' rights set out below in "—Enforcement Instructions"), the Hedge Counterparties shall not take any enforcement action in respect of any of the Hedging Liabilities or any of the hedging transactions under any of the Hedging Agreements at any time.

Permitted Enforcement: Hedge Counterparties

The Intercreditor Agreement provides that, to the extent it is able to do so under the relevant Hedging Agreement, a Hedge Counterparty may terminate or close-out in whole or in part any hedging transaction under that Hedging Agreement prior to its stated maturity: (i) if, prior to a Distress Event, the Issuer has certified to the Hedge Counterparty that that termination or close-out would not result in a breach of a Credit Facility Document, a Pari Passu Debt Document or a Second Lien Document; (ii) if a hedging force majeure has occurred in respect of that Hedging Agreement; (iii) if the Hedge Counterparty and the relevant Debtor consensually agree to terminate, reduce or close-out in whole or in part a transaction under a Hedging Agreement and no Default is continuing under any Credit Facility Document, Pari Passu Debt Document or Second Lien Document, or would result from such termination, reduction or close-out; (iv) if a Distress Event has occurred; (v) if an insolvency related Event of Default has occurred and is continuing under the Amended and Restated Revolving Credit Facility Agreement (or any equivalent provision of a Debt Document) in relation to a Debtor which is party to that Hedging Agreement; and (v) if the Instructing Group give prior consent to that termination or close-out being made.

If a Debtor has defaulted on any payment due under a Hedging Agreement (after allowing any applicable notice or grace periods) and the default has continued unwaived for more than 15 Business Days after notice of that default has been given to the Security Agent, the relevant Hedge Counterparty (i) may, to the extent it is able to do so under the relevant Hedging Agreement, terminate or close-out in whole or in part any hedging transaction under that Hedging Agreement; and (ii) until such time as the Security Agent has given notice to that Hedge Counterparty that the Transaction Security is being enforced (or that any formal steps are being taken to enforce the Transaction Security), shall be entitled to exercise any right it might otherwise have to sue for, commence or join legal or arbitration proceedings against any Debtor to recover any Hedging Liabilities due under that Hedging Agreement.

After the occurrence of an insolvency event in relation to any member of the Group, each Hedge Counterparty shall be entitled to exercise any right it may otherwise have in respect of that member of the Group to:

(a) prematurely close-out or terminate any Hedging Liabilities of that member of the Group;

(b) make a demand under any guarantee, indemnity or other assurance against loss given by that member of the Group in respect of any Hedging Liabilities owing to it;

(c) exercise any right of set-off or take or receive any payment in respect of any Hedging Liabilities of that member of the Group; or

(d) claim and prove in any insolvency process of that member of the Group for the Hedging Liabilities owing to it.

Required Enforcement: Hedge Counterparties

The Intercreditor Agreement provides that, save in circumstances where an Acceleration Event has occurred as a result of an arrangement between any Debtor and any Primary Creditor with the purpose of bringing about that Acceleration Event, a Hedge Counterparty shall promptly terminate or close-out in full any hedging transaction under all or any of the Hedging Agreements to which it is party prior to their stated maturity, following: (i) the occurrence of an Acceleration Event and delivery to it of a notice from the Security Agent that that Acceleration Event has occurred; and (ii) delivery to it of a subsequent notice from the Security Agent (acting on the instructions of an Instructing Group) instructing it to do so.

If a Hedge Counterparty is entitled to terminate or close-out any transaction as described in "—Permitted Enforcement: Hedge Counterparties" above, (or would have been able to if that Hedge Counterparty had given the notice referred to in that section) but has not terminated or closed out each such transaction, that Hedge Counterparty shall promptly terminate or close-out in full each such hedging transaction following a request to do so by the Security Agent (acting on the instructions of the Instructing Group).

Restrictions on Enforcement: Second Lien Creditors

Save as set out below in "—Permitted Enforcement: Second Lien Creditors" and except with the prior consent of or as required by the Instructing Group, (i) no Second Lien Creditor shall take or require the taking of any Enforcement Action in relation to the Second Lien Liabilities; and (ii) no Second Lien Creditor shall direct the Security Agent to enforce or otherwise (to the extent applicable) require the enforcement of, any Transaction Security.

Permitted Enforcement: Second Lien Creditors

A Second Lien Creditor may take an enforcement action if (i) an event of default under the Second Lien Debt Documents (the "Relevant Second Lien Default") is continuing; (ii) the Creditor Representatives in respect of the Credit Facility Documents and the Pari Passu Debt Documents have received a notice of the Relevant Second Lien Default specifying the event or circumstance in relation to the Relevant Second Lien Default from the Creditor Representative in respect of the Second Lien Liabilities; (iii) a Second Lien Standstill Period (as defined below) has elapsed; and (iv) the Relevant Second Lien Default is continuing at the end of the relevant Second Lien Standstill Period.

Restrictions on Enforcement: Intra-Group Lenders

Save as set out below in "—Permitted Enforcement: Intra Group Lenders", none of the Intra-Group Lenders shall be entitled to take any Enforcement Action in respect of any of the Intra-Group Liabilities at any time prior to the Final Discharge Date.

Permitted Enforcement: Intra-Group Lenders

After the occurrence of an insolvency event in relation to any Debtor grantor of Transaction Security, each Intra Group Lender may (unless otherwise directed by the Security Agent or unless the Security Agent has taken, or has given notice that it intends to take, action on behalf of that Intra-Group Lender in accordance with the Intercreditor Agreement), exercise any right it may otherwise have against that member of the Group to: (a) accelerate any of that member of the Group's Intra-Group Liabilities or declare them prematurely due and payable or payable on demand; (b) make a demand under any guarantee, indemnity or other assurance against loss given by that member of the Group in respect of any Intra-Group Liabilities; (c) exercise any right of set-off or take or receive any payment in respect of any Intra-Group Liabilities of that member of the Group; or (d) claim and prove in any insolvency process of that member of the Group for the Intra Group Liabilities owing to it.

Enforcement of Transaction Security

Enforcement Instructions

The Intercreditor Agreement provides that the Security Agent may refrain from enforcing the Transaction Security or taking any other enforcement action unless instructed otherwise by either the Majority Super Senior Creditors or the Majority Pari Passu Creditors whichever at the relevant time is entitled to give instructions (the "Senior Secured Instructing Group") or, (in certain circumstances) the Creditor Representative in respect of any Second Lien Liabilities (acting on the instructions of the Majority Second Lien Creditors), (each an "Instructing Group").

Subject to the Transaction Security having become enforceable in accordance with its terms and (i) subject to "—Enforcement Decisions" below, (A) a Senior Secured Instructing Group; (B) to the extent permitted to enforce or to require the enforcement of the Transaction Security prior to the later of the Credit Facility Lender Discharge Date and the Pari Passu Discharge Date as set out in "—Permitted Enforcement: Second Lien Creditors," the Creditor Representative in respect of Second Lien Liabilities (acting on the instructions of the Majority Second Lien Creditors); or (C) upon the later of the Credit Facility Lender Discharge Date and the Pari Passu Discharge Date, the Creditor Representative in respect of Second Lien Liabilities (acting on the instructions of the Majority Second Lien Creditors), may give or refrain from giving instructions to the Security Agent to enforce or refrain from enforcing the Transaction Security as they see fit provided that the instructions as to Enforcement given by the Instructing Group are consistent with the Enforcement Principles.

Prior to the later of the Credit Facility Discharge Date, and the Pari Passu Discharge Date: (i) if the Senior Secured Instructing Group has instructed the Security Agent not to enforce or to cease enforcing the Transaction Security; or (ii) in the absence of instructions from the Senior Secured Instructing Group, and, in each case, the Senior Secured Instructing Group has not required any Debtor to make a Distressed Disposal, the Security Agent shall give effect to any instructions to enforce the Transaction Security which the Credit Representative in respect of Second Lien Liabilities (acting on the instructions of the Majority Second Lien Creditors) are then entitled to give to the Security Agent as set out in "—Permitted Enforcement: Second Lien Creditors" above.

Notwithstanding the preceding paragraph, if at any time the Creditor Representative for the Credit Facility Lenders or the Pari Passu Debt Representatives are then entitled to give the Security Agent instructions to enforce the Transaction Security and the Creditor Representative in respect of any Majority Second Lien Creditors either gives such instruction or indicates any intention to give such instruction, then any of the Creditor Representative for the Credit Facility Lenders, the Pari Passu Noteholders or Pari Passu Lenders may give instructions to the Security Agent to enforce the Transaction Security as the Creditor Representative for the Credit Facility Lenders or the Pari Passu Noteholders or Pari Passu Lenders see fit in lieu of any instructions to enforce given by the Creditor Representative in respect of any Majority Second Lien Creditors as set out in "—Permitted Enforcement: Second Lien Creditors" above respectively and the Security Agent shall act on the instructions received from such of the Creditor Representative for the Credit Facility Lenders, the Pari Passu Noteholders or Pari Passu Lenders as is then entitled to give instructions as set out in "—Enforcement Decisions" below provided that such instructions are consistent with the security enforcement principles.

"Credit Facility Lender Discharge Date" means the first date on which all Credit Facility Liabilities have been fully and finally discharged to the satisfaction of the relevant Creditor Representative, whether or not as the result of an enforcement, and the Credit Facility Lenders are under no further obligation to provide financial accommodation to any of the Debtors under the Debt Documents.

"Pari Passu Discharge Date" means the first date on which all Pari Passu Liabilities have been fully and finally discharged to the satisfaction of the relevant Creditor Representatives (in the case of Pari Passu Debt Liabilities) and each Pari Passu Hedge Counterparty (in the case of its Pari Passu Hedging Liabilities), whether or not as the result of an enforcement, and the Paris Passu Creditors are under no further obligation to provide financial accommodation to any of the Debtors under the Debt Documents.

"Majority Pari Passu Creditors" means, at any time, those Pari Passu Creditors whose pari passu credit participations at that time aggregate more than 50 per cent. of the total pari passu credit participations at that time, after excluded commitments and disenfranchisements of defaulting lenders have been taken into account.

"Majority Super Senior Creditors" means such of the Super Senior Creditors whose super senior credit participations at that time aggregate more than 66.67 per cent. of the total super senior credit participations at that time, after excluded commitments and disenfranchisements of defaulting lenders have been taken into account.

"Majority Second Lien Creditors" means such of the Second Lien Creditors whose second lien credit participations at that time aggregate more than 50 per cent. of the total second lien credit participations at that time, after excluded commitments and disenfranchisements of defaulting lenders have been taken into account.

"Super Senior Hedging Liabilities" means those Hedging Liabilities owed to a Hedge Counterparty pursuant to a Hedging Agreement permitted to be incurred under the terms of the Credit Facility Documents, the Pari Passu Debt Documents and the Second Lien Documents which have been designated (and such designation has not been released) as Super Senior Hedging Liabilities in accordance with the Intercreditor Agreement.

Manner of Enforcement

If the Transaction Security is being enforced as set out in "—Enforcement Instructions" above, the Security Agent shall enforce the Transaction Security or take other action as to Enforcement in such manner (including the selection of any administrator (or any analogous officer in any jurisdiction) of any Debtor to be appointed by the Security Agent) as: (a) a Senior Secured Instructing Group; (b) prior to the Credit Facility Lender Discharge Date and the Pari Passu Discharge Date, if: (i) the Security Agent has, pursuant to "—Enforcement Instructions" above, received instructions given by the Creditor Representative in respect of the Majority Second Lien Creditors to enforce the Transaction Security; and (ii) the Senior Secured Instructing Group (or other Pari Passu Creditors pursuant "—Enforcement Instructions" above) has not given instructions as to the manner of the enforcement of the Transaction Security, the Majority Second Lien Creditors, shall instruct or, in the absence of any such instructions, as the Security Agent sees fit, in each case, so far as is consistent with the Enforcement Principles. For the avoidance of doubt, in the absence of instructions from an Instructing Group, the Security Agent will not be required to take any action.

Enforcement Decisions

Prior to the later to occur of the of the Credit Facility Lender Discharge Date, the Pari Passu Discharge Date, and the date on which all Second Lien Liabilities have been fully and finally discharged (with no obligation to provide financial accommodation to the Debtors under the Second Lien Documents) (the "Final Discharge Date") and save as set out below, before the giving of any instructions to the Security Agent to enforce the Transaction Security pursuant to "—Enforcement Instructions" (and before either the Majority Super Senior Creditors or the Majority Pari Passu Creditors shall be considered the Instructing Group), a Creditor Representative for the Credit Facility Lenders will or the Creditor Representative for each of the Pari Passu Creditors shall deliver a copy of its proposed enforcement instructions to the other Creditor Representatives and the Security Agent (which shall, for the avoidance of doubt, include instructions not to enforce) (the "Proposed Enforcement Instructions"). The Security Agent shall, as soon as reasonably practicable, notify each of the Creditor Representatives of the Super Senior Creditors and the Pari Passu Creditors upon receipt of such Proposed Enforcement Instructions.

Prior to the Senior Discharge Date and save as set out below, if the Security Agent has received any Proposed Enforcement Instruction, it shall either enforce or refrain from enforcing the Transaction

Security in accordance with the instructions of the Majority Pari Passu Creditors (and the Majority Pari Passu Creditors shall be the Instructing Group for the purposes of "—Enforcement Instructions" and in each case, acting through their respective Creditor Representative), provided that such instructions are consistent with the Enforcement Principles and failure to give instructions will be deemed to be an instruction not to take Enforcement steps.

In the event that (i) from the date that is three (3) months after the first Proposed Enforcement Instructions (including such instructions not to take Enforcement steps) are delivered to the Security Agent, the Security Agent (acting on the instructions of the Majority Pari Passu Creditors) has not commenced the Enforcement Action or Relevant Enforcement Action (as defined below) of the Transaction Security ; or (ii) the Credit Facility Lender Liabilities have not been fully discharged in cash within six (6) months of the date the first Proposed Enforcement Instructions (including such instructions not to take enforcement steps) were delivered to such Security Agent, then (with effect from the date of the earlier to occur of such events), the Majority Super Senior Creditors shall become the Instructing Group as set out in "—Enforcement Instructions" above.

If at any time the Security Agent has not taken any Relevant Enforcement Action of the Transaction Security notwithstanding the Transaction Security having become enforceable in accordance with its terms, a Creditor Representative acting on behalf of the Majority Super Senior Creditors or the Majority Pari Passu Creditors, as the case may be, may at any time provide immediate instructions as to Enforcement to the Security Agent notwithstanding any instructions given as set out above, if the Majority Super Senior Creditors or the Majority Pari Passu Creditors determine in good faith (and notify the Creditor Representatives of the other Super Senior Creditors and the Pari Passu Creditors and the Second Lien Creditors and the Security Agent) the delay in taking enforcement action of the Transaction Security could reasonably be expected to have a material adverse effect on: (i) the Security Agent's ability to enforce the Transaction Security; or (ii) the realization proceeds of any enforcement of the Transaction Security, and the Security Agent shall act only with respect to the relevant asset or Debtor that is the subject of the determination set out above, in accordance with the first such notice of determination and instructions as to Enforcement received by the Security Agent (provided in each case that such instructions are consistent with the Enforcement Principles).

If at any time an insolvency event has occurred with respect to any Debtor (other than an insolvency event which is the direct result of any action taken by the Security Agent acting on the instructions of the Majority Super Senior Creditors or the Majority Pari Passu Creditors), the Security Agent shall act, to the extent the Majority Super Senior Creditors have provided such instructions, in accordance with such instructions, provided that in the event the Security Agent has previously received Proposed Enforcement Instructions from the Creditor Representative for the Majority Pari Passu Creditors and has commenced Relevant Enforcement Action pursuant to such instructions, the Security Agent shall continue to act in accordance with the instructions of the Creditor Representative for the Majority Senior Secured Creditors until such time as the Creditor Representatives for Majority Super Senior Creditors issue enforcement instructions to the Security Agent and such instructions shall override and supersede any such prior instructions given by the Creditor Representative for the Majority Pari Passu Creditors.

Other than as set out above, if, prior to the Credit Facility Lender Discharge Date, the Majority Super Senior Creditors, the Majority Pari Passu Creditors or the Majority Second Lien Creditors (in each case acting reasonably) consider that the Security Agent is enforcing the Security in a manner which is not consistent with the Enforcement Principles, the Creditor Representatives for the Super Senior Creditors, the Pari Passu Debt Creditors, the Second Lien Creditors or the Pari Passu Notes Trustee shall give notice to the Creditor Representatives for the other Super Senior Creditors, the Pari Passu Creditors, the Second Lien Creditors and the Pari Passu Notes Trustee (as appropriate) after which the Creditor Representatives for the other Super Senior Creditors, Pari Passu Creditors, the Second Lien Creditors and the Pari Passu Notes Trustee shall consult with the Security Agent for a period of 15 days (or such lesser period as the relevant Creditor Representatives may agree) with a view to agreeing the manner of Enforcement provided that such Creditor Representatives shall not be obliged to consult under this section more than once in relation to each enforcement action.

After the Credit Facility Lender Discharge Date, the Security Agent shall either enforce or refrain from enforcing the Transaction Security in accordance with the instructions provided by the Majority Pari Passu Creditors.

For the purposes of this section, "Relevant Enforcement Action" means either (i) the determination by the Instructing Group of the method of enforcement of Transaction Security or (ii) the appointment of a financial advisor (as defined below) by the Instructing Group to assist in such determination.

Enforcement Principles

The Instructing Group may only give enforcement instructions that are consistent with certain security enforcement principles of maximizing, to the extent consistent with a prompt and expeditious realization of value, the value realized from enforcement (the "Enforcement Principles"), including that:

(a) in this section, "Secured Parties" means the Super Senior Creditors, the Pari Passu Creditors, the Creditor Representatives, the arrangers of any Credit Facility, the Security Agent, the delegates of the Security Agent and any receiver;

(b) the Transaction Security will be enforced and other action as to enforcement will be taken such that either:

   (i) all proceeds or enforcement are received by the Security Agent in cash for distribution in accordance with the Intercreditor Agreement in accordance with "—Application of Proceeds" below: or

   (ii) sufficient proceeds from enforcement will be received by the Security Agent in cash to ensure that when the proceeds are applied in accordance with the Intercreditor Agreement (please see "Application of Proceeds" below), the Super Senior Discharge Date will occur (unless the Majority Super Senior Creditors agree otherwise);

(c) On a proposed enforcement action:

   (i) over assets other than shares in a member of the Group where the aggregate book value of such assets exceeds €5,000,000 (or its equivalent in any other currency or currencies); or

   (ii) over some or all of the shares in a member of the Group over which Transaction Security exists,

   which, in either case, is not being effected through a public auction, the Security Agent shall, if requested by the Majority Super Senior Creditors or the Majority Pari Passu Creditors, appoint a financial adviser to provide a fairness opinion in relation to that Enforcement, provided that the Security Agent shall not be required to appoint a financial adviser nor obtain a fairness opinion if a proposed enforcement:

      (i) would result in the receipt of sufficient enforcement proceeds in cash by the Security Agent to ensure that, after application in accordance with "—Application of Proceeds" below:

         (A) in the case of an enforcement requested by the Majority Super Senior Creditors, the Final Discharge Date would occur; or

         (B) in the case of an Enforcement requested by the Majority Pari Passu Creditors, the Super Senior Discharge Date would occur;

      (ii) is in accordance with any applicable law; and

      (iii) complies with "—Distressed Disposals".

(e) the Security Agent shall be under no obligation to appoint a financial advisor or to seek the advice of a financial advisor, unless expressly required to do so by any provision of the Intercreditor Agreement;

(f) the fairness opinion (or any equivalent opinion obtained by the Security Agent in relation to any other enforcement of the Transaction Security that such action is fair from a financial point of view after taking into account all relevant circumstances) will be conclusive evidence that the maximum value realised from enforcement (to the extent consistent with a prompt and expedition realization of value) has been met;

(g) in the absence of written notice from a Secured Party or group of Secured Parties, that such Secured Party(s) object to any enforcement of any Transaction Security on the grounds that such Enforcement Action does not aim to achieve the Enforcement Objective, the Security Agent is entitled to assume that such enforcement of any Transaction Security is in accordance with the Enforcement Objective; and

(h) if the Security Agent is unable to obtain a fairness opinion after attempting to do so (and after considering making such modifications to the enforcement process as may be reasonably available and consistent with the Enforcement Principles to obtain such opinion) because such opinions are not generally available in the market in such circumstances it shall notify each Creditor Representative and may proceed to enforce any Transaction Security without needing to demonstrate (by way of a fairness opinion or otherwise) that such enforcement is aiming to achieve the Enforcement Objective.

Second Lien Payment Stop Notice

The Intercreditor Agreement provides that, until the Senior Discharge Date, (except with the prior consent of the Creditor Representatives in respect of the Credit Facility Documents and the Pari Passu Debt Documents), and subject to the terms of the Intercreditor Agreement, the Issuer shall procure that no member of the Group shall make, and no Second Lien Creditor may receive from any member of the Group, any payment permitted pursuant to the following section above "—Permitted Payments: Second Lien Liabilities" (other than Second Lien Representative Amounts) if: (i) a Senior Payment Default has occurred and is continuing; or (ii) a Secured Debt Event of Default (other than a Senior Payment Default) has occurred and is continuing, from the date on which the Creditor Representatives in respect of the Credit Facility Documents and the Pari Passu Debt Documents (as the case may be) (the "Relevant Representative") delivers a notice (a "Second Lien Payment Stop Notice") specifying the event or circumstance in relation to that Event of Default under (and as defined in) (a) the Credit Facility Agreements, (b) the Pari Passu Notes Indenture, (c) any Pari Passu Debt Documents, or (d) any Second Lien Documents (each a "Secured Debt Event of Default") to the Security Agent and the Creditor Representative in relation to the Second Lien Liabilities until the earliest of: (A) the date falling 179 days after delivery of that Second Lien Payment Stop Notice; (B) the date on which an "Event of Default" as defined in the Second Lien Documents (a "Second Lien Default") occurs for failure to pay principal at the original scheduled maturity of the Second Lien Liabilities; (C) in relation to payments of Second Lien Liabilities, if a Second Lien Standstill Period is in effect at any time after delivery of that Second Lien Payment Stop Notice, the date on which that Second Lien Standstill Period expires; (D) the date on which the relevant Secured Debt Event of Default is no longer continuing and, if the relevant Liabilities have been accelerated, such acceleration has been rescinded; (E) the date on which the Relevant Representative delivers a notice to the Security Agent and the Creditor Representative in respect of the Second Lien Liabilities cancelling the Second Lien Payment Stop Notice; (F) the later of the Credit Facility Lender Discharge Date and the Pari Passu Discharge Date; and (G) the date on which the Creditor Representative in respect of the Second Lien Liabilities takes any enforcement action that it is permitted to take under the Intercreditor Agreement.

Unless the Creditor Representative in respect of Second Lien Liabilities waives this requirement: (i) a new Second Lien Payment Stop Notice may not be delivered unless and until 360 days have elapsed since the delivery of the immediately prior Second Lien Payment Stop Notice; and (ii) no Second Lien Payment Stop Notice may be delivered in reliance on a Secured Debt Event of Default more than 90 days after the date the Creditor Representatives in respect of the Credit Facility Documents and the Pari Passu Debt Documents (as applicable) received notice of that Secured Debt Event of Default.

The Creditor Representatives in respect of the Credit Facility Documents and the Pari Passu Debt Documents may serve only one Second Lien Payment Stop Notice with respect to the same event or set of circumstances. Subject to the provisions set out above, this shall not affect the right of the Creditor Representatives in respect of the Credit Facility Documents and the Pari Passu Debt Documents to issue a Second Lien Payment Stop Notice in respect of any other event or set of circumstances.

No Second Lien Payment Stop Notice may be served by the Creditor Representatives in respect of the Credit Facility Documents and the Pari Passu Debt Documents in respect of a Secured Debt Event of Default which had been notified to each of them at the time at which an earlier Second Lien Payment Stop Notice was issued.

Cure of Second Lien Stop Notice

The Intercreditor Agreement provides that if: (a) at any time following the issue of a Second Lien Payment Stop Notice or the occurrence of a Senior Payment Default, that Second Lien Payment Stop Notice ceases to be outstanding and/or (as the case may be) the Senior Payment Default ceases to be continuing; and (b) the relevant Debtor then promptly pays to the Second Lien Creditors an amount equal to any payments which had accrued under the Second Lien Debt Documents and which would have been a payment permitted pursuant to the following section above "—Permitted Payments: Second Lien Liabilities" but for that Second Lien Payment Stop Notice or Senior Payment Default, then any Event of Default which may have occurred as a result of that suspension of payments shall be waived and any Second Lien Enforcement Notice which may have been issued as a result of that Event of Default shall be waived, in each case without any further action being required on the part of the Second Lien Creditors.

Second Lien Standstill Period

In relation to a relation to a Relevant Second Lien Default, a Second Lien Standstill Period shall mean the period beginning on the date (the "Second Lien Standstill Start Date") the Creditor Representative in respect of the Second Lien Liabilities serves an enforcement notice on the Credit Facility Agent, the Pari Passu Notes Trustee and Pari Passu Debt Representative in respect of such Relevant Second Lien Default and ending on the earlier to occur of: (a) the date falling 179 days after the Second Lien Standstill Start Date (the "Second Lien Standstill Period"); (b) the date the Secured Parties take any enforcement action in relation to a Guarantor, provided however, that: (i) if a Second Lien Standstill Period ends, the Second Lien Creditors may only take the same enforcement action in relation to the Guarantor as the enforcement action taken by the Secured Parties against such Guarantor and not against any other member of the Group; and (ii) Enforcement Action shall not include action taken to preserve or protect any Security as opposed to realize it; (c) the date of an insolvency event in relation to a Guarantor against whom enforcement action is to be taken; (d) the date on which a Second Lien Default occurs for failure to pay principal at the original scheduled maturity of the Second Lien Debt; (e) the date on which the Creditor Representatives in respect of the Credit Facility Documents and the Pari Passu Debt Documents (as applicable) consent to an enforcement in respect of the Relevant Second Lien Default by the relevant Second Lien Creditor; and (f) the expiry of any other Second Lien Standstill Period outstanding at the date such first mentioned Second Lien Standstill Period commenced (unless that expiry occurs as a result of a cure, waiver or other permitted remedy).

The Second Lien Creditors may take enforcement action as described above even if, at the end of any relevant Second Lien Standstill Period or at any later time, a further Second Lien Standstill Period has begun as a result of any other Relevant Second Lien Default.

If the Security Agent has notified the relevant Creditor Representative in respect of Second Lien Liabilities that it is enforcing Security created pursuant to any Transaction Security Document over shares of a Guarantor, no Second Lien Creditor may take any action referred to above against that Guarantor while the Security Agent is taking steps to enforce that Security in accordance with the instructions of the Instructing Group where such action might be reasonably likely to adversely affect such enforcement or the amount of proceeds to be derived therefrom.

Option to Purchase: Second Lien Creditors

The Intercreditor Agreement provides that the Second Lien Creditors (the "Purchasing Second Lien Creditors") may, after an acceleration event or the enforcement of any Transaction Security (each a "Distress Event"), by giving not less than ten days' notice to the Security Agent, require the transfer to them (or to a nominee or nominees) of all, but not part, of the rights and obligations in respect of the Credit Facility Liabilities and Pari Passu Debt Liabilities in accordance with the Intercreditor Agreement, provided certain requirements are met.

Option to Purchase: Pari Passu Debt Creditors

The Intercreditor Agreement provides that the Pari Passu Debt Creditors (the "Purchasing Pari Passu Debt Creditors") may, after a Distress Event and having given all Pari Passu Noteholders and Pari Passu Lenders the opportunity to participate in such purchase, by giving not less than ten days' notice to the Security Agent, require the transfer to them (or to a nominee or nominees) of all, but not part, of the rights and obligations in respect of the Credit Facility Liabilities in accordance with the Intercreditor Agreement, provided certain requirements are met.

Release of the Guarantees and Security

Non-Distressed Disposals

The Intercreditor Agreement provides that, in the case of a Non-Distressed Disposal (as defined below) the Security Agent is irrevocably authorized (A) to release the Transaction Security or any other claim (relating to a Debt Document) over that asset; (B) where that asset consists of shares in the capital of a member of the Group, to release the Transaction Security or any other claim (relating to a Debt Document) over the assets of that member of the Group's property (including the shares in and assets of any of its Subsidiaries); and (C) to execute and deliver or enter into any release of the Transaction Security or any claim described in sub-paragraphs (A) and (B) above and issue any certificates of non-crystallization of any floating charge or any consent to dealing that may, in the discretion of the Security Agent, be considered necessary or desirable.

If a release of Transaction Security is required (i) to effect a resignation of a Guarantor in respect of the Initial Facilities or any equivalent provision in a Debt Document; (ii) to facilitate a receivables financing that is permitted or not prohibited under the Credit Facility Documents, the Second Lien Debt Documents and the Pari Passu Debt Documents; (iii) to facilitate a merger, consolidation, conveyance or transfer that is permitted or not prohibited under the Credit Facility Documents, the Second Lien Debt Documents and the Pari Passu Debt Documents; or (iv) in connection with the solvent winding up, liquidation or reorganization of any Subsidiary that is permitted or not prohibited under the Credit Facility Documents, the Second Lien Debt Documents and the Pari Passu Debt Documents, and the Issuer certifies for the benefit of the Security Agent that release or resignation is permitted or not prohibited under or pursuant to the Debt Documents, the Security Agent is irrevocably authorized to and shall (at the cost of the relevant Debtor or the Issuer and without any consent, sanction, authority or further confirmation from any Creditor or Debtor): (i) release the Transaction Security to the extent required to facilitate such resignation or transaction; and (ii) execute and deliver or enter into any release of the Transaction Security or any claim described in (i) above and issue any certificates of non-crystallization of any floating charge or any consent to dealing that may, in the discretion of the Security Agent, be considered necessary or desirable or that is requested by the Issuer (acting reasonably).

In the event of a Non-Distressed Disposal, a resignation of a guarantor under the Amended and Restated Credit Facility Agreement or any equivalent provision in a Debt Document, each release of Transaction Security or any claim described above shall be contingent upon that Non-Distressed Disposal or resignation being effected or the fulfilment of such conditions (as relevant), and in the event that such Non-Distressed Disposal or resignation is not effected or the conditions for such release are not fulfilled (as relevant), the Transaction Security or claim subject to that release shall continue in full force and effect as if that release had not been effected.

A "Non-Distressed Disposal" is a disposal of an asset which is subject to the Transaction Security to a person or persons outside the Group which (i) is permitted or not prohibited under the Credit Facility Documents; (ii) is permitted or not prohibited under the Pari Passu Debt Documents; (iii) is permitted or not prohibited under the Second Lien Debt Documents and (iv) is not a Distressed Disposal.

Distressed Disposals

The Intercreditor Agreement provides that, in circumstances where a disposal by a member of the Group of an asset subject to the Transaction Security which is being effected: (a) at the request of the Instructing Group in circumstances where the Transaction Security has become enforceable; (b) by enforcement of the Transaction Security; or (c) after the occurrence of a Distress Event, by a Debtor to a person or persons which is, or are, not a member, or members, of the Group (a "Distressed Disposal") the Security Agent is irrevocably authorized:

(a) to release the Transaction Security, or any other claim over that asset and execute and deliver or enter into any release of that Transaction Security, or claim and issue any letters of non crystallization of any floating charge or any consent to dealing that may, in the discretion of the Security Agent, be considered necessary or desirable;

(b) if the asset which is disposed of consists of shares in the capital of a Debtor, to release (or instruct to release): (1) that Debtor and any Subsidiary of that Debtor from all or any part of its borrower, guarantor or other liabilities; (2) any Transaction Security granted by that Debtor or any Subsidiary of that Debtor over any of its assets; and (3) any other claim of an Intra-Group Lender, or another Debtor over that Debtor's assets or over the assets of any Subsidiary of that Debtor, on behalf of the relevant Creditors and Debtors;

(c) if the asset which is disposed of consists of shares in the capital of any Holding Company of a Debtor, to release (or instruct to release): (1) that Holding Company and any Subsidiary of that Holding Company from all or any part of borrower, guarantor or other liabilities; (2) any Transaction Security granted by any Subsidiary of that Holding Company over any of its assets; and (3) any other claim of a creditor in relation to Subordinated Liabilities, an Intra-Group Lender or another Debtor over the assets of any Subsidiary of that Holding Company, on behalf of the relevant Creditors and Debtor;

(d) if the asset subject to the Distressed Disposal consists of shares in the capital of a Debtor or the Holding Company of a Debtor and the Security Agent decides to dispose of all or any part of the liabilities (other than liabilities due to any Creditor Representative or arranger) or the Debtors' intra-group receivables, owed by that Debtor or Holding Company or any Subsidiary of that Debtor or Holding Company on the basis that any transferee of those liabilities or Debtors' intra-group receivables (the "Transferee") should not be treated as a Primary Creditor or a Secured Party for the purposes of this Agreement, to execute and deliver or enter into any agreement to dispose of all or part of those liabilities or Debtors' intra-group receivables on behalf of the relevant Creditors and Debtors on terms such that (notwithstanding any other provision of any Debt Document) the Transferee shall not be treated as a Primary Creditor or a Secured Party for the purposes of this Agreement;

(e) if the asset which is disposed of consists of shares in the capital of a Debtor or the Holding Company of a Debtor and the Security Agent decides to dispose all or any part of the liabilities (other than liabilities due to any Creditor Representative or Arranger); or the Debtors' intra-group receivables, owed by that Debtor or Holding Company or any Subsidiary of that Debtor or Holding Company on the basis that any transferee of those liabilities or Debtors' intra-group receivables will be treated as a Primary Creditor or a Secured Party for the purposes of this Agreement, to execute and deliver or enter into any agreement to dispose of (i) all (and not part only) of the liabilities owed to the Primary Creditors (other than to any Creditor Representative or Arranger); and (ii) all or part of any other liabilities (other than liabilities owed to any Creditor Representative or Arranger) and the Debtors' intra-group receivables, on behalf of, in each case, the relevant Creditors and Debtors;

(f) if the asset subject to the Distressed Disposal consists of shares in the capital of a Debtor or the Holding Company of a Debtor (the "Disposed Entity") and the Security Agent decides to transfer to another Debtor (the "Receiving Entity") all or any part of the Disposed Entity's obligations or any obligations of any Subsidiary of that Disposed Entity in respect of the Intra-Group Liabilities; or the Debtors' intra-group receivables, to execute and deliver any instrument or enter into any agreement to: (i) transfer all or part of the obligations in respect of those Intra-Group Liabilities or Debtors' intra-group receivables on behalf of the relevant Intra-Group Lenders and Debtors to which those obligations are owed and on behalf of the Debtors which owe those obligations; and (ii) accept the transfer of all or part of the obligations in respect of those Intra-Group Liabilities or Debtors' intra-group receivables on behalf of the Receiving Entity or Receiving Entities to which the obligations in respect of those Intra-Group Liabilities or Debtors' intra-group receivables are to be transferred.

(g) In the case of a Distressed Disposal or debt disposal effected by or at the request of the Security Agent, the Security Agent shall take reasonable care to obtain a fair market price in the prevailing market conditions (although the Security Agent shall not have any obligation to postpone any such Distressed Disposal or disposal of liabilities in order to achieve a higher price).

Application of Proceeds

Subject to the terms of the Intercreditor Agreement, all amounts from time to time received or recovered by the Security Agent pursuant to the terms of any Debt Document or in connection with the realization or enforcement of all or any part of the Transaction Security (for the purposes of this paragraph, the "Recoveries") shall be held by the Security Agent on trust to apply them at any time as the Security Agent (in its discretion) sees fit, to the extent permitted by applicable law, in the following order of priority:

(a) *first*, in discharging any sums owing to the Security Agent, any receiver or any delegate and in payment to the Creditor Representatives of the fees, costs and expenses payable to a Creditor Representative for its own account pursuant to the relevant Debt Documents or any engagement letter between a Creditor Representative and a Debtor;

(b) *second*, in discharging all costs and expenses incurred by any Primary Creditor in connection with any realization or enforcement of the Transaction Security taken in accordance with the terms of this Agreement or any action taken at the request of the Security Agent;

(c) *third*, in payment or distribution to:

(i) each Creditor Representative in respect of a Credit Facility on its own behalf and on behalf of the creditors in relation to Credit Facility Liabilities for which it is the Creditor Representative; and

(ii) the Super Senior Hedge Counterparties,

for application towards the discharge of:

(1) the Credit Facility Liabilities (in accordance with the terms of the Credit Facility Documents) on a pro rata basis between Credit Facility Liabilities incurred under separate Credit Facility Agreements; and

(2) the Super Senior Hedging Liabilities (on a pro rata basis between the Super Senior Hedging Liabilities of each Super Senior Hedge Counterparty),

on a pro rata basis as between (A) and (B) above;

(d) *fourth* in payment or distribution to:

(i) the Creditor Representatives in respect of any Pari Passu Debt Liabilities on its own behalf and on behalf of the Pari Passu Debt Creditors for which it is the Creditor Representative; and

(ii) the Pari Passu Hedge Counterparties; and

for application towards the discharge of:

(A) the Pari Passu Debt Liabilities (in accordance with the terms of the relevant Pari Passu Debt Documents) on a pro rata basis between Pari Passu Debt Liabilities under separate facility agreements;

(B) the Pari Passu Debt Liabilities (in accordance with the terms of the relevant Pari Passu Debt Documents) on a pro rata basis between Pari Passu Debt Liabilities under separate indentures; and

(C) the Pari Passu Hedging Liabilities on a pro rata basis between the Pari Passu Hedging Liabilities of each Pari Passu Hedge Counterparty,

on a pro rata basis between paragraph (A), paragraph (B) and paragraph (C) above;

(f) *fifth*, in payment or distribution to each Creditor Representative in respect of any Second Lien Liabilities on its own behalf and on behalf of the Second Lien Creditors for which it is the Creditor Representative for application towards the discharge of:

(i) the Second Lien Liabilities (in accordance with the terms of the relevant Second Lien Documents) on a pro rata basis between Second Lien Liabilities incurred under or in connection with separate Second Lien Facility Agreements; and

(ii) the Second Lien Liabilities (in accordance with the terms of the relevant Second Lien Documents) on a pro rata basis between Second Lien Liabilities incurred under or in connection with separate Second Lien Note Indentures; and

on a pro rata basis between paragraph (i) and paragraph (ii) above

(g) *sixth*, if none of the Debtors is under any further actual or contingent liability under any Credit Facility Document, Hedging Agreement or Pari Passu Debt Document, in payment or distribution to any person to whom the Security Agent is obliged to pay or distribute in priority to any Debtor; and

(h) the balance, if any, in payment or distribution to the relevant Debtor.

Turnover of Receipts

Turnover by the Primary Creditors

Subject to the terms of the Intercreditor Agreement, if at any time prior to the Final Discharge Date any of the Super Senior Creditors, the Pari Passu Creditors and the Second Lien Creditors (together, the

"Primary Creditors") receives or recovers the proceeds of any enforcement of any Transaction Security except as set out in "—Application of Proceeds" above, that Primary Creditor will:

(a) in relation to receipts and recoveries not received or recovered by way of set-off:

(i) hold an amount of that receipt or recovery equal to the Creditor's Relevant Liabilities (or if less, the amount received or recovered) on trust for the Security Agent and separate from other assets, property or funds and promptly pay that amount to the Security Agent for application in accordance with the terms of the Intercreditor Agreement; and

(ii) promptly pay an amount equal to the amount (if any) by which the receipt or recovery exceeds that Creditor's Relevant Liabilities to the Security Agent for application in accordance with the terms of the Intercreditor Agreement; and

(b) 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.

"Relevant Liabilities" means:

(a) in the case of a Creditor:

(i) the liabilities owed to Creditors ranking (in accordance with the terms of the Intercreditor Agreement) *pari passu* with or (as the case may be) in priority to the liabilities owed to that Creditor;

(ii) all present and future liabilities and obligations, actual and contingent, of the Debtors to the Security Agent; and

(b) in the case of a Debtor, the Liabilities owed to the Creditors together with all present and future liabilities and obligations, actual and contingent, of the Debtors to the Security Agent.

Turnover by other Creditors

Subject to the terms of the Intercreditor Agreement, if at any time prior to the Final Discharge Date, any Creditors other than the Credit Facility Lenders, the Pari Passu Creditros and the Second Lien Creditors receives or recovers:

(a) any payment or distribution of, or on account of or in relation to, any of the Liabilities which is not either: (i) a permitted under the Intercreditor Agreement; or (ii) made as set out in "—Application of Proceeds" above;

(b) other than by way of set-off permitted under the Intercreditor Agreement, any amount by way of set-off in respect of any of the liabilities owed to it which does not give effect to a permitted payment;

(c) notwithstanding paragraphs (a) and (b) above, and other than as set out in the Intercreditor Agreement, any amount:

(i) on account of, or in relation to, any of the liabilities:

(A) after the occurrence of a Distress Event; or

(B) as a result of any other litigation or proceedings against a member of the Group (other than after the occurrence of an insolvency event in respect of that Debtor); or

(ii) by way of set-off in respect of any of the liabilities owed to it after the occurrence of a Distress Event,

other than, in each case, any amount received or recovered in accordance with "—Application of Proceeds";

(d) the proceeds of any enforcement if any Transaction Security except in accordance with "—Application of Proceeds"; or

(e) other than by way of set-off permitted under the Intercreditor Agreement, any distribution in cash or in kind or payment of, or on account of or in relation to, any of the liabilities owed by any Debtor which is not as set out in "—Application of Proceeds" and which is made as a result of, or after, the occurrence of an insolvency event in respect of that Debtor, that Creditor will:

(i) in relation to receipts and recoveries not received or recovered by way of set-off:

(A) hold an amount of that receipt or recovery equal to that Creditor's Relevant Liabilities (or if less, the amount received or recovered) on trust for the Security Agent and promptly pay or distribute that amount to the Security Agent for application in accordance with the terms of this Agreement; and

(B) promptly pay or distribute an amount equal to the amount (if any) by which the receipt or recovery exceeds that Creditor's Relevant Liabilities to the Security Agent for application in accordance with the terms of this Agreement; and

(ii) 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.

Governing Law

The Intercreditor Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

BGF Loan

On September 30, 2014, we entered into an unsecured loan facility with BGF, as amended and restated on July 5, 2017 and as supplemented by a subordination letter dated September 30, 2014, as amended and restated on August 5, 2018 (the "**BGF Loan**"), in the aggregate principal amount of £10.0 million. The BGF Loan matures in 2021 and bears a fixed annual interest rate of 10.0% for the period from (and including) September 30, 2014 to (and including) August 31, 2017, reducing thereafter to a fixed annual interest rate of 6.0% for the period from (and including) September 1, 2017 to (and including) December 31, 2021. The loan facility is redeemable in full on December 31, 2021 and includes a redemption premium in case of early redemption or an Event of Default (as defined in the BGF Loan) of £2.1 million, payable on December 31, 2019. See "*Certain Relationships and Related Party Transactions*."

DESCRIPTION OF THE NOTES

In this "*Description of the Notes*," the term "Issuer" refers only to Victoria PLC and not to any of its Subsidiaries, except for the purposes of financial data determined on a consolidated basis. The term "Notes," unless the context requires otherwise, also refers to "book entry interests" in the Notes, as defined herein. The definitions of certain other terms used in this description are set forth throughout the text or under "*—Certain Definitions*."

The Issuer will issue €450,000,000 aggregate principal amount of % Senior Secured Notes due 2023 (the "Notes") under an indenture dated on or about , 2018 (the "Indenture") between, among others, the Issuer, the Guarantors, HSBC Corporate Trustee Company (UK) Limited, as trustee (the "Trustee"), and Barclays Bank PLC, as security agent (the "Security Agent"), in private transactions that are not subject to the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"). The terms of the Notes include those set forth in the Indenture.

The Indenture is unlimited in aggregate principal amount, of which €450,000,000 aggregate principal amount of Notes will be issued in this Offering (the "Initial Notes"). We may in the future, subject to applicable law, issue an unlimited principal amount of Additional Notes (as defined below). We will only be permitted to issue Additional Notes in compliance with the covenants contained in the Indenture. The Notes and any Additional Notes will be treated as a single class for all purposes under the Indenture, including, without limitation, with respect to waivers, amendments, redemptions and offers to purchase, except as otherwise provided for in the Indenture.

The following description is a summary of the material terms of the Notes and the Indenture. It does not, however, restate the Notes and the Indenture in their entirety and where reference is made to a particular provision of the Notes or the Indenture, such reference, including the definitions of certain terms, is qualified in its entirety by reference to all of the provisions of the Notes and the Indenture. The Indenture, the Notes and the Guarantees will be subject to the terms of the Intercreditor Agreement and any Additional Intercreditor Agreement entered into in the future. The terms of the Intercreditor Agreement are important to understanding the terms and ranking of the Notes and the Guarantees. Please see the section entitled "*Description of Certain Financing Arrangements—Intercreditor Agreement*."

You should read the Notes, the Indenture, the Security Documents 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. Copies of the Indenture, the Security Documents and the Intercreditor Agreement may be obtained from the Issuer at the address indicated under "*Listing and General Information*." The Indenture is not qualified under, does not incorporate provisions by reference to, and is not otherwise subject to, the U.S. Trust Indenture Act of 1939, as amended, including Section 316(b) thereof.

Application has been made to admit the Notes to trading on the International Securities Market ("Exchange") of the London Stock Exchange. In the event that the Notes are admitted to trading on an exchange other than the Exchange, references herein to the Exchange shall be deemed to be to the relevant exchange upon which the Notes are listed. The Issuer can provide no assurance that this application will be accepted. See *"—Payments on the Notes; Paying Agent, Transfer Agent and Registrar*."

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.

Each reference to a legal entity herein shall be deemed to include such entity's successor in interest, unless the context requires otherwise.

Brief Description of the Structure and Ranking of the Notes and the Guarantees

The Notes

The Notes will:

- be the Issuer's general, senior obligations, secured as set forth under "*—Security*";
- rank *pari passu* in right of payment with all of the Issuer's existing and future obligations that are not expressly contractually subordinated in right of payment to the Notes, including the Issuer's obligations under the Senior Credit Facility Agreement;
- rank senior in right of payment to any existing and future obligations of the Issuer that are expressly subordinated in right of payment to the Notes;

- be effectively subordinated to any existing and future obligation of the Issuer and its Subsidiaries that is secured by property and assets that do not secure the Notes, to the extent of the value of the property and assets securing such other obligation;
- be structurally subordinated to any existing and future obligations of Subsidiaries of the Issuer that do not provide Guarantees, including obligations owed to trade creditors; and
- be guaranteed on a senior joint and several basis by the Guarantors.

Pursuant to the terms of the Intercreditor Agreement, Holders will receive proceeds from the enforcement of the Collateral only after certain obligations entitled to receive proceeds from the enforcement of the Collateral in priority to the Notes have been repaid in full, including (i) obligations under the Senior Credit Facility Agreement, (ii) other Debt incurred pursuant to the terms of the Indenture that is entitled to receive proceeds of an enforcement of the Collateral in priority to the Notes and (iii) certain Hedging Obligations, if any.

The Guarantees

The Notes will initially be guaranteed by each of the Initial Guarantors: Victoria Midco Holdings Limited, Victoria Carpets Limited, Westex (Carpets) Limited, Abingdon Flooring Limited, Interfloor Limited, View Logistics Limited, The Victoria Carpet Company Proprietary Limited, Quest Flooring Pty Ltd, Primary Flooring Pty Ltd, Keraben Grupo, S.A.U. and Ceramica Saloni, S.A.U.

Each Guarantee will:

- be a general, senior obligation of the Guarantor that granted such Guarantee, secured as set forth under "—*Security*";
- rank *pari passu* in right of payment with all of such Guarantor's existing and future obligations that are not expressly contractually subordinated in right of payment to such Guarantee, including debt under the Senior Credit Facility Agreement;
- rank senior in right of payment to any existing and future obligations of such Guarantor that are expressly subordinated in right of payment to such Guarantee;
- be effectively subordinated to any existing and future obligation of such Guarantor that is secured by property and assets that do not secure such Guarantee or the Notes; and
- be structurally subordinated to any existing or future obligations of the Subsidiaries of such Guarantor that do not provide Guarantees, including obligations owed to trade creditors.

General

Not all of the Issuer's direct and indirect Subsidiaries will guarantee the Notes. The Issuer is a Holding Company for the operating companies in the Group and is accordingly dependent on cash flows from its Subsidiaries to meet its obligations under the Notes.

As of and for the 52-weeks ended June 30, 2018, the Issuer and the Guarantors represented 86.5% of our Adjusted *Pro Forma* EBITDA, 89.5% of our *pro forma* revenue and 87.9% of our *pro forma* total assets (excluding acquired intangibles and goodwill arising on consolidation). As of June 30, 2018, our direct and indirect Subsidiaries that do not Guarantee the Notes did not have any material external financial indebtedness outstanding.

The Notes are effectively subordinated in right of payment to all Debt and other liabilities and commitments (including trade payables and lease obligations) of the Issuer's Subsidiaries that are not Guarantors. Any right of the Issuer to receive assets of any of its Subsidiaries upon the Subsidiary's liquidation or reorganization (and the consequent right of the Holders to participate in those assets) will be effectively subordinated to the claims of that Subsidiary's creditors, except to the extent that the Issuer is itself recognized as a creditor of the Subsidiary, in which case the claims of the Issuer would still be subordinated in right of payment to any security over the assets of the Subsidiary and any Debt of the Subsidiary senior to that held by the Issuer.

The obligations of a Guarantor under its Guarantee will be limited as necessary to prevent the relevant Guarantee from constituting a fraudulent conveyance or unlawful financial assistance or infringement of capital maintenance rules under applicable law, otherwise to reflect limitations under applicable law or as set out in the respective Guarantee. By virtue of these limitations, a Guarantor's obligation under its

Guarantee could be significantly less than amounts payable with respect to the Notes, or a Guarantor may have effectively no obligation under its Guarantee. See "*Risk Factors—Risks Related to the Notes and Our Structure—Each Guarantee and security interest will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defenses that may limit its validity and enforceability.*" The validity and enforceability of the Guarantees and the liability of each Guarantor will be subject to the limitations described in this Offering Memorandum under the caption "*Limitations on Validity and Enforceability of the Security and the Guarantees and Certain Insolvency Law Considerations.*"

As of the Issue Date, all of the Issuer's Subsidiaries will be "Restricted Subsidiaries." Under the circumstances described below under "*—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 the restrictive covenants in the Indenture. Further, Unrestricted Subsidiaries of the Issuer will not Guarantee the Notes.

Although the Indenture contains limitations on the amount of additional Debt that the Issuer, the Guarantors and the Restricted Subsidiaries may incur, the amount of such additional Debt could be substantial. The Indenture will permit additional Debt to be secured.

The Indenture will provide that the Security Agent and the Trustee will be authorized (without any further consent of the holders of the Notes) to enter into the Intercreditor Agreement to give effect to the provisions described under the section entitled "*Description of Certain Financing Arrangements—Intercreditor Agreement*."

Principal, Maturity and Interest

The Notes will mature on   , 2023 unless redeemed prior thereto as described herein. The Issuer will issue the Notes in the aggregate principal amount of €450,000,000. Each Note will bear interest at a rate per annum of   % and interest will be payable semi-annually on   and   of each year, commencing on   , 2019. Interest will be payable to Holders of record on each Note in respect of the principal amount thereof outstanding as at the Clearing System Business Day immediately preceding the payment date, as the case may be; however, owners of beneficial interests in the Notes must rely on the procedures of Euroclear or Clearstream, as applicable. See "*Risk Factors—Risks relating to the Notes and the Guarantees—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*." If the due date for any payment in respect of the Notes is not a Business Day at the place where such payment is due to be paid, the Holder thereof will not be entitled to payment of the amount until the next succeeding Business Day at such place, and will not be entitled to any further interest or other payment as a result of such delay. The rights of Holders in beneficial interest of the Notes to receive the payments on such Notes are subject to applicable procedures of Euroclear and/or Clearstream.

Interest on the Notes will accrue from, and including, the original issuance date or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

From time to time, subject to the Issuer's compliance with the covenants contained in the Indenture, including the covenants restricting the incurrence of Debt (as described below under "*—Certain Covenants—Limitation on Debt*"), the Issuer is permitted to issue one or more series of additional Notes, which shall have terms substantially identical to the Notes except in respect of any of the following terms which shall be set forth in an Officer's Certificate supplied to the Trustee (the "Additional Notes"):

(a) the title of such Additional Notes;

(b) the aggregate principal amount of such Additional Notes;

(c) the date or dates on which such Additional Notes will be issued;

(d) the rate or rates (which may be fixed or floating) at which such Additional Notes shall bear interest and, if applicable, the interest rate basis, formula or other method of determining such interest rate or rates, the date or dates from which such interest shall accrue, the interest payment dates on which such interest shall be payable or the method by which such dates will be determined, the record dates for the determination of Holders thereof to whom such interest is payable and the basis upon which such interest will be calculated;

(e) the currency or currencies in which such Additional Notes shall be denominated and the currency in which cash or government obligations in connection with such series of Additional Notes may be payable;

(f) the date or dates and price or prices at which, the period or periods within which, and the terms and conditions upon which, such Additional Notes may be redeemed, in whole or in part;

(g) if other than denominations of €100,000 and in integral multiples of €1,000 in excess thereof, the denominations in which such Additional Notes shall be issued and redeemed; and

(h) the ISIN, Common Code or other securities identification numbers with respect to such Additional Notes.

Such Additional Notes will be treated, along with all other series of Notes, as a single class for the purposes of the Indenture with respect to waivers, amendments and all other matters which are not specifically distinguished for such series, except as otherwise provided for in the Indenture. Unless the context otherwise requires, for all purposes of the Indenture and this "*Description of the Notes*," references to "Notes" shall be deemed to include references to the Initial Notes as well as any Additional Notes. Additional Notes may also be designated to be of the same series as the Initial Notes, but only if they have terms substantially identical in all material respects to the Initial Notes, and, for all purposes other than U.S. federal income tax purposes, shall be deemed to form one series therewith, and references to the "Notes" shall be deemed to refer to the Initial Notes as well as any Additional Notes. In the event that any Additional Notes are not fungible with any Notes previously issued for U.S. federal income tax purposes, such non-fungible Additional Notes shall be issued with a separate ISIN, Common Code or other securities identification number, as applicable, so that they are distinguishable from such previously issued Notes.

Form of Notes

The Notes will be issued only in fully registered form without coupons and only in 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 U.S. Securities Act ("Rule 144A") will initially be represented by one or more global Notes in registered form without interest coupons attached (the "144A Global Notes"), and Notes sold outside the United States to non-U.S. persons pursuant to Regulation S under the U.S. Securities Act ("Regulation S") will initially be represented by one or more global Notes in registered form without interest coupons attached (the "Reg S Global Notes" and, together with the 144A Global Notes, the "Global Notes").

During the 40-day "distribution compliance period" (as such term is defined in Rule 902 of Regulation S), book-entry interests in the Reg S Global Notes may be transferred only outside the United States to non-U.S. persons under Regulation S or to persons whom the transferor reasonably believes are "qualified institutional buyers" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with applicable transfer restrictions and any applicable securities laws of any state of the United States or any other jurisdiction. The Notes will be subject to certain other restrictions on transfer and certification requirements, as described under "*Notice to Investors*."

The Global Notes will be deposited with a common depositary for Euroclear and Clearstream and registered in the name of the nominee of such common depositary. Ownership of interests in the Global Note, referred to in this description as "book-entry interests," will be limited to persons that have accounts with Euroclear or Clearstream or their respective participants.

The terms of the Indenture will provide for the issuance of Definitive Registered Notes in certain limited circumstances.

See "*Book-Entry; Delivery and Form*."

Transfer

The Notes will be subject to certain restrictions on transfer and certification requirements, as described under "*Notice to Investors*."

A Holder may transfer or exchange Notes in accordance with the Indenture and the procedures of Euroclear and Clearstream. Upon any transfer or exchange, the Issuer, the Agents and/or the Trustee may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and the Issuer may require a Holder to pay any taxes or other governmental charges payable in connection with the transfer or exchange. The Issuer will not be required to transfer or exchange any Note selected for redemption or repurchase or to transfer or exchange any Note for a period of 15 Business Days prior to any date on which all or any part of the Notes are to be redeemed or repurchased. The Notes will be issued in registered form and the Holder will be treated as the owner of such Note for all purposes. For further information about transfer and exchange procedures, see the section titled "*Book-Entry; Delivery and Form*."

Book-entry interests in the 144A Global Notes, or the "Rule 144A Book-Entry Interest," may be transferred to a person who takes delivery in the form of book-entry interests in the Reg S Global Note or the "Reg S Book-Entry Interests," only upon delivery by the transferor 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.

Book-entry interests in the Reg S Global Notes, or the "Reg S Book-Entry Interest" may be transferred to a person who takes delivery in the form of book-entry interests in the 144A Global Note or the "Rule 144A Book-Entry Interests," only upon delivery by the transferor of a written certification (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.

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.

All 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 applicable rules and procedures established by Euroclear or Clearstream and their respective participants. See "*Book-Entry; Delivery and Form*."

Payments on the Notes; Paying Agent, Transfer Agent and Registrar

The Issuer will make all payments, including principal of, premium, if any, and interest on the Notes, at its office or through its agent in London, England that it will maintain for these purposes. Initially, that agent will be HSBC Bank plc (the "Paying Agent"). The Issuer may change the Paying Agent without prior notice to the Holders. The Issuer will make all payments in same-day funds.

The Issuer will also maintain a registrar (the "Registrar") and a transfer agent (the "Transfer Agent"). The initial Registrar and the initial Transfer Agent will be HSBC Bank plc. The Registrar will maintain a register reflecting ownership of the Notes outstanding from time to time, if any, and together with the Transfer Agent, will facilitate transfers of the Notes on behalf of the Issuer. A register of the Notes shall be left at the registered office of the Issuer. In case of inconsistency between the register of Notes kept by the Registrar and the one kept by the Issuer at its registered office, the register kept by the Issuer shall prevail.

The Issuer may change any Paying Agent, Registrar or Transfer Agent for the Notes without prior notice to the Holders of such Notes. However, for so long as they are admitted to trading on the Exchange and the rules and regulations of the Exchange so require, the Issuer will publish a notice of any change of Paying Agent, Registrar or Transfer Agent to the extent and in the manner permitted by such rules and regulations. In addition, for so long as any Notes are represented by Global Notes, such notices to Holders of the Notes may be delivered by or on behalf of the Issuer to Euroclear and Clearstream.

Holders will not be responsible for any service charge for any registration of 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.

Guarantees

General

The Notes will initially be guaranteed by the Initial Guarantors. Under the Indenture, the Guarantors will jointly and severally agree to guarantee the due and punctual payment of all amounts payable under the Notes, including principal, premium, if any, and interest payable under the Notes.

Not all of the Subsidiaries of the Issuer will guarantee the Notes. In the event of a bankruptcy, liquidation or reorganization of any of these non-guarantor Subsidiaries, the non-guarantor Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to the Issuer or another Subsidiary of the Issuer. Each Guarantor that makes a payment or distribution under its Guarantee will be entitled to contribution from any other Guarantor, subject to the terms of the Intercreditor Agreement.

Release of the Guarantees

A Guarantee will be automatically and unconditionally released (and thereupon will terminate and be discharged and be of no further force and effect):

(1) upon the sale or disposition (including through merger, consolidation, amalgamation or other combination) or conveyance, transfer or lease of all or substantially all of the assets of the Guarantor to a Person that is not (either before or after giving effect to the transaction) the Issuer or a Restricted Subsidiary, if such sale or other disposition does not violate the covenants described under the caption *"—Certain Covenants—Limitation on Asset Sales*" or "*—Certain Covenants—Merger, Consolidation or Sale of Assets*");

(2) in connection with any sale or other disposition of the Capital Stock of the Guarantor (or Capital Stock of any Holding Company of such Guarantor (other than the Issuer)) (whether by direct sale or through a Holding Company) to a Person that is not (either before or after giving effect to such transaction) the Issuer or a Restricted Subsidiary, if the sale or other disposition does not violate the covenant described under the caption *"—Certain Covenants—Limitation on Asset Sales*" and as a result of such disposition such Guarantor no longer qualifies as a Subsidiary of the Issuer;

(3) upon a defeasance or satisfaction and discharge of the Indenture that complies with the provisions under "*—Defeasance" or "—Satisfaction and Discharge*";

(4) upon the designation by the Issuer of the Guarantor (or a Holding Company thereof) as an Unrestricted Subsidiary in compliance with the terms of the Indenture;

(5) upon the liquidation or dissolution of the Guarantor; *provided* that no Default or Event of Default has occurred and is continuing;

(6) upon repayment in full of the Notes;

(7) the implementation of a Permitted Reorganization;

(8) in the case of any Restricted Subsidiary that after the Issue Date is required to guarantee the Notes pursuant to the covenant described under the caption "*—Certain Covenants—Limitation on Guarantees of Debt*," the release or discharge of the guarantee by such Restricted Subsidiary which resulted in the obligation to guarantee the Notes;

(9) as described under "*—Amendments and Waivers*"; or

(10) as provided for under the Intercreditor Agreement, including in accordance with certain enforcement actions taken pursuant to the Intercreditor Agreement or any Additional Intercreditor Agreement, or as otherwise provided for in the Intercreditor Agreement or any Additional Intercreditor Agreement.

Upon any occurrence giving rise to a release of a Guarantee as specified above, the Trustee shall execute, subject to the receipt of an Officer's Certificate from the Issuer, any documents reasonably requested by the Issuer in order to evidence such release, discharge and termination in respect of such Guarantee. Neither the Issuer nor any Guarantor will be requested by the Issuer to make a notation on the Notes to reflect any such Guarantee or any such release, termination or discharge. Each of the releases and amendments set forth above shall be effected by the Trustee without any consent of the Holders or any other action or consent on the part of the Trustee.

Limitations on the value of the Guarantees

The obligations of each Guarantor under its Guarantee will be limited to an amount not to exceed the maximum amount that can be guaranteed by such Guarantor by law or without resulting in its obligations under its Guarantee being voidable or unenforceable under applicable laws relating to maintenance of share capital, fraudulent transfer, fraudulent conveyance, corporate benefit, financial assistance or similar laws affecting the rights of creditors generally and applicable to the Guarantors and their respective shareholders, directors and officers. By virtue of these limitations, a Guarantor's obligation under its Guarantee could be significantly less than amounts payable with respect to the Notes, or a Guarantor may have effectively no obligation under its Guarantee. See "*Risk Factors—Risks Relating to the Notes and the Guarantees—Each Guarantee may be subject to certain limitations on enforcement and may be limited by applicable laws or subject to certain limitations or defenses that may limit validity and enforceability*" and "*Limitations on Validity and Enforceability of the Security and the Guarantees and Certain Insolvency Law Considerations.*"

Additional Amounts

All payments made under or with respect to the Notes or the Guarantees will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, levies, imposts, assessments or similar governmental charges (collectively, "Taxes") imposed or levied by or on behalf of the United Kingdom or any jurisdiction in which the Issuer or any Guarantor is organized, engaged in a business for tax purposes or resident for tax purposes, or from or through which payment on the Notes or the Guarantees is made by or on behalf of the Issuer, or any political subdivision or authority thereof or therein, having the power to tax (each, a "Relevant Taxing Jurisdiction"), unless the withholding or deduction of such Taxes is required by law. In the event that the Issuer or a Guarantor is required to so withhold or deduct any amount for or on account of any such Taxes imposed or levied by or on behalf of a Relevant Taxing Jurisdiction from any payment made under or with respect to the Notes or the Guarantees, the Issuer or Guarantor, as the case may be, will pay such additional amounts ("Additional Amounts") as may be necessary so that the net amount received after such withholding or deduction will be not less than the amount that would have been received if such Taxes had not been required to be withheld or deducted.

Notwithstanding the foregoing, neither the Issuer nor any Guarantor will pay Additional Amounts to a Holder of any Note in respect or on account of:

(a) any Taxes that are imposed or levied by a Relevant Taxing Jurisdiction by reason of a present or former connection of the Holder or beneficial owner (in the case of a Note held in global form, only if such beneficial owner is reasonably identifiable) (or a fiduciary, settler, beneficiary, partner, member or shareholder of, or possessor of power over the relevant holder, if the relevant holder is an estate, nominee, trust, partnership or corporation) with such Relevant Taxing Jurisdiction (including, but not limited to, citizenship, nationality, residence, domicile, or existence of a business, a permanent establishment, a place of business or a place of management present or deemed present within the Relevant Taxing Jurisdiction) other than the mere receipt or holding of any Note or by reason of the receipt of payments under such Note, any Guarantee or the Indenture or the exercise or enforcement of rights under such Note, any Guarantee or the Indenture;

(b) any Taxes that are imposed or withheld by reason of the failure of the Holder or beneficial owner (in the case of a Note held in global form, only if such beneficial owner is reasonably identifiable) of any Note, to comply with the Issuer's written request addressed to the Holder, providing at least 30 calendar days' notice, to satisfy any certification, identification, information or other reporting requirements concerning nationality, residence, identity or connection with the Relevant Taxing Jurisdiction which the Holder or such beneficial owner is legally required to satisfy, whether imposed by statute, treaty, regulation or administrative practice, in each such case by the Relevant Taxing Jurisdiction, as a precondition to exemption from, or reduction in the rate of deduction or withholding of, Taxes imposed by the Relevant Taxing Jurisdiction (including, without limitation, a certification that the Holder or beneficial owner is not resident in the Relevant Taxing Jurisdiction, provided that the relevant Holder or beneficial owner is legally entitled to satisfy such requirements;

(c) any estate, inheritance, gift, sales, transfer, personal property or similar Taxes;

(d) any Tax that is payable other than by deduction or withholding from payments made under or with respect to any Note or Guarantee;

(e) any Tax which would not have been so imposed but for the presentation (where presentation is required in order to receive payment) by the Holder for payment on a date more than 30 days after the date on which such payment becomes due and payable or the date on which payment thereof is duly provided for, whichever occurs later, except to the extent that the Holder would have been entitled to such Additional Amounts on presenting the same for payment on any day (including the last day) within such 30-day period;

(f) any withholding or deduction required to be made from a payment pursuant to Sections 1471-1474 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), 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

(g) any Taxes that were imposed with respect to any payment on a Note to any fiduciary or partnership or person other than the sole beneficial owner of such payment to the extent that no Additional Amounts would have been payable had the beneficial owner of the applicable Note been the holder of such Note.

In addition, Additional Amounts will not be payable with respect to any Taxes that are imposed in respect of any combination of the above items.

The Issuer or Guarantors will also make or cause to be made such withholding or deduction of Taxes and remit the full amount of Taxes so deducted or withheld to the relevant taxing authority in accordance with all applicable laws. The Issuer will, upon request, make available to the Holders, as soon as reasonably practicable, certified copies of tax receipts evidencing such payment by the Issuer or if, notwithstanding the Issuer's reasonable efforts to obtain such receipts, the same are not obtainable, other evidence reasonably satisfactory to the Trustee of such payment by the Issuer.

At least 30 calendar days prior to each date on which any payment under or with respect to the Notes is due and payable, if the Issuer or a Guarantor becomes aware that it will be obliged to pay Additional Amounts with respect to such payment (unless such obligation to pay Additional Amounts arises after the 30th day prior to the date on which payment under or with respect to the Notes is due and payable, in which case it will be promptly thereafter), the Issuer or Guarantor will deliver to the Trustee and the Paying Agent an Officer's Certificate stating that such Additional Amounts will be payable and the amounts so payable and setting forth such other information as is necessary to enable the Trustee or Paying Agent to pay such Additional Amounts to the Holders on the payment date. The Trustee and the Paying Agent shall be entitled to rely solely on such Officer's Certificate as conclusive proof that such payments are necessary.

In addition, the Issuer or the Guarantors will pay (i) any present or future stamp, issue, registration, transfer, documentation, court, excise or other similar taxes, charges and duties, including interest or penalties with respect thereto imposed or levied by any Relevant Taxing Jurisdiction, in respect of the execution, issue, delivery or registration of the Notes, the Indenture or the Guarantees, or any other document or instrument referred to thereunder (other than transfers of the Notes following the initial resale of the Notes by the Initial Purchasers); and (ii) any such taxes, charges or duties imposed by any jurisdiction as a result of, or in connection with, the enforcement of the Notes, Guarantees or any other such document or instrument following the occurrence of any Event of Default with respect to the Notes.

The foregoing provisions will survive any termination, defeasance or discharge of the Indenture and will apply *mutatis mutandis* to any jurisdiction in which any Surviving Entity (as defined below) or successor person to the Issuer or a Guarantor is organized, engaged in significant operations or resident for tax purposes or any political subdivision or taxing authority or agency thereof or therein.

Whenever in the Indenture or this "*Description of the Notes*" there is mentioned, in any context, the payment of principal (and premiums, if any), Redemption Price, interest or any other amount payable under or with respect to any Note (including payments thereof made pursuant to any Guarantee), such mention will be deemed to include mention of the payment of Additional Amounts thereon.

Security

General

The Notes and/or the Guarantees, as applicable, will be secured by the Collateral, which, on or about the Issue Date, will consist of:

- a first priority share charge (or, in the case of Spain, pledge) over all of the issued share capital of the Guarantors incorporated in England and Wales (which, in the case of Victoria Midco Holdings Limited, will include only its ordinary shares), Australia and Spain;
- a first priority fixed and floating charge over substantially all of the present and future assets of the Issuer and the Guarantors incorporated in England and Wales; and

- a first priority charge over substantially all of the present and future assets of the Guarantors incorporated in Australia.

The Collateral will also include any other additional security interests that may in the future be created to secure obligations under the Notes, the Guarantees and the Indenture.

The Liens on the Collateral will be limited as necessary to recognize certain limitations arising under or imposed by local law and defenses generally available to providers of Collateral (including those that relate to fraudulent conveyance or transfer, voidable preference, financial assistance, corporate purpose or benefit, capital maintenance or similar laws, regulations or defenses affecting the rights of creditors generally) or other considerations under applicable law. For a brief description of such limitations, see "*Limitations on Validity and Enforceability of the Security and the Guarantees and Certain Insolvency Law Considerations.*"

Priority

Pursuant to the Intercreditor Agreement, the Security Agent will act on behalf of, and the Collateral will be shared equally and ratably among (but without prejudice to the agreed order of application of proceeds following the enforcement thereof), the holders of all Debt entitled to the first-ranking security under the Indenture. This Debt includes the Notes, obligations under the Senior Credit Facility, obligations under certain Hedging Obligations, if any and any other Debt permitted to be secured on the Collateral in compliance with the Indenture. The Intercreditor Agreement will also provide, among other things, that the obligations of the Issuer and the Guarantors under the Senior Credit Facility and certain Hedging Obligations, if any, will receive proceeds from the enforcement of the Collateral in priority to the Notes. See "*Description of Certain Financing Arrangements—Intercreditor Agreement*" and "*Risk Factors—Risks Relating to Our Notes and Our Structure*." In addition, the Issuer and the Restricted Subsidiaries will be permitted to create, incur, assume or otherwise cause or suffer to exist other Permitted Collateral Liens as provided for under the caption "*—Certain Covenants—Limitation on Liens*." Under certain circumstances, the amount of such additional Debt secured by the Collateral could be significant.

Security Documents

Under the Security Documents, security will be granted over the Collateral to secure the payment, when due, of the Issuer's and the Guarantors' payment obligations under the Notes, the Guarantees and the Indenture, as well as the Issuer's and the Guarantors' payment obligations under the Senior Credit Facility and certain Hedging Obligations, if any. When entering into the Security Documents, the Security Agent will act in its own name but for the benefit of the secured parties (including itself, the Trustee and the Holders of Notes from time to time), unless otherwise required in accordance with applicable law with respect to each relevant Security Interest. Under the Intercreditor Agreement, the Security Agent will also act as an agent of the lenders under the Senior Credit Facility and the counterparties under certain Hedging Obligations, if any, in relation to the Security Interests created in favor of such parties.

The Indenture and the Intercreditor Agreement will provide that, to the extent permitted by applicable law, only the Security Agent will have the right to enforce the Security Documents on behalf of the Trustee and the Holders. As a consequence of such contractual provisions, Holders 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. Under the Intercreditor Agreement, the Security Agent will also act on behalf of the lenders under the Senior Credit Facility and the counterparties under certain Hedging Obligations, if any, in relation to the Security Interests in favor of such parties.

The Indenture will provide that, subject to the terms thereof and of the Security Documents and the Intercreditor Agreement, the Notes and the Indenture, as applicable, will be secured by Security Interests in the Collateral until all obligations under the Notes and the Indenture have been discharged. However, the Security Interests with respect to the Notes and the Indenture may be released under certain circumstances as provided under "*—Release of Security*.

In the event that the Issuer or its Subsidiaries enter into insolvency, bankruptcy or similar proceedings, the Security Interests created under the Security Documents or the rights and obligations enumerated in the Intercreditor Agreement could be subject to potential challenges. If any challenge to the validity of the Security Interests or the terms of the Intercreditor Agreement was successful, the Holders may not be able to recover any amounts under the Security Documents. See "*Risk Factors—Risks Relating to the Notes and Our Structure*."

The Indenture permits, subject to certain conditions, including compliance with the covenant described under the caption "*—Certain Covenants—Impairment of Security Interest*," the Issuer and the Guarantors to charge the Collateral in connection with future incurrences of Debt, including any Additional Notes and Debt of Restricted Subsidiaries.

Release of Security

The Collateral will be automatically and unconditionally released (and thereupon will terminate and be discharged and be of no further force and effect):

(1) in connection with any asset sale or disposition or transfer of assets to a Person that is not (either before or after giving effect to such transaction) the Issuer or a Restricted Subsidiary, if the sale or other disposition does not violate the covenant described under the caption "*—Certain Covenants—Limitation on Asset Sales*";

(2) upon a defeasance or satisfaction and discharge of the Notes that complies with the provisions under "*—Defeasance*" or "*—Satisfaction and Discharge*";

(3) as described under "*—Amendments and Waivers*" or "*—Certain Covenants—Limitation on Liens*";

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

(5) to the extent permitted in accordance with the covenant described under the caption "*—Certain Covenants—Impairment of Security Interest*" below;

(6) if the Issuer designates any Restricted Subsidiary to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture (to the extent of such Restricted Subsidiary's assets and property);

(7) upon repayment in full of the Notes;

(8) if the Lien granted in favor of the Senior Credit Facility or such other Debt that gave rise to the obligation to grant the Lien over such Collateral is released;

(9) as provided for under the Intercreditor Agreement, including in accordance with certain enforcement actions taken pursuant to the Intercreditor Agreement or any Additional Intercreditor Agreement, or as otherwise provided for in the Intercreditor Agreement or any Additional Intercreditor Agreement; or

(10) as otherwise permitted in accordance with the Indenture.

Each of the releases set forth above may be effected by the Security Agent without the consent of the holders of the Notes. The Indenture will provide that any release of a Lien on Collateral shall, if requested by the Issuer, be evidenced by the Security Agent. The Trustee and the Security Agent shall take all necessary actions to effectuate the releases described above, subject to customary protections and/or indemnifications.

Optional Redemption

General

Any redemption and notice of redemption may, at the Issuer's discretion, be subject to the satisfaction of one or more conditions precedent (including, without limitation, in the case of a redemption related to an Equity Offering, the consummation of such Equity Offering and, in the case of a redemption of the Notes, the incurrence of indebtedness the proceeds of which will be used to redeem the Notes). In addition, if such redemption or notice is subject to satisfaction of one or more conditions precedent, such notice shall state that, in the Issuer's discretion, the redemption date may be delayed until such time as any or all such conditions shall be satisfied, *provided, however*, that, in any case such redemption date shall not be more than 60 days from the date on which such notice is first given, or such redemption may not occur and such notice may be rescinded in the event that any or all such conditions shall not have been satisfied by the redemption date, or by the redemption date so delayed.

In the case of any partial redemption, unless otherwise required by law, the Notes to be redeemed will be selected in compliance with the requirements of the principal securities exchange, if any, on which the Notes are listed, and in compliance with the applicable procedures and requirements of the relevant clearing system(s), or, if the Notes are not listed, and the relevant clearing system(s) have no such procedures or requirements, then on a *pro rata* basis, although no Note of €100,000 in original principal amount or less will be redeemed in part, and only Notes in integral multiples of €1,000 will be redeemed. The Trustee, Paying Agent or Registrar shall not be liable for any selection made under this paragraph. If any Note is to be redeemed in part only, the notice of redemption relating to that Note will state the portion of the principal amount thereof to be redeemed. A new Note in principal amount equal to the unredeemed portion thereof will be issued and delivered in the name of the Holder thereof upon cancellation of the original Note.

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.

The Issuer may provide in any notice of redemption that payment of the redemption price and performance of the Issuer's obligations with respect to such redemption may be performed by another Person.

Notwithstanding the foregoing, in connection with any tender offer for the Notes, including a Change of Control Offer or Excess Proceeds Offer, if Holders of Notes of not less than 90% in aggregate principal amount of the applicable outstanding Notes validly tender and do not withdraw such Notes in such tender offer and the Issuer, or any third party making such a tender offer in lieu of the Issuer, purchases, all of the Notes validly tendered and not withdrawn by such Holders, all of the Holders of Notes will be deemed to have consented to such tender offer, and accordingly the Issuer or such third party will have the right upon not less than 10 nor more than 60 days' prior notice, given not more than 30 days following such tender offer expiration date, to redeem the Notes that remain outstanding in whole, but not in part, following such purchase at a price equal to the price offered to each other Holder of Notes (excluding any early tender or incentive fee) in such tender offer, plus, to the extent not included in the tender offer payment, accrued and unpaid interest and Additional Amounts, if any, thereon, to, but excluding, such redemption date.

Optional Redemption prior to , 2020 upon Equity Offering

At any time prior to , 2020, upon not less than 10 nor more than 60 days' notice, the Issuer may on any one or more occasions redeem up to 40% of the aggregate principal amount of Notes that were initially issued under the Indenture (calculated after giving effect to the issuance of any Additional Notes) at a redemption price of % of their principal amount, plus accrued and unpaid interest, if any, to the redemption date, with the net proceeds from one or more Equity Offerings. The Issuer may only do this, however, if:

(a) at least 50% of the aggregate principal amount of Notes that were initially issued (calculated after giving effect to the issuance of any Additional Notes) would remain outstanding immediately after the proposed redemption; and

(b) the redemption occurs within 90 days after the closing of such Equity Offering.

Optional Redemption prior to , 2020

At any time prior to , 2020, upon not less than 10 nor more than 60 days' 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 and accrued and unpaid interest, if any, to the redemption date.

At any time prior to , 2020, upon not less than 10 nor more than 60 days' notice, the Issuer may redeem, during each twelve-month period commencing on the Issue Date, up to 10% of the aggregate principal amount of the Notes that were initially issued under the Indenture (calculated after giving effect to the issuance of any Additional Notes) at a redemption price equal to 103.0% of the principal amount redeemed plus accrued and unpaid interest, if any, to the redemption date.

Optional Redemption on or after , 2020

At any time on or after , 2020 and prior to maturity, upon not less than 10 nor more than 60 days' notice, the Issuer may redeem all or part of the Notes. These redemptions will be at the following redemption prices (expressed as percentages of their principal amount at maturity), plus accrued and unpaid interest, if any, to the redemption date, if redeemed during the twelve-month period beginning in each of the years set forth below:

Year	Redemption Price
2020	%
2021	%
2022 and thereafter	100.000%

Redemption Upon Changes in Withholding Taxes

The Issuer may, at its option, redeem the Notes, in whole but not in part, at any time upon giving not less than 10 nor more than 60 days' notice to the Holders, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest thereon, if any, to the redemption date and all Additional Amounts, if any, then due and which will become due on the date of redemption as a result of the redemption or otherwise, if the Issuer determines in good faith that the Issuer or any Guarantor is or, on the next date on which any amount would be payable in respect of the Notes, would be obliged to pay Additional Amounts (as defined above under "*—Additional Amounts*") in respect of the Notes or the Guarantees pursuant to the terms and conditions thereof, which the Issuer or Guarantor cannot avoid by the use of reasonable measures available to it (including making payment through a Paying Agent located in another jurisdiction and, in the case of a Guarantor, making the payment giving rise to such requirement through another Guarantor who would not be obligated to pay Additional Amounts if payments through another Guarantor would be reasonable), as a result of:

(a) any change in, or amendment to, the laws or treaties (or any regulations or rulings promulgated thereunder) of any Relevant Taxing Jurisdiction (as defined above under "*—Additional Amounts*") affecting taxation which is enacted or issued and becomes effective on or after the date of the Indenture or, if the Relevant Taxing Jurisdictions have changed since the date of the Indenture, on or after the date on which such Relevant Taxing Jurisdiction became a Relevant Taxing Jurisdiction under the Indenture; or

(b) any change in the official application, administration, or interpretation of the laws, treaties, regulations or rulings of any Relevant Taxing Jurisdiction (including a holding, judgment or order by a court of competent jurisdiction) on or after the date of the Indenture or, if the Relevant Taxing Jurisdictions have changed since the date of the Indenture, on or after the date on which such Relevant Taxing Jurisdiction became a Relevant Taxing Jurisdiction under the Indenture (each of the foregoing clauses (a) and (b), a "Change in Tax Law").

Notwithstanding the foregoing, no such notice of redemption will be given (a) earlier than 60 days prior to the earliest date on which the Issuer or Guarantor would be obliged to make such payment of Additional Amounts or withholding if a payment in respect of the Notes were then due and (b) unless at the time such notice is given, the obligation to pay Additional Amounts remains in effect.

Prior to the publication or, where relevant, sending of any notice of redemption pursuant to the foregoing, the Issuer will deliver to the Trustee:

(a) an Officer's Certificate stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer to so redeem have occurred (including that such obligation to pay such Additional Amounts cannot be avoided by the Issuer or Guarantor taking reasonable measures available to it); and

(b) an opinion of independent tax counsel of recognized standing, qualified under the laws of the Relevant Taxing Jurisdiction and reasonably satisfactory to the Trustee to the effect that the Issuer or Guarantor, as the case may be, is or would be obliged to pay such Additional Amounts as a result of a Change in Tax Law.

The Trustee will accept, and is entitled to rely on, such Officer's Certificate and opinion as sufficient evidence, without further enquiry, of the satisfaction of the conditions precedent as described above, in which event it will be conclusive and binding on the Holders.

The foregoing provisions will apply *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.

Notice of Optional Redemption

For so long as the Notes are admitted to trading on the Exchange and the rules and regulations of the Exchange so require, any notice of redemption to the Holders shall be published to the extent and in the manner permitted by such rules and regulations of the Exchange and, in connection with any redemption, the Issuer will notify the Exchange of any change in the principal amount of Notes outstanding. In addition to such publication, and to the extent and in the manner so required by the rules of the Exchange, not less than 10 nor more than 60 days prior to the redemption date, the Issuer will send such notice to Holders, except that redemption notices may be sent 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. For Notes which are represented by Global Notes, notices may be given by delivery of the relevant notices to Euroclear and Clearstream for communication to entitled account Holders. The Notes will be selected in accordance with the methods described under "*—Optional Redemption—General*."

Mandatory Redemption; Offers to Purchase; Open Market Purchases

The Issuer will not be 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 "*—Certain Covenants—Change of Control*" and "*—Certain Covenants—Limitation on Asset Sales*." The Issuer and the Restricted Subsidiaries may at any time and from time to time purchase Notes in the open market or otherwise, at such price and on such terms as it sees fit.

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 on the date on which such additional Debt is Incurred, after giving *pro forma* effect to the Incurrence of such Debt (including the *pro forma* application of the proceeds thereof), (a) the Fixed Charge Coverage Ratio would have been at least 2.0 to 1.0; and (b) to the extent that the Debt is Senior Secured Debt, the Consolidated Senior Secured Net Leverage Ratio would have been no greater than 3.25 to 1.0; and

(2) This "*Limitation on Debt*" covenant will not, however, prohibit the following (collectively, "Permitted Debt"):

   (a) the Incurrence by the Issuer or any Restricted Subsidiary of Debt under Credit Facilities in an aggregate principal amount at any one time outstanding not to exceed an amount equal to (i) the greater of £75.0 million and 67.0% of Consolidated EBITDA, plus (ii) in the case of any refinancing of any Debt permitted under this clause, the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses incurred in connection with such refinancing;

   (b) (i) the Incurrence by the Issuer of Debt represented by the Notes (other than any Additional Notes) or (ii) the Incurrence of Debt by the Guarantors pursuant to the Guarantees (other than Guarantees of any Additional Notes);

   (c) any Debt of the Issuer or any Restricted Subsidiary outstanding on the Issue Date (other than Debt described in clauses (a) or (b) of this paragraph (2));

(d) 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 a Guarantor is the obligor on any such Debt and the lender of such Debt is not the Issuer or a Guarantor, it is unsecured and expressly subordinated in right of payment to the prior payment in full in cash (whether upon Stated Maturity, acceleration or otherwise) and the performance in full of its obligations under the Notes or its Guarantee, as the case may be; and

  (ii) (x) any disposition, pledge or transfer of any such Debt to any 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 from 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 (d);

(e) (i) without limiting the covenant described under "*—Limitation on Guarantees of Debt*," the guarantee by the Issuer or any Restricted Subsidiary of Debt of the Issuer or any Restricted Subsidiary that was permitted to be incurred by another provision of this "*Limitation on Debt*" covenant; *provided* that if the Debt being guaranteed is subordinated to the Notes, then the guarantee shall be subordinated to the same extent as the Debt guaranteed;

  (ii) without limiting the covenant described under "*—Limitation on Liens*," Debt arising by reason of any Lien granted by or applicable to such Person securing Debt of the Issuer or any Restricted Subsidiary so long as the Incurrence of such Debt is not prohibited under the terms of the Indenture;

(f) the Incurrence by the Issuer or any Restricted Subsidiary of Debt represented by Capitalized Lease Obligations, mortgage financings, purchase money obligations or other Debt Incurred or assumed in connection with the acquisition, lease, rental or development and improvement of real or personal, movable or immovable, property or assets (including, without limitation, material handling equipment), in each case, Incurred for the purpose of financing or refinancing all or any part of the purchase price, lease expense or cost of design, construction, installation or improvement of property, plant, equipment or other assets used or useful in a Permitted Business (including any reasonable related fees or expenses Incurred in connection with such acquisition, lease, rental or development); *provided* that the principal amount of such Debt (other than such Debt in relation to delivery, heavy or long goods vehicles used or useful in a Permitted Business in the ordinary course of business) so Incurred when aggregated with such other Debt previously Incurred in reliance on this clause (f) and still outstanding shall not in the aggregate exceed the greater of £20.0 million and 18.0% of Consolidated EBITDA;

(g) the Incurrence by the Issuer or any Restricted Subsidiary of Debt arising from agreements providing for guarantees, indemnities or obligations in respect of earnouts or other purchase price adjustments in connection with the acquisition or disposition of assets, including, without limitation, shares of Capital Stock, 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 (g) will at no time exceed the gross proceeds, including 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 the sale of such assets;

(h) the Incurrence by the Issuer or any Restricted Subsidiary of Debt under any Hedging Agreements for *bona fide* hedging purposes and not for speculative purposes;

(i) the Incurrence by the Issuer or any Restricted Subsidiary of Debt in respect of workers' compensation and claims arising under similar legislation, or pursuant to self-insurance obligations, and not in connection with the borrowing of money or the obtaining of advances or credit;

(j) Debt owed on a short-term basis of no longer than 30 days to banks and other financial institutions Incurred in the ordinary course of business of the Issuer and the Restricted Subsidiaries with such banks or financial institutions that arises in connection with ordinary banking arrangements to manage cash balances of the Issuer and the Restricted Subsidiaries;

(k) the Incurrence of Debt by the Issuer or any Restricted Subsidiary 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 business days of Incurrence, (ii) bankers' acceptances, performance, surety, judgment, appeal, indemnity, advance payment, customs, VAT or other tax or other guarantees or other similar bonds, instruments or obligations and (iii) completion, advance payment or customs guarantees provided or letters of credit or similar instruments obtained by the Issuer or any Restricted Subsidiary in the ordinary course of business;

(l) the Incurrence by the Issuer or any Restricted Subsidiary of Permitted Refinancing Debt in exchange for, or the net proceeds of which are used to, refund, replace, refinance, defease or discharge Debt Incurred by it pursuant to, or described in, paragraphs (1), (2)(b), (2)(c), (2)(l) and (2)(q) of this "*Limitation on Debt*" covenant, as the case may be;

(m) customer deposits and advance payments received in the ordinary course of business from customers for goods or services purchased in the ordinary course of business;

(n) Management Advances;

(o) any customary cash management, cash pooling or netting or setting off arrangements in the ordinary course of business;

(p) Debt consisting of (i) the financing of insurance premiums, (ii) take or pay obligations or customary deferred payment arrangements contained in supply agreements or (iii) rental guarantees, in each case, in the ordinary course of business;

(q) (A) the Incurrence of Debt of the Issuer or any Restricted Subsidiary to finance an acquisition by the Issuer or a Restricted Subsidiary or any merger or consolidation of any Person with or into the Issuer or any Restricted Subsidiary, or (B) Acquired Debt; *provided* that, in each case, on the date of such acquisition, merger or consolidation, after giving effect thereto, either (i) the Issuer would have been able to Incur at least £1.00 of additional Debt pursuant to paragraph (1) of this "*Limitation on Debt*" covenant or (ii) the Fixed Charge Coverage Ratio would not be lower than it was immediately prior to giving effect thereto;

(r) Debt of the Issuer or any Restricted Subsidiary relating to any VAT liabilities or deferral of pay-as-you-earn taxes with the agreement of, or pursuant to rules or guidance of, tax authorities;

(s) any Contribution Debt; and

(t) the Incurrence of Debt by the Issuer or any Restricted Subsidiary in an aggregate principal amount at any one time outstanding not to exceed the greater of £50.0 million and 45.0% of Consolidated EBITDA.

(3) For purposes of determining compliance with this "*Limitation on Debt*" covenant, in the event that an item of Debt meets the criteria of more than one of the categories of Permitted Debt described in clauses (a) through (t) of paragraph (2) above, or is entitled to be Incurred pursuant to paragraph (1) of this "*Limitation on Debt*" covenant, the Issuer will be permitted to classify such item of Debt on the date of its Incurrence in any manner that complies with this "*Limitation on Debt*" covenant. Debt Incurred under the Senior Credit Facility outstanding on the Issue Date will be deemed to have been Incurred on such date in reliance on the exception provided by clause (a) of paragraph (2) above, and Debt Incurred under the Senior Credit Facility pursuant to clause (a) of paragraph (2) above may not be reclassified. In addition, from time to time any item of Debt initially classified as Incurred pursuant to one of the categories of Permitted Debt described in clauses (b) through (t) of paragraph (2) above, or entitled to be Incurred pursuant to paragraph (1) of this "*Limitation on Debt*" covenant, may later be reclassified by the Issuer such that it will be deemed as having been Incurred pursuant to such new clause of paragraph (2) or paragraph (1) of this "*Limitation on Debt*" covenant to the extent that such reclassified Debt could be Incurred pursuant to such new clause of paragraph (2) or paragraph (1) of this "*Limitation on Debt*" covenant at the time of such reclassification. Debt permitted by this covenant need not be permitted solely by reference to one provision permitting such Debt but may be permitted in part by one such provision and in part by one or more other provisions of this covenant permitting such Debt.

(4) For purposes of determining compliance with any restriction on the Incurrence of Debt in Sterling where Debt is denominated in a different currency, the amount of such Debt will be the Sterling

Equivalent determined on the date of such determination; *provided* that (a) if any such Debt denominated in a different currency is subject to a Currency Agreement (with respect to Sterling) covering principal amounts payable on such Debt, the amount of such Debt expressed in Sterling will be adjusted to take into account the effect of such agreement; and (b) if such Debt is Incurred to refinance other Debt denominated in a currency other than Sterling, and such refinancing would cause the applicable Sterling-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such Sterling-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such refinancing Debt does not exceed the amount set forth in clause (a) of the definition of "Permitted Refinancing Debt." Notwithstanding any other provision of this "*Limitation on Debt*" 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 will not be deemed to exceed the maximum amount that the Issuer or a Restricted Subsidiary may Incur under the "*Limitation on Debt*" covenant.

(5) For purposes of determining any particular amount of Debt under the "*Limitation on Debt*" covenant:

(a) obligations in the form of letters of credit, guarantees, Liens, bankers' acceptance or other similar instrument or obligation, in each case supporting Debt otherwise included in the determination of such particular amount will not be included;

(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; and

(c) accrual of interest, accrual of dividends, the accretion or amortization of original issue discount or of accreted value, the obligation to pay commitment fees and the payment of interest or dividends in the form of additional Debt, will not, in any case, be treated as Debt.

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, consolidation, amalgamation or other combination involving the Issuer or any Restricted Subsidiary) (other than to the Issuer or any Restricted Subsidiary) 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 Subordinated Shareholder Debt;

(b) purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger, consolidation, amalgamation or other combination), directly or indirectly, any shares of the Issuer's Capital Stock or any Capital Stock of a Holding 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, prior to any scheduled principal payment, sinking fund payment or Stated Maturity, any Subordinated Debt (other than (i) any such payment, purchase, repurchase, redemption, defeasance or other acquisition or retirement or in anticipation of satisfying a sinking fund obligation, principal instalment or final maturity, in each case, due within one year of the date of payment, purchase, repurchase, redemption, defeasance or other acquisition or retirement and (ii) intercompany Debt between the Issuer and any Restricted Subsidiary or among Restricted Subsidiaries);

(d) make any payment (whether of principal, interest or other amounts) on, or purchase, repurchase, redeem, defease or otherwise acquire or retire for value any Subordinated Shareholder Debt (other than any payment of interest thereon in the form of additional Subordinated Shareholder Debt); or

(e) make any Restricted 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 at 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;

(b) the Issuer could Incur at least £1.00 of additional Debt pursuant to the ratio set forth in paragraph (1) of the "*Limitation on Debt*" covenant; and

(c) the aggregate amount of all Restricted Payments declared or made after the Issue Date (excluding Restricted Payments permitted by the next succeeding paragraph other than clauses (a) and (n)) does not exceed the sum of:

(i) 50% of aggregate Consolidated Net Income on a cumulative basis during the period beginning on the first day of the fiscal half commencing immediately prior to the Issue Date and ending on the last day of the Issuer's last fiscal half ending prior to the date of such proposed Restricted Payment (or, if such aggregate cumulative Consolidated 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 property or assets or marketable securities received by the Issuer after the Issue Date as equity capital contributions or from the issuance or sale (other than to any Subsidiary) of shares of the Issuer's Qualified Capital Stock (including upon the exercise of options, warrants or rights) or warrants, options or rights to purchase shares of the Issuer's Qualified Capital Stock (except, in each case to the extent such proceeds are used to purchase, redeem or otherwise retire Capital Stock or Subordinated Debt as set forth in clauses (c), (d) or (e) of paragraph (3) below) (excluding (x) any Contribution Amounts and (y) the Net Cash Proceeds and the Fair Market Value of property or assets or marketable securities received from the issuance of the Issuer's Qualified Capital Stock 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 a Subsidiary) of such Debt into the Issuer's Qualified Capital Stock and (y) the aggregate Net Cash Proceeds and the Fair Market Value of property or assets or marketable securities received after the Issue Date by the Issuer from the issuance or sale (other than to any Subsidiary) of Redeemable Capital Stock that has been converted into or exchanged for the Issuer's Qualified Capital Stock, 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 the Net Cash Proceeds from the issuance of the Issuer's Qualified Capital Stock financed, directly or indirectly, using funds borrowed from the Issuer or any Subsidiary until and to the extent such borrowing is repaid); plus

(iv) (x) repurchases, redemptions or other acquisitions or retirements of any Restricted Investment, proceeds realized upon the sale or other disposition to a Person other than the Issuer or a Restricted Subsidiary of any such Restricted Investment, repayments of loans or advances or other transfers of assets (including by way of dividend, distribution, interest payments or returns of capital) to the Issuer or any Restricted Subsidiary, less the cost of the disposition of such Investment and net of taxes, (y) if such Investment constituted a guarantee, an amount equal to the amount of such guarantee upon the full and unconditional release of such guarantee and (z) in the case of the designation of an Unrestricted Subsidiary as 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; plus

(v) in the event that the Issuer or any Restricted Subsidiary makes any Investment in a Person that, as a result of or in connection with such Investment, becomes a Restricted Subsidiary, an amount equal to the Fair Market Value of the Issuer's or such Restricted Subsidiary's existing interest in such Person that was previously treated as a Restricted Payment.

(3) Notwithstanding paragraphs (1) and (2) above, the Issuer and any Restricted Subsidiary may take the following actions:

(a) the payment of any dividend or the consummation of any redemption within 60 days after the date of its declaration or giving of notice of redemption, as applicable, if at such date of its declaration or giving of notice of redemption, as applicable, such payment would have been permitted by the provisions of this "*Limitation on Restricted Payments*" covenant;

(b) cash payments in lieu of issuing fractional shares pursuant to the exchange or conversion of any exchangeable or convertible securities;

(c) the purchase, repurchase, redemption, defeasance or other acquisition, cancellation or retirement for value of any Capital Stock of the Issuer or any Restricted Subsidiary (including any options, warrants or other rights in respect thereof) and loans, advances, dividends or distributions by the Issuer to any Parent to permit any Parent to purchase, repurchase, redeem, defease or otherwise acquire, cancel or retire for value Capital Stock of the Issuer, any Restricted Subsidiary or any Parent (including any options, warrants or other rights in respect thereof), or payments to purchase, repurchase, redeem, defease or otherwise acquire, cancel or retire for value Capital Stock of the Issuer, any Restricted Subsidiary or any Parent (including any options, warrants or other rights in respect thereof), in each case, from, or for the benefit of, any current or former officer, director, consultant, customer or employee of the Issuer or any of the Restricted Subsidiaries or any Parent pursuant to any equity subscription agreement, management equity plan, warrant agreement, stock option agreement, shareholders' agreement or similar agreement; *provided* that the aggregate price paid for all such repurchased, redeemed, acquired or retired Capital Stock may not exceed an amount (net of repayments of any such loans or advances) equal to:

(i) £7.0 million in any twelve-month period (with unused amounts in any twelve-month period being carried over to succeeding periods); plus

(ii) the Net Cash Proceeds received by the Issuer or the Restricted Subsidiaries since the Issue Date (including through receipt of proceeds from the issuance or sale of its Capital Stock or Subordinated Shareholder Debt to a Parent), or as a contribution to the equity of the Issuer from the issuance or sale of Capital Stock (including any options, warrants or other rights in respect thereof) to any current or former officer, director or employee of the Issuer, any Restricted Subsidiary or any Parent; plus

(iii) the Net Cash Proceeds of key man life insurance policies, in each case, to the extent such Net Cash Proceeds are not included in any calculation under clause (2)(c)(i) of this covenant, and

provided, *further*, that cancellation of Debt owing to the Issuer or any Restricted Subsidiary from members of management, directors or employees of any Parent, the Issuer or Restricted Subsidiaries in connection with a repurchase of Capital Stock of the Issuer or any Parent will not be deemed to constitute a Restricted Payment for purposes of this covenant or any other provision of the Indenture;

(d) the repurchase, redemption or other acquisition or retirement for value of any shares of the Issuer's Capital Stock or options, warrants or other rights to acquire such Capital Stock in exchange for (including any such exchange pursuant to the exercise of a conversion right or privilege in connection with which cash is paid in lieu of the issuance of fractional shares or scrip), or out of the Net Cash Proceeds of a substantially concurrent issuance and sale (other than to a Subsidiary) of, shares of the Issuer's Qualified Capital Stock or options, warrants or other rights to acquire such Capital Stock or Subordinated Shareholder Debt (excluding any Contribution Amounts);

(e) the prepayment, repayment, purchase, repurchase, redemption, defeasance or other acquisition or retirement for value or payment of principal of any Subordinated Debt in exchange for, or out of the Net Cash Proceeds of the issuance and sale (other than to a Subsidiary) of, shares of the Issuer's Qualified Capital Stock or Subordinated Shareholder Debt;

(f) the prepayment, repayment, purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Debt (other than Redeemable Capital Stock) in exchange for, or out of the Net Cash Proceeds of the Incurrence (other than to a Subsidiary) of, Permitted Refinancing Debt;

(g) the declaration or payment of any dividend or distribution to holders of Capital Stock of a 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;

(h) the repurchase of Capital Stock deemed to occur upon the exercise of stock options with respect to which payment of the cash exercise price has been forgiven if the cumulative aggregate value of such deemed repurchases does not exceed the cumulative aggregate amount of the exercise price of such options received;

(i) the declaration and payment of dividends to holders of any class or series of Redeemable Capital Stock issued in accordance with the "*Limitation on Debt*" covenant;

(j) the purchase, repurchase, redemption, retirement or other acquisition for value of Capital Stock deemed to occur upon the exercise of stock options, warrants or other securities, if such Capital Stock represents a portion of the exercise price of such options, warrants or other securities;

(k) the repurchase, redemption, acquisition or retirement or making of any other payments with respect to Subordinated Debt of the Issuer or any Restricted Subsidiary with any Excess Proceeds remaining after the consummation of an Excess Proceeds Offer pursuant to the covenant described under the caption "*—Limitation on Asset Sales*" at a purchase price not greater than 100% of the principal amount of such Subordinated Debt *plus* accrued and unpaid interest;

(l) the repurchase, redemption, acquisition or retirement or making of any other payments with respect to Subordinated Debt of the Issuer or any Restricted Subsidiary following a Change of Control pursuant to provisions similar to those described under "*—Change of Control*" but only (x) if required, if the Issuer shall have complied with the terms of the covenant described below under the heading "*—Change of Control*" and purchased all Notes tendered pursuant to the offer to repurchase all of the Notes required thereby, prior to purchasing, repurchasing, redeeming, defeasing or otherwise acquiring or retiring such Subordinated Debt and (y) at a purchase price not greater than 101% of the principal amount of such Subordinated Debt *plus* accrued and unpaid interest;

(m) Permitted Parent Payments;

(n) so long as no Default or Event of Default has occurred and is continuing, any other Restricted Payment; *provided* that the total aggregate amount of Restricted Payments made under this clause (n) does not exceed the greater of £50.0 million or 45.0% of Consolidated EBITDA;

(o) so long as no Default or Event of Default has occurred and is continuing, any Restricted Payment; *provided* that the Consolidated Net Leverage Ratio would not be greater than 2.5 to 1.00 on a *pro forma* basis after giving effect to such Restricted Payment;

(p) payments pursuant to any Tax Sharing Agreement or arrangement among the Issuer and its Subsidiaries and other Persons with which the Issuer or any of its Subsidiaries is required or permitted to file a consolidated tax return or with which the Issuer or any of its Restricted Subsidiaries is a part of a group for tax purposes; *provided*, *however*, that such payments will not exceed the amount of tax that the Issuer and its Subsidiaries would owe on a standalone basis and the related tax liabilities of the Issuer and its Subsidiaries are relieved by the payment of such amounts to a relevant taxing authority;

(q) the distribution, as a dividend or otherwise, of shares of Capital Stock of, or Debt owed to, the Issuer or a Restricted Subsidiary by Unrestricted Subsidiaries;

(r) so long as no Default or Event of Default has occurred and is continuing, the declaration and payment by the Issuer of, or loans, advances, dividends or distributions to any Parent to pay, dividends on the common stock or common equity interests of the Issuer or any Parent, in an amount not to exceed in any fiscal year 7% of the Market Capitalization; *provided* that after giving *pro forma* effect to such loans, advances, dividends or distributions, the Consolidated Net

Leverage Ratio of the Issuer and its Restricted Subsidiaries shall be equal to or less than 3.00 to 1.00; and

(s) payment of any Receivables Fees and purchases of receivables and other assets pursuant to a Receivables Repurchase Obligation in connection with a Qualified Receivables Financing.

(4) The Issuer, in its sole discretion, may classify any Permitted Investment or other Restricted Payment as being made in part under one of the clauses or sub-clauses of this covenant (or, in the case of any Permitted Investment, the clauses or sub-clauses of Permitted Investments) and in part under one or more other such clauses or sub-clauses.

Limitation on Transactions with Affiliates

(1) 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), with, or for the benefit of, any Affiliate of the Issuer or any other Restricted Subsidiary having a value greater than the greater of £5.0 million and 4.0% of Consolidated EBITDA, unless such transaction or series of transactions is entered into in good faith and:

(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 (as determined in good faith by the Issuer) with a Person that is not an Affiliate; and

(b) 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 the greater of £15.0 million and 13.0% of Consolidated EBITDA, the Issuer will deliver a resolution of its Board of Directors (attached to an Officer's Certificate to the Trustee) resolving that such transaction complies with clause (a) above and that the fairness of such transaction has been approved by a majority of the Disinterested Members, if any, of the Board of Directors.

(2) Notwithstanding the foregoing, the restrictions set forth in this description will not apply to:

(a) reasonable directors' fees, indemnities and similar arrangements (including the payment of directors' and officers' insurance premiums), consulting and advisory fees, employee compensation, employee and director bonuses, directorship, employment or consulting agreements and arrangements, collective bargaining agreements, employee benefit arrangements, including vacation, health, insurance, deferred compensation, severance, retirement, savings or other similar plans, programs or arrangements or legal fees payable to any current or former employee, officer or director as long as the Issuer's Board of Directors has approved the terms thereof and deemed the services performed or thereafter to be performed for amounts to be fair consideration therefor;

(b) Permitted Investments (other than pursuant to clause (c)(iii), (q) or (u) of the definition thereof) and any Restricted Payment not prohibited by the "*Limitation on Restricted Payments*" covenant;

(c) any Management Advances or Permitted Parent Payments and any waiver or transaction with respect thereto;

(d) agreements, instruments and arrangements existing on the Issue Date and any amendment, extension, renewal, refinancing, modification or supplement thereto and any payments or transaction in relation thereto; *provided* that any such amendment, extension, renewal, refinancing, modification or supplement to the terms thereof is not more disadvantageous (as determined in good faith by the Issuer), taken as a whole, to the Holders of the Notes and to the Issuer and the Restricted Subsidiaries, as applicable, in any material respect than the original agreement or arrangement as in effect on the Issue Date;

(e) the issuance of securities or other payments, awards or grants in cash, securities or similar transfers pursuant to, or for the purpose of the funding of, directorship, employment or consulting arrangements, stock options, stock ownership plans and other similar arrangements, as long as the terms thereof are or have been previously approved by the Issuer's Board of Directors;

(f) the granting and performance of registration rights for the Issuer's securities;

(g) transactions between or among the Issuer and the Restricted Subsidiaries or between or among Restricted Subsidiaries;

(h) any issuance of Capital Stock (other than Redeemable Capital Stock) of the Issuer or options, warrants or other rights to acquire such Capital Stock (other than Redeemable Capital Stock);

(i) the existence of, or the performance by the Issuer or any of the Restricted Subsidiaries of its obligations under the terms of, any stockholders agreement (including any registration rights agreement or purchase agreement relating thereto) to which it is a party as at the Issue Date and any similar agreements which it may enter into thereafter; *provided*, *however*, that the existence of, or the performance by the Issuer or any of the Restricted Subsidiaries of, obligations under any future amendment to any such existing agreement or under any similar agreement entered into after the Issue Date shall only be permitted by this clause (i) to the extent that the terms of any such amendment or new agreement are not otherwise disadvantageous (as determined in good faith by the Issuer) to the Holders of the Notes when taken as a whole;

(j) transactions with a Person that is an Affiliate of the Issuer or any Restricted Subsidiary solely (x) because the Issuer or a Restricted Subsidiary owns Capital Stock in such Person (including, without limitation, any such Person that is a Captive Insurance Company), (y) because the Issuer or a Restricted Subsidiary has the right to designate one or more members of the Board of Directors or similar governing body of such Person, or (z) as a result of both such ownership of Capital Stock and such right to so designate;

(k) transactions with customers, clients, suppliers or purchasers or sellers of goods or services, in each case in the ordinary course of business, which are fair to the Issuer or the relevant Restricted Subsidiary in the reasonable determination of the Board of Directors or an officer of the Issuer or the relevant Restricted Subsidiary or are on terms materially no less favorable than those that could reasonably have been obtained at such time from an unaffiliated party (as determined in good faith by the Issuer);

(l) the execution of, delivery of and performance under any Tax Sharing Agreement; and

(m) any transaction effected as part of a Qualified Receivables Financing.

Limitation on Liens

(1) The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create or permit to exist any Lien on any of its property or assets, whether owned on the date of the Indenture or thereafter acquired, securing any Debt of the Issuer or any Restricted Subsidiary (the "Initial Lien"), unless (a) in the case of any property or assets that does not constitute Collateral, (i) such Lien is a Permitted Lien or (ii) contemporaneously therewith effective provision is made to secure the Notes and the Indenture or, in respect of Liens on property or assets of any Guarantor, such Guarantee thereof, equally and ratably with (or, in the case of Subordinated Debt of the Issuer or a Guarantor on a senior basis to) such Debt for so long as such Debt is so secured by such Initial Lien and (b) in the case of any property or assets that constitute Collateral, such Lien is a Permitted Collateral Lien.

(2) Any such Lien created as a result of this covenant "*Limitation on Liens*" in favor of the Notes or any such Guarantee will be automatically and unconditionally released and discharged upon (i) the release and discharge of the Initial Lien to which it relates or (ii) as set forth under the caption "*—Security*."

Change of Control

(1) If a Change of Control occurs at any time, the Issuer will make an offer (a "Change of Control Offer") to each Holder of Notes to purchase such Holder's Notes, in whole or in part, in a principal amount of €100,000 or in integral multiples of €1,000 in excess thereof at a purchase price (the "Change of Control Purchase Price") in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of purchase (the "Change of Control Purchase Date").

(2) Within 30 days following any Change of Control, the Issuer will send notice of the Change of Control Offer, with a copy to the Trustee, Registrar and each Paying Agent, to each Holder of Notes appearing in the register on such date, which notice will state:

(a) that a Change of Control has occurred and the date it occurred;

(b) the circumstances and relevant facts regarding such 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 10 days nor later than 60 days after the date such notice is sent, or such later date as is necessary to comply with any requirements under the Exchange Act or any other 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 on such date;

(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.

(3) Upon receipt by the Trustee from the Issuer of an Officer's Certificate stating the aggregate principal amount of Notes or portions thereof being purchased by the Issuer in the Change of Control, the Trustee (or an authenticating agent) will promptly authenticate and deliver a new Note or Notes in a principal amount equal 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 such 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.

(4) The Issuer will not be required to make a Change of Control Offer following a Change of Control if (i) the Notes have been irrevocably and unconditionally called for redemption as described under "Optional Redemption" or (ii) a third party has made, and not terminated, a tender offer for all of the Notes in the manner and at the times applicable to a Change of Control Offer, at a tender offer purchase price in cash equal to at least 101% of the principal amount thereof on the date of purchase, plus accrued and unpaid interest, if any, and such third party purchases all of the Notes validly tendered and not withdrawn under such tender offer. No Note will be purchased in part if less than €100,000 in original principal amount of such Note would remain outstanding following such purchase.

The Issuer and the Guarantors will comply with the applicable tender offer rules 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 and the Guarantors will comply with such applicable securities laws and regulations and will not be deemed to have breached their obligations under the Indenture by virtue of such conflict.

For so long as the Notes are admitted to trading on the Exchange and the rules and regulations of the Exchange so require, the Issuer will publish a public announcement with respect to the results of any Change of Control Offer to the extent and in the manner permitted by such rules. In addition, for so long as any Notes are represented by Global Notes, such notices to Holders of the Notes may be delivered by or on behalf of the Issuer to Euroclear and Clearstream.

The occurrence of certain events that would constitute a Change of Control could constitute a default under the Senior Credit Facility. The Issuer's future debt and the future debt of its Subsidiaries may also contain provisions that, if certain events occur, would require such debt to be repurchased. In addition, 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 the Senior Credit Facility and any such future debt, even if the Change of Control itself does not, due to the possible financial effect on the Issuer or the Guarantors of such repurchase. Not all business combinations or acquisitions of us by third parties would necessarily result in a Change of Control and may not result in a Change of Control Offer to Holders of the Notes. The provisions of the Indenture will not give Holders the right to require the repurchase of the Notes in the event of certain 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 those described under "*—Certain Covenants—Limitation on Debt*." The existence, however, 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 any of its Subsidiaries if such acquisition would constitute a Change of Control.

If a Change of Control Offer is made, the Issuer will not be able to 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. Even if sufficient funds were available, the terms of any other debt of the Issuer and its Subsidiaries may prohibit the repurchase of the Notes prior to their scheduled maturity. If the Issuer were not able to prepay any debt containing any such restrictions, or obtain requisite consents, the Issuer would be unable to fulfil its repurchase obligations to Holders of Notes who accept the Change of Control Offer. If a Change of Control Offer was not made or consummated or the Change of Control Purchase Price was not paid 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." An Event of Default under the Indenture, unless waived, would result in a cross-default under certain of the financing arrangements described under "*Description of Certain Financing Arrangements*," including under the Senior Credit Facility.

The definition of "Change of Control" includes a disposition of all or substantially all of the assets of the Issuer and the Restricted Subsidiaries to any Person. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of such 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. As a result, it may be unclear as to whether a Change of Control has occurred and whether a Holder of Notes may require the Issuer to make an offer to repurchase the Notes as described above.

The provisions of the Indenture relating to the Issuer's obligation to make an offer to repurchase the Notes following a Change of Control may be waived or modified with the prior written consent of the Holders of a majority in principal amount of the Notes. See "*—Amendments and Waivers*" below.

Limitation on Asset Sales

(1) The Issuer will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale unless:

(a) the consideration (including by way of relief from, or by any other Person assuming responsibility for, any liabilities, contingent or otherwise) the Issuer or such Restricted Subsidiary receives for such Asset Sale is not less than the Fair Market Value of the assets sold (as determined in good faith by the Issuer (*provided* that the Issuer's Board of Directors shall determine in good faith the Fair Market Value for any Asset Sale or series of related Asset Sales involving aggregate consideration in excess of £25.0 million), and the Issuer's determination (including the Board of Directors' determination, as applicable) will be conclusive (as to the value of any and all non-cash consideration);

(b) at least 75% of the consideration the Issuer or such Restricted Subsidiary receives in respect of such Asset Sale consists of:

(i) cash (including any Net Cash Proceeds received from the conversion to cash within 180 days of such Asset Sale of securities, notes or other obligations received in consideration of such Asset Sale);

(ii) Cash Equivalents (including any Net Cash Proceeds received from the conversion to cash or Cash Equivalents within 180 days of such Asset Sale of securities, notes or other obligations received in consideration of such Asset Sale);

(iii) the assumption by the purchaser of (x) the Issuer's Debt or Debt of any Restricted Subsidiary (other than Subordinated Debt) as a result of which neither the Issuer nor any of the Restricted Subsidiaries remains obliged in respect of such Debt or (y) Debt of a Restricted Subsidiary that is no longer a Restricted Subsidiary as a result of such Asset Sale, if the Issuer and each other Restricted Subsidiary is released from any guarantee of such Debt as a result of such Asset Sale;

(iv) Replacement Assets;

(v) any Designated Non-cash Consideration received by the Issuer or any of the Restricted Subsidiaries 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 pursuant to this clause (v), less the amount of Net Proceeds previously realized in cash from prior Designated Non-cash Consideration does not exceed (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 22.0% of Consolidated EBITDA; or

(vi) a combination of the consideration specified in clauses (i) through (v); and

(c) the Issuer delivers an Officer's Certificate to the Trustee certifying that such Asset Sale complies with the provisions described in the foregoing clauses (a) and (b).

(2) If the Issuer or any Restricted Subsidiary consummates an Asset Sale, the Net Cash Proceeds of the Asset Sale, within 365 days of the receipt of the Net Cash Proceeds of such Asset Sale (or the Issuer or any such Restricted Subsidiary may enter into a binding commitment to so use; *provided* that such Net Cash Proceeds are so used within 180 days after the expiration of the aforementioned 365 day period), may be used by the Issuer or such Restricted Subsidiary to:

(a) (i) to prepay, repay, purchase or redeem any Debt Incurred under clause (2)(a) of the covenant described under "*—Certain Covenants—Limitation on Debt,*" that is secured by the Collateral on a basis *pari passu* with or in priority to the Notes and is not subordinated in right of payment to the Notes or any Guarantee; (ii) to prepay, repay, purchase or redeem any Debt of a Restricted Subsidiary that is not a Guarantor or any Debt that is secured by Liens on assets which do not constitute Collateral (in each case other than Subordinated Debt or Debt that is owed to the Issuer or any Restricted Subsidiary); (iii) to prepay, repay, purchase or redeem Pari Passu Debt secured by a Lien on the Collateral at a price of no more than 100% of the principal amount of such Pari Passu Debt plus accrued and unpaid interest to the date of such prepayment, repayment, purchase or redemption; *provided* that the Issuer shall redeem, repay, repurchase or redeem any such Pari Passu Debt pursuant to this clause (iii) only if the Issuer makes an offer to the Holders of the Notes to purchase their Notes in accordance with the provisions set forth below for an Excess Proceeds Offer on a ratable basis with any such Pari Passu Debt repaid pursuant to this clause (iii) (which offer shall be deemed to be an Excess Proceeds Offer for purposes hereof); or (iv) to make (at such time or subsequently in compliance with this covenant) an offer to the Holders of the Notes to purchase their Notes in accordance with the provisions set forth below for an Excess Proceeds Offer (which offer shall be deemed to be an Excess Proceeds Offer for purposes hereof);

(b) to invest in any Replacement Assets or make capital expenditures (including by means of capital expenditure by, or an investment in Replacement Assets by, a Restricted Subsidiary with an amount equal to some or all of the Net Cash Proceeds received by the Issuer or another Restricted Subsidiary); or

(c) do any combination of the foregoing.

(d) The amount of such Net Cash Proceeds actually received by the Issuer or any Restricted Subsidiary but not so used as set forth in this paragraph (2) constitutes "Excess Proceeds." Pending the final application of any such Net Cash Proceeds, the Issuer may temporarily reduce revolving credit borrowings or otherwise use such Net Cash Proceeds in any manner that is not prohibited by the terms of the Indenture.

(3) When the aggregate amount of Excess Proceeds exceeds the greater of £25.0 million and 22.0% of Consolidated EBITDA, the Issuer will, within 30 Business Days, make an offer to purchase (an "Excess Proceeds Offer") from all Holders of Notes and, at the Issuer's election, 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, in the case of the Notes (expressed as a minimum amount of €100,000 and integral multiples of €1,000 in excess thereof) of the Notes and any such Pari Passu Debt that may be purchased with the amount of the Excess Proceeds. 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 being repurchased 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 being redeemed or repurchased, plus, in each case, accrued and unpaid interest, if any, to the date of purchase.

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 may use the amount of such Excess Proceeds not used to purchase Notes and Pari Passu Debt, if any, 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 allocated 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). Upon completion of each such Excess Proceeds Offer, the amount of Excess Proceeds will be reset to zero.

(4) If the Issuer is obliged 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 a minimum amount of €100,000 and integral multiples of €1,000 in excess thereof 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.

Pending the final application of any Net Proceeds, the Issuer may temporarily reduce revolving credit borrowings or otherwise use the Net Proceeds in any manner that is not prohibited by the Indenture.

If the Issuer is required to make an Excess Proceeds Offer, the Issuer will comply with the applicable tender offer rules and any other applicable securities laws and regulations, including the requirements of any applicable securities exchange on which Notes are then listed. To the extent that the provisions of any securities laws or regulations conflict with the provisions of this "*Limitation on Asset Sales*" covenant, the Issuer will comply with such securities laws and regulations and will not be deemed to have breached its obligations described in this "*Limitation on Asset Sales*" covenant by virtue thereof.

Limitation on Guarantees of Debt

(1) Subject to the Agreed Security Principles, 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 any Debt outstanding under any Credit Facility Incurred under clause (2)(a) of the covenant described under "*—Limitation on Debt*" or any other Public Debt of the Issuer or any Guarantor (other than the Notes), unless such Restricted Subsidiary either (i) is not a Significant Subsidiary and, in respect of any Debt outstanding under the Senior Credit Facility (as may be refinanced, amended or restated from time to time) only, has not become a Guarantor under the Senior Credit Facility, *provided* that any such Restricted Subsidiary that is not a Significant Subsidiary also would not, in the aggregate when taken together with other Restricted Subsidiaries that are not Significant Subsidiaries, constitute a Significant Subsidiary if considered as a single person or (ii) executes and delivers within 30 days 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 other Debt; and 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. Any Guarantee of payment of the Notes may contain limitations on Guarantor liability to the extent reasonably necessary (as determined in good faith by the Issuer) to recognize certain defenses generally available to guarantors or other considerations under applicable law or regulation.

(2) The provisions of the preceding paragraph will not be applicable to any guarantee of any Restricted Subsidiary existing on the Issue Date or that existed at the time such Person became a Restricted Subsidiary if the guarantee was not Incurred in connection with, or in contemplation of, such Person becoming a Restricted Subsidiary.

(3) Any Guarantee of the Notes granted pursuant to the provisions described in the first paragraph of this covenant may provide by its terms that it will be automatically and unconditionally released and discharged on the terms and conditions and in the circumstances described under the heading "*—Guarantees—Release of the Guarantees*." A Guarantee of a future Guarantor may also be released at the option of the Issuer if at the date of such release there is no Debt of such Guarantor outstanding which was Incurred after the Issue Date and which could not have been Incurred in compliance with the Indenture as at the date of such release if such Guarantor were not designated as a Guarantor as at that date. At the cost and reasonable request of the Issuer, the Trustee shall take all necessary actions to effectuate any release of any Guarantee of the Notes in accordance with these provisions, subject to customary protections and indemnifications.

(4) Notwithstanding the foregoing, the Issuer will not be obligated to cause such Restricted Subsidiary to guarantee the Notes to the extent and for so long as the Incurrence of such Guarantee is contrary to the Agreed Security Principles or to the extent such Guarantee would reasonably be expected (as determined in good faith by the Issuer) to give rise to or result in (a) any conflict with or violation of applicable law, rule, regulation or order; (b) any risk of liability (civil, criminal, administrative or other) for the officers, directors, shareholders or partners of such Restricted Subsidiary; or (c) any cost, expense, liability or obligation (including with respect to any Taxes but excluding any reasonable guarantee or similar fee payable to the Issuer or any Restricted Subsidiary) other than reasonable expenses and other than reasonable governmental expenses incurred in connection with any governmental or regulatory filings required as a result of, or any measures pursuant to the first paragraph of this covenant undertaken in connection with, such Guarantee.

Limitation on Dividends 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 of any kind 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 (i) the priority of any Preferred Stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on common stock and (ii) the subordination of (including the application of any standstill requirements to) loans or advances made to the Issuer or any Restricted Subsidiary to other Debt Incurred by the Issuer or any Restricted Subsidiary, in each case, shall not be deemed to constitute such an encumbrance or restriction.

(2) The provisions of the "*Limitation on Dividends and Other Payment Restrictions Affecting Restricted Subsidiaries*" covenant described in paragraph (1) above will not apply to:

(a) encumbrances and restrictions imposed by the Notes, the Indenture, the Guarantees, the Intercreditor Agreement, any Additional Intercreditor Agreement, the Security Documents or the Senior Credit Facility;

(b) encumbrances or restrictions imposed by Debt permitted to be Incurred under Credit Facilities or any guarantee thereof in accordance with the "*Limitation on Debt*" covenant or pursuant to paragraph (2) of such "*Limitation on Debt*" covenant; *provided* that in the case of any such encumbrances or restrictions imposed under any Credit Facilities, such encumbrances or restrictions taken as a whole are not materially less favorable to the Holders taken as a whole than those imposed by the Senior Credit Facility as at the Issue Date (as determined in good faith by the Issuer);

(c) encumbrances or restrictions contained in any agreement or instrument in effect on the Issue Date;

(d) with respect to restrictions or encumbrances referred to in clause (1)(d) above, encumbrances and restrictions: (i) that restrict in a customary manner the subletting, assignment or transfer of any properties or assets that are subject to a lease, sublease, license, sublicense, conveyance or other similar agreement to which the Issuer or any Restricted Subsidiary is a party; or (ii) contained in operating leases for real property and restricting only the transfer of such real property upon the occurrence and during the continuance of a default in the payment of rent;

(e) encumbrances or restrictions contained in any agreement or other instrument of a Person or relating to assets 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;

(f) encumbrances or restrictions contained in contracts for sales of Capital Stock or assets permitted by the "*Limitation on Asset Sales*" covenant with respect to the assets or Capital Stock to be sold pursuant to such contract or in customary merger or acquisition agreements (or any option to enter into such contract) for the purchase or acquisition of Capital Stock or assets or any of the Issuer's Subsidiaries by another Person;

(g) encumbrances or restrictions imposed by applicable law or regulation or by governmental licenses, authorizations, concessions, franchises or permits;

(h) encumbrances or restrictions on cash or other deposits or net worth imposed by customers or suppliers or surety, insurance or bonding companies under contracts entered into the ordinary course of business;

(i) customary limitations on the distribution or disposition of assets or property of a Restricted Subsidiary in joint venture agreements, asset sale agreements, sale and leaseback agreements, stock sale agreements and other similar agreements entered into the ordinary course of business and in good faith; *provided* that:

   (i) the encumbrance or restriction is not materially less favorable to the Holders taken as a whole than is customary in comparable agreements (as determined in good faith by the Issuer); and

   (ii) the Issuer determines in good faith that any such encumbrance or restriction will not materially affect the ability of the Issuer or any Guarantor to make any principal or interest payments on the Notes;

(j) customary encumbrances or restrictions in connection with purchase money obligations, mortgage financings and Capitalized Lease Obligations for property acquired in the ordinary course of business;

(k) any encumbrance or restriction arising by reason of customary non-assignment or similar provisions in agreements;

(l) any encumbrance or restriction arising pursuant to an agreement or instrument of the Issuer or any of its Restricted Subsidiaries relating to any Debt not prohibited from being Incurred after the Issue Date pursuant to the provisions of the covenant described under "*—Limitation on Debt*": (i) if the encumbrances and restrictions contained in any such agreement or instrument taken as a whole are not materially less favorable to the Holders taken as a whole than the encumbrances and restrictions contained in the Indenture (as determined in good faith by the Issuer); or (ii) if such encumbrance or restriction is not materially more disadvantageous to the Holders of the Notes than is customary in comparable financings (as determined in good faith by the Issuer);

(m) with respect to restrictions or encumbrances referred to in clause (1)(d) above, encumbrances or restrictions existing by reason of any Lien permitted under "*—Limitation on Liens*";

(n) any encumbrance or restriction pursuant to any Hedging Agreements;

(o) any encumbrance or restriction pursuant to customary provisions restricting dispositions of real property interests set forth in any reciprocal easements agreements of the Issuer or any Restricted Subsidiary;

(p) any encumbrance or restriction that arises or is agreed to in the ordinary course of business and does not detract from the value of property or assets of the Issuer or any Restricted Subsidiary in any manner material to the Issuer or such Restricted Subsidiary (as determined in good faith by the Issuer);

(q) restrictions effected in connection with a Qualified Receivables Financing that, in the good faith determination by the Board of Directors or an Officer of the Issuer, are necessary or advisable to effect such Qualified Receivables Financing; and

(r) any encumbrances or restrictions imposed by any amendments, modifications, restatements, renewals, extensions, increases, supplements, refundings, replacements or refinancings of the contracts, instruments or obligations referred to in clauses (a) through (q), or in this clause (r), of this paragraph (2); *provided* that such amendments, modifications, restatements, renewals, extension, increases, supplements, refundings, replacements or refinancings are, in the good faith judgment of the Issuer, no more restrictive (taken as a whole) with respect to such encumbrances or restrictions than those contained in the encumbrances or restrictions prior to such amendment, modification, restatement, renewal, extension, increase, supplement, refunding, replacement or refinancing.

Designation of Unrestricted and Restricted Subsidiaries

(1) The Issuer's Board of Directors may designate any Subsidiary (including newly acquired or newly established Subsidiaries) to cease to be a "Restricted Subsidiary" and instead to be an "Unrestricted Subsidiary" only if:

(a) no Default has occurred and is continuing at the time of or after giving effect to such designation;

(b) the Issuer would be permitted to make an Investment at the time of designation (assuming the effectiveness of such designation) pursuant to the "*Limitation on Restricted Payments*" covenant (and may classify such amount within its capacity to make Restricted Payments and ability to make payments that would otherwise be Restricted Payments under the "*Limitation on Restricted Payments*" covenant as it sees fit) in an amount equal to the greater of (i) the net book value of the Issuer's interest in such Subsidiary calculated in accordance with IFRS or (ii) the Fair Market Value of the Issuer's interest in such Subsidiary (in each case, as determined by the Issuer in good faith); and

(c) the Issuer would be permitted under the Indenture to Incur at least £1.00 of additional Debt pursuant to the ratio set forth in paragraph (1) of the "*Limitation on Debt*" covenant at the time of such designation (assuming the effectiveness of such designation).

(2) In the event of any such designation, the Issuer will be deemed to have made an Investment constituting a Restricted Payment pursuant to the "*Limitation on Restricted Payments*" covenant for all purposes of the Indenture in an amount equal to the greater of (i) the net book value of the Issuer's interest in such Subsidiary calculated in accordance with IFRS or (ii) the Fair Market Value of the Issuer's interest in such Subsidiary (in each case, as determined by the Issuer in good faith), and may classify such amount within its capacity to make Restricted Payments and permissions to make payments that would otherwise be Restricted Payments under the "*Limitation on Restricted Payments*" covenant as it sees fit.

(3) The Issuer's Board of Directors may designate any Unrestricted Subsidiary as a Restricted Subsidiary:

(a) if no Default or Event of Default has occurred and is continuing at the time of, or will occur and be continuing after giving effect to, such designation; and

(b) unless such designated Unrestricted Subsidiary shall not have any Debt outstanding (other than Debt that would be Permitted Debt), immediately before and after giving effect to such proposed designation, and after giving *pro forma* effect to the Incurrence of any such Debt of such designated Unrestricted Subsidiary as if such Debt was Incurred on the date of its designation as a Restricted Subsidiary, the Issuer could Incur at least £1.00 of additional Debt pursuant to the ratio set forth in paragraph (1) of the "*Limitation on Debt*" covenant.

(4) Any such designation as an Unrestricted Subsidiary or Restricted Subsidiary by the Issuer's Board of Directors will be evidenced to the Trustee by filing a resolution of the Issuer's Board of Directors with the Trustee giving effect to such designation and an Officer's Certificate certifying that such designation complies with the foregoing conditions, and giving the effective date of such designation. Any such filing with the Trustee must occur within 45 days after the end of the Issuer's fiscal half year in which such designation is made (or, in the case of a designation made during the second fiscal half year of the Issuer's fiscal year, within 90 days after the end of such fiscal year).

Reports to Holders

(1) So long as any Notes are outstanding, the Issuer will furnish to the Trustee:

(a) annual reports containing, to the extent applicable, the following information: (a) 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 notes to such financial statements and the report of the independent auditors on the financial statements; (b) 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 of the Issuer; (c) a description of the business of the Issuer; and (d) a description of management and shareholders, material debt instruments, material affiliate transactions, material risk factors and material subsequent events all in substantially the same form as presented in the Offering Memorandum, within 120 days following the end of each fiscal year beginning with the fiscal year ending March 31, 2019; *provided* that the information in clause (d) may be provided in the notes to the audited financial statements.

(b) semi-annual financial information of the Issuer on a consolidated basis as of and for the period from the beginning of each year to the close of the first half period, together with comparable information for the corresponding period of the preceding year, and an operating and financial review of the financial statements, including a discussion of the results of operations, financial condition, and material changes in liquidity and financial resources of the Issuer within 90 days following the end of the fiscal half beginning with the fiscal half ending September 30, 2019; and

(c) promptly after the occurrence of a material acquisition, disposition or restructuring, any change of the Chief Executive Officer or the Group Financial Director of the Issuer or a change in auditors of the Issuer or any other material event, a report containing a description of such event.

(2) No report need include separate financial statements for any Guarantors or non-Guarantor 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.

(3) At any time that any of the Issuer's subsidiaries are Unrestricted Subsidiaries and any such Unrestricted Subsidiary or a group of Unrestricted Subsidiaries, taken as a whole, constitutes a Significant Subsidiary of the Issuer, then the semi-annual and annual financial information required by the first paragraph of this "*Reports to Holders*" covenant will include a reasonably detailed presentation, either on the face of the financial statements or in the notes thereto, of the financial condition and results of operations of the Issuer and the Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of the Issuer.

(4) For so long as it remains so listed, the Issuer will furnish to the Trustee such other information that the Issuer is required to make publicly available under the requirements of the London Stock Exchange as a result of having its ordinary shares admitted for trading on such exchange. Notwithstanding paragraph (1) of this covenant, upon the Issuer complying with the public reporting requirements of the London Stock Exchange (regardless of whether the Issuer's ordinary shares are admitted for trading on such exchange), to the extent that such requirements include an obligation to prepare and make publicly available annual reports, semi-annual reports, information, documents and other reports, the Issuer will be deemed to have complied with the provisions contained in clauses (1)(a), (b) and (c) above.

(5) Notwithstanding the foregoing, the Issuer will be deemed to have provided such information to the Trustee, the Holders of the Notes and prospective purchasers of the Notes if such information referenced above in clauses (1)(a), (b) and (c) and (3) above or alternatively, in the preceding paragraph, has been posted on the Issuer's website.

Statement as to Compliance

The Issuer is required to deliver to the Trustee annually a statement regarding compliance with the Indenture.

Merger, Consolidation or Sale of Assets

Issuer

(1) The Issuer will not, directly or indirectly, in a single transaction or through a series of transactions, merge, consolidate, amalgamate or otherwise combine with or into any other Person or sell, assign, convey, transfer, lease or otherwise dispose of, or take any action pursuant to any resolution passed by the Issuer's Board of Directors or shareholders with respect to a demerger or division pursuant to which the Issuer would dispose of, all or substantially all of the Issuer's and the Restricted Subsidiaries' properties and assets, taken as a whole, to any other Person. The previous sentence will

not apply if at the time and immediately after giving effect to any such transaction or series of transactions:

(a) either: (i) the Issuer will be the continuing corporation; or (ii) the Person (if other than the Issuer) formed by or surviving any such merger, consolidation, amalgamation or other combination or to which such sale, assignment, conveyance, transfer, lease or disposition of all or substantially all of the properties and assets of the Issuer and the Restricted Subsidiaries, taken as a whole, has been made (the "Surviving Entity"):

   (x) will be a corporation duly incorporated and validly existing under the laws of any member state of the European Union as at the Issue Date, the United States of America, any state thereof, or the District of Columbia, Canada or any province of Canada, Norway or Switzerland; and

   (y) will expressly assume, by a supplemental indenture, an accession agreement or one or more other documents or instruments, each in a form reasonably satisfactory to the Trustee, the Issuer's obligations under the Notes, the Indenture, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Security Documents, as applicable;

(b) immediately after giving effect to such transaction or series of transactions on a *pro forma* basis (and treating any Debt of the Issuer or any Restricted Subsidiary Incurred in connection with or as a result of such transaction or series of transactions as having been Incurred by the Issuer or such Restricted Subsidiary at the time of such transaction), no Default or Event of Default will have occurred and be continuing;

(c) immediately after giving effect to such transaction or series of transactions on a *pro forma* basis (on the assumption that the transaction or series of transactions occurred on the first day of the fiscal half immediately prior to the consummation of such transaction or series of transactions with the appropriate adjustments with respect to the transaction or series of transactions being included in such *pro forma* calculation), (i) the Issuer (or the Surviving Entity if the Issuer is not the continuing obligor under the Indenture) could Incur at least £1.00 of additional Debt pursuant to the ratio set forth in paragraph (1) of the "*Limitation on Debt*" covenant or (ii) the Fixed Charge Coverage Ratio would not be lower than it was immediately prior to giving effect to such transaction; and

(d) the Issuer or the Surviving Entity has delivered to the Trustee an Officer's Certificate and an opinion of counsel, each stating that such merger, consolidation, amalgamation or other combination or 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 the requirements of the Indenture and that all conditions precedent in the Indenture relating to such transaction have been satisfied and that the Indenture and the Notes constitute legal, valid and binding obligations of the Issuer or the Surviving Entity, enforceable in accordance with their terms (subject to customary assumptions, exceptions, reservations and qualifications, in each case including as to enforceability).

(2) The Surviving Entity will succeed to, and be substituted for, and may exercise every right and power of, the Issuer under the Notes, the Indenture, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Security Documents, *provided*, *however*, that in the case of a lease of all or substantially all of the Issuer's assets, the Issuer will not be released from the obligation to pay the principal of, premium, if any, and interest, on the Notes.

(3) Nothing in the Indenture will prevent (i) any Restricted Subsidiary from consolidating with, merging into or transferring all or substantially all of its properties and assets to the Issuer, a Guarantor or any other Restricted Subsidiary or (ii) the Issuer from consolidating or otherwise combining with or merging into an Affiliate incorporated or organized for the purpose of changing the legal domicile of the Issuer, reincorporating the Issuer in another jurisdiction or changing the legal form of the Issuer, *provided* the requirements of clauses (a)(x) and (d) of paragraph (1) above are satisfied, mutatis mutandis.

For so long as the Notes are admitted to trading on the Exchange and the rules and regulations of the Exchange so require, the Issuer will publish a notice of any merger of the Issuer to the extent and in the manner permitted by such rules and regulations. In addition, for so long as any Notes are represented by

Global Notes, all notices to Holders of the Notes may be delivered by or on behalf of the Issuer to Euroclear and Clearstream.

Guarantors

(1) Subject to the provisions described under "*—Guarantees—Release of the Guarantees*," no Guarantor will, directly or indirectly, in a single transaction or through a series of transactions, merge, consolidate, amalgamate or otherwise combine with or into any other Person or sell, assign, convey, transfer, lease or otherwise dispose of, or take any action pursuant to any resolution passed by such Guarantor's Board of Directors or shareholders with respect to a demerger or division pursuant to which such Guarantor will dispose of, all or substantially all of such Guarantor's properties and assets to any other Person. The previous sentence will not apply if at the time and immediately after giving effect to any such transaction or series of transactions:

  (a) either: (i) such Guarantor is the surviving corporation, or (ii) the Person formed by or surviving any such consolidation or merger (if other than such Guarantor) or to which such sale, assignment, transfer, lease, conveyance or other disposition will have been made is a corporation organized or existing under the laws of any member state of the European Union as at the Issue Date, the United States of America, any state thereof, or the District of Columbia, Canada or any province of Canada, Norway or Switzerland (such Guarantor or such Person, as the case may be, being herein called the "Successor Guarantor");

  (b) the Successor Guarantor (if other than such Guarantor), by a supplemental indenture, an accession agreement or one or more other documents or instruments, each in a form reasonably satisfactory to the Trustee, expressly assumes the obligations of such Guarantor under its Guarantee, the Indenture, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Security Documents, as applicable;

  (c) immediately after giving *pro forma* effect to such transaction, no Default or Event of Default exists and is continuing; and

  (d) the Guarantor or the Successor Guarantor has delivered to the Trustee an Officer's Certificate and an opinion of counsel, each stating that such merger, consolidation, amalgamation or other combination or 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 the requirements of the Indenture and that all conditions precedent in the Indenture relating to such transaction have been satisfied and that the Indenture and the Guarantee constitutes a legal, valid and binding obligation of the Guarantor or Successor Guarantor, enforceable in accordance with its terms (subject to customary assumptions, exceptions, reservations and qualifications, in each case including as to enforceability).

(2) The Successor Guarantor will succeed to, and be substituted for, and may exercise every right and power of, the relevant Guarantor under its Guarantee, the Indenture, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Security Documents.

(3) Nothing in the Indenture will prevent any Restricted Subsidiary from consolidating with, merging into or transferring all or substantially all of its properties and assets to the Issuer, a Guarantor or any other Restricted Subsidiary.

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 Interest

The Issuer shall not, and the Issuer shall not permit any Restricted Subsidiary to, take or knowingly or negligently omit to take any action, which action or omission would or is reasonably likely to, in each case, in the good faith determination of the Issuer, have the result of materially impairing the security interest with respect to the Collateral (it being understood that the incurrence of Permitted Collateral Liens or of Debt secured by the Collateral shall under no circumstances be deemed to materially impair the security interest with respect to the Collateral) for the benefit of the Trustee and the Holders, and the Issuer shall not, and the Issuer shall not permit any Restricted Subsidiary to, grant to any Person other than the

Security Agent and the holders of the Notes (other than of any Additional Notes), the other beneficiaries described in the Security Documents and the Intercreditor Agreement or any Additional Intercreditor Agreement, any interest whatsoever in any of the Collateral (other than pursuant to a sale, lease, transfer, disposition, merger or conveyance not otherwise prohibited by the Indenture), provided that (a) nothing in this provision will restrict the discharge or release of the Collateral in accordance with the Indenture, the Security Documents, the Intercreditor Agreement or any Additional Intercreditor Agreement and (b) subject to the second paragraph of this covenant, the Issuer and the Restricted Subsidiaries may incur Permitted Collateral Liens.

The Indenture will provide that, at the direction of the Issuer and without the consent of the holders of the Notes, the Security Agent (and/or any other party to each Security Document) shall from time to time enter into one or more amendments, extensions, renewals, restatements, supplements, modifications or replacements to the Security Documents to: (i) cure any ambiguity, omission, defect or inconsistency therein, (ii) provide for Permitted Collateral Liens to the extent not prohibited under the Indenture (including by way of release and retaking of Security Documents), (iii) comply with the terms of the Intercreditor Agreement or any Additional Intercreditor Agreement, (iv) add to the Collateral, (v) evidence the succession of another Person to the Issuer, a Guarantor or any security provider, as applicable, and the assumption by such successor of the obligations under the Indenture, Notes or its Guarantee, as the case may be, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Security Documents, as applicable, in each case, in accordance with the caption "*—Certain Covenants—Merger, Consolidation or Sale of Assets*," (vi) provide for the release of property and assets constituting Collateral from the Liens created under the Security Documents and/or the release of a Guarantor from its Guarantee of the Notes, in each case, in accordance with (and if permitted by) the terms of the Indenture, (vii) conform the Security Documents to this "*Description of the Notes,"* (viii) evidence and provide for the acceptance of the appointment of a successor Security Agent, (ix) provide for Additional Notes or other Permitted Debt not prohibited by the Indenture that may be secured by Liens on the Collateral to also benefit from the Collateral, or (x) make any other change thereto that does not adversely affect the holders of the Notes in any material respect (as determined in good faith by the Issuer); *provided, however,* that no Security Document may be amended, extended, renewed, restated, supplemented or otherwise modified or replaced (otherwise than for reasons specified in clauses (i), (iii) (in connection with any enforcement action) or (iv) through (x)), unless contemporaneously with such amendment, extension, renewal, restatement, supplement, modification or renewal, the Issuer delivers to the Trustee and the Security Agent, one of:

(a) a solvency opinion, in form and substance reasonably satisfactory to the Trustee, from an Independent Financial Advisor confirming the solvency of the Issuer and the Restricted Subsidiaries, taken as a whole, on a consolidated basis, in each case, after giving effect to any transaction related to such amendment, extension, renewal, restatement, supplement, modification or replacement;

(b) a certificate from the Board of Directors or responsible accounting or financial officer of the Issuer (acting in good faith) substantially in the form attached to the Indenture that confirms the solvency of the Issuer and the Restricted Subsidiaries, taken as a whole, on a consolidated basis, in each case, after giving effect to any transaction related to such amendment, extension, renewal, restatement, supplement, modification or replacement; or

(c) an opinion of counsel, in form and substance reasonably satisfactory to the Trustee (subject to customary assumptions, exceptions, reservations and qualifications), confirming that, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification or replacement, the security interest or security interests created under the Security Documents so amended, extended, renewed, restated, supplemented, modified or replaced are valid security interests not otherwise subject to any limitation, imperfection or new hardening period, in equity or at law that such security interest or security interests were not otherwise subject to immediately prior to such amendment, extension, renewal, restatement, supplement, modification or replacement.

In the event that this covenant is complied with, the Trustee shall (subject to customary protections and indemnifications) consent to and instruct the Security Agent to enter into all necessary documentation to implement such amendment, extension, renewal, restatement, supplement, modification or replacement without the need for instructions from the Holders.

Additional Intercreditor Agreements; Agreement to be Bound

The Indenture will provide that, at the request of the Issuer and without the consent of Holders, in connection with the Incurrence by the Issuer or any Guarantor of any Debt not prohibited by the covenant described under the caption "*—Certain Covenants—Limitation on Debt*" (and, in each case, such Debt shall be (x) Senior Debt of the Issuer or a Guarantor or (y) Subordinated Debt of the Issuer or a Guarantor), the Issuer, the relevant Guarantors, the Trustee and, if applicable, the Security Agent shall enter into with the holders of such Debt (or their duly authorized Representatives) an amended and/or restated Intercreditor Agreement or an additional intercreditor agreement (an "Additional Intercreditor Agreement") containing substantially the same terms as the Intercreditor Agreement (or terms more favorable to the Holders) including with respect to the subordination, payment blockage, limitation on enforcement and release of guarantees (or such other terms or with such changes as are necessary to facilitate compliance with the covenant described under the caption "*—Certain Covenants—Limitation on Guarantees of Debt*") and priority and release of the Security Documents (or such other terms or with such changes as the Issuer may in good faith determine to be necessary or appropriate relating to the Security Documents, in connection with the Incurrence of such Debt, provided that such other terms are not materially more adverse to the Holders taken as a whole than the terms contained in the Intercreditor Agreement); *provided*, that such Additional Intercreditor Agreement will not impose any personal obligations on the Trustee or the Security Agent or adversely affect the rights, duties, liabilities or immunities of the Trustee or the Security Agent under the Indenture or the Intercreditor Agreement without the consent of the Trustee and the Security Agent. Pursuant to any such Additional Intercreditor Agreements, such other Debt may constitute Senior Debt or Subordinated Debt of the Issuer or a Guarantor. If more than one such intercreditor agreement is outstanding at any one time, the collective terms of such intercreditor agreements must not conflict in any material respect.

The Indenture also will provide that, at the direction of the Issuer and without the consent of Holders, the Trustee and the Security Agent shall subject to the terms of the Intercreditor Agreement from time to time enter into one or more amendments to any Intercreditor Agreement or Additional Intercreditor Agreement to: (1) cure any ambiguity, manifest error, omission, defect or inconsistency of any Intercreditor Agreement or any Additional Intercreditor Agreement, (2) increase the amount of Debt of the types covered by any Intercreditor Agreement or any Additional Intercreditor Agreement that may be Incurred by the Issuer or any of its Restricted Subsidiaries that is subject to any Intercreditor Agreement or any Additional Intercreditor Agreement (including the addition of provisions relating to new Debt that is contractually subordinated in right of payment to the Notes or its Guarantee, as the case may be, as applicable), (3) add Guarantors to any Intercreditor Agreement or an Additional Intercreditor Agreement, (4) add security to or for the benefit of the Notes (including Additional Notes), or confirm and evidence the release, termination or discharge of any Notes, its Guarantee, or any Lien (including Liens on the Collateral and the Security Documents) when such release, termination or discharge is provided for or not prohibited under the Indenture, any Intercreditor Agreement or any Additional Intercreditor Agreement, (5) make provision for charges of the Collateral securing Additional Notes to rank pari passu with the Liens under the Security Documents or to implement any Permitted Collateral Liens, (6) provide for the assumption by a successor of the obligations of the Issuer under any Intercreditor Agreement or any Additional Intercreditor Agreement, (7) make any change in the subordination provisions of any Intercreditor Agreement or any Additional Intercreditor Agreement that would limit or terminate the benefits available to any holder of Senior Debt of a Guarantor (or any Representative thereof) under such subordination provisions or as otherwise permitted by any Intercreditor Agreement or Additional Intercreditor Agreement, (8) conform the text of any Intercreditor Agreement or Additional Intercreditor Agreement to any provision of this "*Description of the Notes*," or (9) make any other change to any Intercreditor Agreement or Additional Intercreditor Agreement that does not materially adversely affect the Holders. The Issuer shall not otherwise request the Trustee and the Security Agent to enter into any amendment to any Intercreditor Agreement or Additional Intercreditor Agreement without the consent of the Holders of a majority in aggregate principal amount of the Notes then outstanding, except as otherwise permitted below under "*—Amendments and Waivers*," and the Issuer may only request 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 and the Security Agent or adversely affect the rights, duties, liabilities or immunities of the Trustee and the Security Agent under the Indenture or any Intercreditor Agreement or an Additional Intercreditor Agreement.

The Indenture shall also provide that, in relation to any Intercreditor Agreement or an Additional Intercreditor Agreement, no consent on behalf of the Holders to the payment, repayment, purchase, repurchase, defeasance, acquisition, retirement or redemption of any obligations subordinated to the Notes thereby will be required; provided, however, that such transaction would comply with the covenant described under the caption "*—Certain Covenants—Limitation on Restricted Payments*."

The Indenture will also provide that each Holder, by accepting a Note, shall be deemed to have agreed to and accepted the terms and conditions of each Intercreditor Agreement or an Additional Intercreditor Agreement (whether then entered into or entered into in the future pursuant to the provisions described herein) and to have irrevocably appointed and authorized the Trustee to give effect to the provisions in the Intercreditor Agreement or Additional Intercreditor Agreement and to act on its behalf to enter into and comply with the provisions of such Intercreditor Agreement or Additional Intercreditor Agreement.

A copy of each Intercreditor Agreement or an Additional Intercreditor Agreement shall be made available for inspection during normal business hours on any Business Day upon prior written request at the offices of the Issuer or at the offices of the listing agent.

Suspension of Covenants on Achievement of Investment Grade Status

If on any date following the Issue Date, the Notes have achieved Investment Grade Status and no Default or Event of Default has occurred and is continuing (a "Suspension Event"), then, beginning on that day and continuing until such time, if any, at which the Notes cease to have Investment Grade Status (the "Reversion Date"), the provisions of the Indenture summarized under the following captions will not apply to the Notes:

(1) "*—Limitation on Restricted Payments*";

(2) "*—Limitation on Debt*";

(3) "*—Limitation on Dividends and Other Payment Restrictions Affecting Restricted Subsidiaries*";

(4) "*—Limitation on Transactions with Affiliates*";

(5) "*—Limitation on Guarantees of Debt*";

(6) clause (1)(c) of "*—Merger, Consolidation or Sale of Assets*" in respect of each of the Issuer and the Guarantors;

(7) "*—Limitation on Asset Sales*"; and

(8) "*—Designation of Unrestricted and Restricted Subsidiaries*,"

and, in each case, any related default provision of the Indenture will cease to be effective and will not be applicable to the Issuer and the Restricted Subsidiaries.

During any period that the foregoing covenants have been suspended, neither the Issuer nor any Restricted Subsidiary may designate any of its Subsidiaries as Unrestricted Subsidiaries pursuant to the covenant described under the caption "*—Designation of Unrestricted and Restricted Subsidiaries*," unless such designation would have complied with the covenant described under the caption "*—Limitation on Restricted Payments*" as if such covenant would have been in effect during such period.

Such covenants and any related default provisions will again apply according to their terms from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Issuer or the Restricted Subsidiaries properly taken during the continuance of the Suspension Event, and no action taken prior to the Reversion Date will constitute a Default or Event of Default. The "*Limitation on Restricted Payments*" covenant will be interpreted as if it has been in effect since the date of the Indenture but not during the continuance of the Suspension Event. On the Reversion Date, all Debt Incurred during the continuance of the Suspension Event will be deemed to have been outstanding on the Issue Date, so that it is classified as permitted under clause (c) of the second paragraph of the covenant described under "*—Limitation on Debt*." In addition, the Indenture will also permit, without causing a Default or Event of Default, the Issuer or any of the Restricted Subsidiaries to honor any contractual commitments or take actions in the future after any date on which the Notes cease to have an Investment Grade Status as long as the contractual commitments were entered into during the Suspension Event and not in anticipation of the Notes no longer having an Investment Grade Status. Upon the occurrence of a Suspension Event, the amount of Excess Proceeds shall be reset at zero. The Issuer shall notify the Trustee that the conditions set forth in the first paragraph under this caption has been satisfied, *provided* that, no such notification shall be a condition for the suspension of the covenants described under this caption to be effective. The Trustee shall have no duty to monitor the ratings of the Notes, shall not be deemed to have any duty to notify Holders if the Notes achieve Investment Grade Status or upon the occurrence of a Reversion Date. There can be no assurance that the Notes will ever achieve or maintain an Investment Grade Status.

Financial calculations for Limited Condition Acquisitions

When calculating the availability under any basket or ratio under the Indenture, in each case in connection with a Limited Condition Acquisition, the date of determination of such basket or ratio and of any Default or Event of Default shall, at the option of the Issuer, be the date the definitive agreements for such Limited Condition Acquisition are entered into and such baskets or ratios shall be calculated on a *pro forma* basis after giving effect to such Limited Condition Acquisition and the other transactions to be entered into in connection therewith (including any Incurrence of Debt and the use of proceeds thereof) as if they occurred at the beginning of the applicable reference period for purposes of determining the ability to consummate any such Limited Condition Acquisition (and not for purposes of any subsequent availability of any basket or ratio).

For the avoidance of doubt, (x) if any of such baskets or ratios are exceeded as a result of fluctuations in such basket or ratio (including due to fluctuations in Consolidated EBITDA or Consolidated Fixed Charges of the Issuer or the target company) subsequent to such date of determination and at or prior to the consummation of the relevant Limited Condition Acquisition, such baskets or ratios will not be deemed to have been exceeded as a result of such fluctuations solely for purposes of determining whether the Limited Condition Acquisition and the related transactions are permitted hereunder and (y) such baskets or ratios shall not be tested at the time of consummation of such Limited Condition Acquisition or related transactions; *provided*, *further*, that if the Issuer elects to have such determinations occur at the time of entry into such definitive agreement, any such transactions (including any Incurrence of Debt and the use of proceeds thereof) shall be deemed to have occurred on the date the definitive agreements are entered into and outstanding thereafter for purposes of calculating any baskets or ratios under the Indenture after the date of such agreement and before the consummation of such Limited Condition Acquisition.

Events of Default

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 acceleration, optional or mandatory redemption, if any, required repurchase or otherwise);

(c) failure by the Issuer to comply with the provisions of "*—Certain Covenants—Merger, Consolidation or Sale of Assets*";

(d) failure to comply with any covenant or agreement of the Issuer or of any Restricted Subsidiary that is contained in the Indenture (other than specified in clause (a), (b) or (c) (solely as it relates to the Issuer) above) and such failure continues for a period of 60 days after notice by the Trustee on behalf of the Holders or the Holders of at least 25% in principal amount of the outstanding Notes;

(e) default under the terms of any instrument evidencing or securing the Debt for borrowed money (other than any such Debt owed to the Issuer or any Restricted Subsidiary) of the Issuer or any Restricted Subsidiary, if that default:

    (i) results in the acceleration of the payment of such Debt; or

    (ii) is caused by the failure to pay such Debt at final maturity thereof after giving effect to the expiration of any applicable grace periods (and other than by regularly scheduled required prepayment) 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 each case, the principal amount of any such Debt, together with the principal amount of any other such Debt under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates £25.0 million or more;

(f) any Guarantee by any Guarantor that is a Significant Subsidiary ceases to be, or shall be asserted in writing by any Guarantor that is a Significant Subsidiary, or any Person acting on behalf of any Guarantor that is a Significant Subsidiary, 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), if such Default continues for 10 days;

(g) one or more final judgments, orders or decrees (not subject to appeal and not covered by insurance) shall have been rendered against the Issuer or any Restricted Subsidiary for the payment of money either individually or in an aggregate amount, in each case in excess of £25.0 million (after deducting any insurance or indemnity or contribution amounts actually recovered by the Issuer or a Restricted Subsidiary within 60 days of such judgment, order or decree), and either a creditor shall have commenced an enforcement proceeding upon such judgment, order or decree or there shall have been a period of 60 consecutive days or more during which a stay of enforcement of such judgment, order or decree was not (by reason of pending appeal or otherwise) in effect;

(h) the occurrence of certain events of bankruptcy, insolvency, receivership, schemes of arrangement (where any creditors are materially impaired) or reorganization with respect to the Issuer, any Significant Subsidiary, or of other Restricted Subsidiaries that are not Significant Subsidiaries but would, in the aggregate, when taken together (as of the end of the most recently completed fiscal period) constitute a Significant Subsidiary if considered as a single Person; and

(i) any security interest under the Security Documents shall, at any time, cease to be in full force and effect (other than in accordance with the terms of the relevant Security Document, the Intercreditor Agreement, any Additional Intercreditor Agreement or the Indenture, as applicable) with respect to Collateral having a Fair Market Value in excess of £15.0 million for any reason other than the satisfaction in full of all obligations under the Indenture or the release of any such security interest in accordance with the terms of the Indenture, the Intercreditor Agreement, any Additional Intercreditor Agreement or the Security Documents, as applicable, or any such security interest created thereunder shall be declared by a court of competent jurisdiction to be invalid or unenforceable or the Issuer or any Restricted Subsidiary shall assert in writing that any such security interest is invalid or unenforceable and any such Default continues for 10 days.

However, a Default under clauses (d), (e) or (g) above will not constitute an Event of Default until the Trustee or the Holders of 25% in principal amount of the outstanding Notes under the Indenture notify the Issuer of the Default and, with respect to clauses (d) and (g) the Issuer does not cure such default within the time specified in clauses (d) or (g) above, as applicable, after receipt of such notice.

If an Event of Default (other than as specified in clause (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, any Additional Amounts and accrued interest on all of 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.

If an Event of Default specified in clause (h) above occurs and is continuing, then the principal of, premium, if any, Additional Amounts and accrued and unpaid interest on all of 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.

In the event of a declaration of acceleration of the Notes because an Event of Default described in clause (e) under "*Events of Default*" has occurred and is continuing, the declaration of acceleration of the Notes shall be automatically annulled if the event of default or payment default triggering such Event of Default pursuant to clause (e) shall be remedied or cured, or waived by the holders of the Debt, or the Debt that gave rise to such Event of Default shall have been discharged in full, within 30 days after the declaration of acceleration with respect thereto and if (1) the annulment of the acceleration of the Notes would not conflict with any judgment or decree of a court of competent jurisdiction and (2) all existing Events of Default, except non-payment of principal, premium or interest on the Notes that became due solely because of the acceleration of the Notes, have been cured or waived.

The Holders of not less than a majority in aggregate principal amount of the outstanding Notes may, on behalf of the Holders of all of the Notes, waive any past defaults under the Indenture (except a default in the payment of the principal of, premium, if any, and Additional Amounts or interest on any Note in which case, the consent of the Holders of 90% of the then outstanding Notes shall be required) and rescind any such acceleration with respect to such Notes and its consequences if such rescission would not conflict with any judgment or decree of a court of competent jurisdiction, and *provided* that the fees and expenses of the Trustee have been paid.

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 and offered an indemnity and/or security satisfactory to the Trustee to institute such proceedings as Trustee under the Notes and the Indenture, the Trustee has failed to institute such proceeding within 60 days after receipt of such written notice and receipt of indemnity and/or security satisfactory to it and the Trustee within such 60-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.

If an Event of Default occurs and is continuing and written notice from the Issuer is given to a responsible officer of the Trustee in accordance with the notice provisions of the Indenture, the Trustee will deliver to each Holder of the Notes notice of the Event of Default within 60 Business Days after its occurrence. Except in the case of an Event of Default in the payment of principal of, premium, if any, Additional Amounts or interest on any Notes, the Trustee may withhold the giving of such notice to the Holders of such Notes if it determines in good faith that withholding the giving of such notice is in the best interests of the Holders of the Notes.

The Indenture will provide that (1) if a Default occurs for a failure to deliver a required certificate in connection with another default (an "Initial Default") then at the time such Initial Default is cured, such Default for a failure to report or deliver a required certificate in connection with the Initial Default will also be cured without any further action and (2) any Default or Event of Default for the failure to comply with the time periods prescribed in the covenant entitled "*—Certain Covenants—Reports to Holders*" or otherwise to deliver any notice or certificate pursuant to any other provision of the Indenture shall be deemed to be cured upon the delivery prior to acceleration in respect of the relevant breach of any such report required by such covenant or notice or certificate, as applicable, even though such delivery is not within the prescribed period specified in the Indenture.

The Trustee may assume without inquiry, in the absence of written notice, that the Issuer is duly complying with its obligations contained in the Indenture required to be observed and performed by it, and that no Default or Event of Default or other event that would require repayment of the Notes has occurred.

The Trustee is under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of any of the Holders of the Notes unless such Holders provide to the Trustee indemnity and/or security satisfactory to the Trustee against the costs, expenses and liabilities which might be incurred thereby.

Defeasance

The Indenture will provide that the Issuer may, at its option and at any time prior to the Stated Maturity of the Notes, elect to have the obligations of the Issuer and the Guarantors discharged with respect to the outstanding Notes ("Legal Defeasance"). Legal Defeasance means that the Issuer will be deemed to have paid and discharged the entire Debt represented by the outstanding Notes except as to:

(a) the rights of Holders of outstanding Notes to receive payments in respect of the principal of, premium, if any, Additional Amounts 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 on trust;

(c) the rights, powers, trusts, duties, indemnities and immunities of the Trustee and the obligations of the Issuer and the Guarantors in connection therewith; and

(d) the Legal Defeasance provisions of the Indenture.

If the Issuer exercises its legal defeasance option, payment of the Notes may not be accelerated because of an Event of Default other than an Event of Default under clauses (a) or (b) of the definition thereof.

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 failure to comply with such covenants will not constitute a Default or an Event of Default with respect to the Notes. In the event that a 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 will not include events relating to non-payment, bankruptcy, insolvency, receivership and reorganization. The Issuer may exercise its Legal Defeasance option regardless of whether it has previously exercised any Covenant Defeasance.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(a) the Issuer must irrevocably deposit or cause to be deposited on trust with the Trustee, or such other entity as may be designated for this purpose, for the benefit of the Holders of the Notes, cash in euros, European Government Obligations or a combination thereof, in such amounts as will be sufficient, in the opinion of an internationally recognized firm of independent public accountants, to pay and discharge the principal of, premium, if any, Additional Amounts 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:

    (i) specify whether the Notes are being defeased to maturity or to a particular redemption date; and

    (ii) if applicable, have delivered to the Trustee an irrevocable notice to redeem all of the outstanding Notes;

(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 deliver to the Trustee an opinion of counsel reasonably acceptable to the Trustee confirming 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) no Default or Event of Default will have occurred and be continuing: (i) on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit); or (ii) insofar as bankruptcy or insolvency events described in clause (h) of "*—Events of Default*" above are concerned, at any time during the period ending on the 123rd day after the date of such deposit;

(e) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a Default under (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit), the Indenture or any material agreement or instrument to which the Issuer or any Restricted Subsidiary is a party or by which the Issuer or any Restricted Subsidiary is bound;

(f) the Issuer must have delivered to the Trustee an opinion of counsel (subject to customary assumptions, exceptions, reservations and qualifications, in each case including as to enforceability) in the country of the Issuer's incorporation to the effect that after the 123rd day following the deposit, the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally and an opinion of counsel (subject to customary assumptions, exceptions, reservations and qualifications, in each case including as to enforceability) reasonably acceptable to the Trustee that the Trustee shall have a perfected security interest in such trust funds for the rateable benefit of the Holders of the Notes;

(g) 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 other creditors, or removing assets beyond the reach of the relevant creditors or increasing debts of the Issuer to the detriment of the relevant creditors;

(h) no event or condition exists that would prevent the Issuer from making payments of the principal of, premium, if any, Additional Amounts and interest on the Notes on the date of such deposit or at any time ending on the 123rd day after the date of such deposit; and

(i) the Issuer must have delivered to the Trustee an Officer's Certificate and an opinion of counsel, each stating that all conditions precedent provided for relating to the Legal Defeasance or the Covenant Defeasance, as the case may be, have been complied with.

If the funds deposited with the Trustee or such other entity to effect Covenant Defeasance are insufficient to pay the principal of, premium, if any, Additional Amounts and interest on the Notes when due because of any acceleration occurring after an Event of Default, then the Issuer and the Guarantors will remain liable for such payments.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect (except as to surviving rights of registration of transfer or exchange of the Notes as expressly provided for in the Indenture) when:

(a) the Issuer has irrevocably deposited or caused to be deposited with the Trustee (or such other entity as is designated for this purpose) as funds on trust for such purpose an amount in euros or European Government Obligations sufficient to pay and discharge the entire Debt on such Notes that have not, prior to such time, been delivered to the Paying Agent for cancellation, for principal of, premium, if any, and any Additional Amounts and accrued and unpaid interest on the Notes to the date of such deposit (in the case of Notes which have become due and payable) or to the Stated Maturity or redemption date, as the case may be, and the Issuer has delivered irrevocable instructions to the Trustee under the Indenture to apply the deposited money toward the payment of Notes at Stated Maturity or on the redemption date, as the case may be and either:

    (i) all of the Notes that have been authenticated and delivered (other than destroyed, lost or stolen Notes that have been replaced or paid and Notes for which payment money has been deposited by the Issuer and thereafter repaid to the Issuer as provided for in the Indenture) have been delivered to the Paying Agent for cancellation; or

    (ii) all Notes that have not been delivered to the Paying Agent for cancellation: (x) have become due and payable (by reason of the sending, or delivery to Euroclear and Clearstream in the case of a Global Note, of a notice of redemption or otherwise); (y) will become due and payable within one year of Stated Maturity; or (z) are to be called for redemption within one year of the proposed discharge date under arrangements reasonably satisfactory to the Trustee for the giving of notice of redemption provided to it by the Issuer by the Paying Agent in the Issuer's name and at the Issuer's expense;

(b) the Issuer has paid or caused to be paid all other sums payable by the Issuer under the Indenture; *provided* that if requested by the Issuer in writing to the Trustee and the Paying Agent (which request may be included in the applicable notice of redemption or pursuant to an Officer's Certificate) no later than five (5) Business Days or such shorter period as the Trustee or the Paying Agent may agree prior to such distribution, the Trustee or the Paying Agent may distribute any amounts deposited prior to maturity or the redemption date, as the case may be; *provided*, *further*, that in such case, the payment to each Holder will equal the amount such Holder would have been entitled to receive at maturity or on the relevant redemption date, as the case may be, and, for the avoidance of doubt, the distribution and payment to Holders prior to the maturity or relevant redemption date as set forth above will not include any negative interest, present value adjustment, break cost or any other premium on such amounts. To the extent that the Notes are represented by Global Notes deposited with a depositary for a clearing system, any payment to the beneficial holders holding interests as a participant of such clearing system shall be subject to the then applicable procedures of the clearing system;

(c) the Issuer has delivered irrevocable instructions to the Trustee to apply the deposited money toward the payment of the Notes at maturity, on the redemption date or such earlier date as instructed by the Issuer in accordance with clause (b) above, as the case may be; and

(d) the Issuer has delivered to the Trustee (i) an Officer's Certificate and (ii) an opinion of counsel (subject to customary assumptions, exceptions, reservations and qualifications, in each case including as to enforceability), each stating that all conditions precedent provided in the Indenture relating to the satisfaction and discharge of the Indenture have been satisfied.

The Trustee shall be entitled to rely conclusively on such Officer's Certificate and opinion of counsel without independent verification, *provided* that any such counsel may rely on an Officer's Certificate as to matters of fact) (including as to compliance with the foregoing clauses (a), (b), (c) and (d)).

Amendments and Waivers

With the consent of the Holders of not less than a majority in aggregate principal amount of the Notes then outstanding (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, such Notes), the Issuer, the Guarantors, the Trustee and the Agents (as applicable) are permitted to amend or supplement (or, with respect to any Security Document, require the other relevant parties thereto to amend or supplement) the Indenture, the Notes, the Intercreditor Agreement, any Additional Intercreditor Agreement, the Guarantees or the Security Documents or waive any default or compliance with any provisions thereof (unless a modification or amendment will only affect one series of the Notes, in which case only the consent of the Holders of at least a majority in aggregate principal amount of the Notes then outstanding in such series shall be required); *provided* that no such modification, amendment or waiver may, without the consent of Holders holding not less than 90% of the then outstanding principal amount of the Notes then outstanding (or, if a modification or amendment will only affect one series of the Notes, the consent of the Holders of at least 90% of the aggregate principal amount of the Notes then outstanding in such series):

(a) extend the Stated Maturity of the principal of, or any instalment of or Additional Amounts or interest on, any Note (or change any Default or Event of Default under clause (a) of the definition thereof related thereto);

(b) reduce the principal amount of any Note (or Additional Amounts or premium, if any) or the rate of or extend the stated time for payment of interest on any Note (or change any Default or Event of Default under clause (b) of the definition thereof related thereto);

(c) reduce the premium payable upon the redemption of any such Note or change the time at which any such Note may be redeemed, in each case as described above under "*—Optional Redemption*";

(d) 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 on or after the due dates thereof;

(e) impair the right to institute suit for the enforcement of any payment of any Note in accordance with the provisions of such Note and the Indenture;

(f) make any change to the amendment or waiver provisions which require the Holders' consent described in this sentence;

(g) release any Guarantee, other than in compliance with the guarantor release provisions of the Indenture and the Intercreditor Agreement (and any Additional Intercreditor Agreement); and

(h) release any Lien on the Collateral granted for the benefit of the Holders, other than in compliance with the terms of the Indenture and the Intercreditor Agreement (and any Additional Intercreditor Agreement).

Notwithstanding the foregoing, without the consent of any Holder of the Notes, the Issuer, the Guarantors, the Trustee and the Agents (as applicable) may modify, amend or supplement (or, with respect to any Security Document, require the other relevant parties thereto to amend or supplement) the Indenture, the

Notes, the Intercreditor Agreement, any Additional Intercreditor Agreement, the Guarantees or the Security Documents, as applicable, to:

(a) evidence the succession of another Person to the Issuer or a Guarantor and the assumption by any such successor of the covenants in the Indenture, the Notes, any Guarantee, the Intercreditor Agreement, any Additional Intercreditor Agreement or the Security Documents, as applicable, in accordance with "*—Certain Covenants—Merger, Consolidation or Sale of Assets*";

(b) add to the Issuer's covenants or those of any Guarantor or any other obligor in respect of the Notes for the benefit of the Holders of the Notes or to surrender any right or power conferred upon the Issuer or any Guarantor or any other obligor in respect of the Notes, as applicable, in the Indenture, the Notes or any Guarantee;

(c) cure any ambiguity, omission, defect error or inconsistency;

(d) conform the text of the Indenture, the Notes, the Security Documents, or any Guarantee 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 or substantially verbatim recitation of a provision of the Indenture, the Notes or any Guarantee;

(e) release any Guarantor in accordance with (and if permitted by) the terms of the Indenture or the Intercreditor Agreement (or any Additional Intercreditor Agreement);

(f) to provide for any Restricted Subsidiary to provide a Guarantee in accordance with the covenant described under "*—Certain Covenants—Limitation on Debt*" or "*—Certain Covenants—Limitation on Guarantees of Debt*," to add Guarantees, to add security to or for the benefit of the Notes, or to confirm and evidence the release, termination, discharge or retaking of any Guarantee or Lien (including the Collateral and the Security Documents) or any amendment in respect thereof with respect to or securing the Notes when such release, termination, discharge or retaking or amendment is not prohibited by the Indenture, the Intercreditor Agreement, any Additional Intercreditor Agreement and the Security Documents;

(g) evidence and provide the acceptance of the appointment of a successor Trustee under the Indenture;

(h) make any change that would provide additional rights of or benefits to the Trustee or the Holders or that does not adversely affect the rights of or benefits to the Trustee or any of the Holders in any material respect under the Indenture, the Notes, any Guarantee, the Intercreditor Agreement, any Additional Intercreditor Agreement or the Security Documents (as determined by the Issuer in good faith in respect of Holders); and

(i) provide for the issuance of Additional Notes in accordance with and if permitted by the terms of and limitations set forth in the Indenture.

The Trustee shall be entitled to receive and rely absolutely on an Officer's Certificate and an opinion of counsel as to the permissibility of any such amendment, supplement or waiver.

The consent of the Holders is not necessary under the Indenture to approve the particular form of any proposed amendment to the Indenture, the Notes or any Guarantee. It is sufficient if such consent approves the substance of the proposed amendment. A consent to any amendment or waiver under the Indenture by any Holder of the Notes given in connection with a tender of such Holder's Notes will not be rendered invalid by such tender.

Currency Indemnity

The euro is the sole currency of account and payment for all sums payable under the Notes, the Guarantees and the Indenture. 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 and/or a Holder of the Notes in respect of any sum expressed to be due to such Holder from the Issuer or the Guarantors 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 purchase euro on that date, on the first date on which it is possible to do so). If the euro amount that could be recovered following such a purchase is less than the euro amount expressed to be due to the recipient under any Note, the Issuer and the Guarantors will jointly and severally indemnify the recipient against the cost of the recipient's making a further purchase of euro in an amount equal to such difference. For the purposes of this paragraph, it will be *prima facie* evidence of the matter stated herein for the Trustee and/or Holder to certify that it would have suffered a loss had the actual purchase of euro been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of euro on that date had not been possible, on the first date on which it would have been possible). These indemnities, 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; 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.

Notices

For so long as the Notes are admitted to trading on the Exchange and the rules and regulations of the Exchange so require, the Issuer will publish a notice of any change of Paying Agent, Registrar or Transfer Agent to the extent and in the manner permitted by such rules and regulations. In addition, for so long as any Notes are represented by Global Notes, all notices to Holders of the Notes may be delivered by or on behalf of the Issuer to Euroclear and Clearstream.

Each such notice shall be deemed to have been given on the date of such publication or, if published more than once on different dates, on the first date on which publication is made; *provided* that, if notices are mailed, such notice shall be deemed to have been given on the later of such publication and the seventh day after being so mailed; and *provided*, *further*, that any notice delivered via e-mail or other electronic means shall be deemed to have been "sent" in accordance with the terms of this paragraph. Any notice or communication mailed to a Holder shall be mailed to such Person by first-class mail or other equivalent means and shall be sufficiently given to such Holder if so mailed within the time prescribed. Failure to send a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders. If a notice or communication is sent in the manner provided above, it is duly given, whether or not the addressee receives it. If a notice or communication is given via Euroclear or Clearstream, it is duly given on the day the notice is given to Euroclear or Clearstream.

No Personal Liability of Directors, Officers, Employees and Stockholders

No director, officer, employee, incorporator or stockholder of the Issuer or any Guarantor, as such, will have any liability for any obligations of the Issuer or the Guarantors under the Notes, the Indenture, the Guarantees, the Intercreditor Agreement, any Additional Intercreditor Agreement, the Security Documents or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of Notes by accepting a Note will waive and release all such liability. The waiver and release will be part of the consideration for issuance of the Notes.

The Trustee and the Security Agent

HSBC Corporate Trustee Company (UK) Limited is to be appointed as Trustee under the Indenture. The Indenture will provide that, except during the continuance of an Event of Default of which written notice from the Issuer is given to a responsible officer of the Trustee in accordance with the notice provisions of the Indenture, the Trustee will perform only such duties as are set forth specifically in the Indenture. During the existence of an Event of Default, of which written notice from the Issuer is given to a responsible officer of Trustee in accordance with the notice provisions of the Indenture, the Trustee will exercise such of the rights and powers vested in it under the Indenture and use the same degree of care that a prudent Person would use in conducting its own affairs. The permissive rights of the Trustee to take or refrain from taking any action enumerated in the Indenture will not be construed as an obligation or duty. The Trustee will be permitted to engage in other transactions with the Issuer and its Affiliates and Subsidiaries.

The Indenture will contain provisions for the indemnification of the Trustee for any loss, liability, certain taxes and expenses incurred without gross negligence or willful misconduct on its part, arising out of or in connection with the acceptance or administration of the Indenture.

The Indenture contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured to its satisfaction.

Barclays Bank PLC will initially act as Security Agent under the Intercreditor Agreement and the Security Documents on behalf of the secured creditors, including the Trustee and the Holders. The Security Agent, acting in its capacity as such, shall have such duties with respect to the Collateral as are set forth in the Intercreditor Agreement, any Additional Intercreditor Agreement and the Security Documents. Under certain circumstances, the Security Agent may have obligations under the Intercreditor Agreement, any Additional Intercreditor Agreement or the Security Documents that are in conflict with the interests of the Holders. The Security Agent will be under no obligation to exercise any rights or powers conferred under the Intercreditor Agreement or any of the Security Documents for the benefit of the secured creditors (other than the Trustee) unless such secured creditors (other than the Trustee) have provided to the Security Agent indemnity and/or security satisfactory to the Security Agent against any loss, liability or expense. Furthermore, each Holder, by accepting the Notes will agree, for the benefit of the Security Agent, that it is solely responsible for its own independent appraisal of, and investigation into, all risks arising under or in connection with the Security Documents and has not relied on or will not at any time rely on the Security Agent or the Trustee in respect of such risks.

Governing Law

The Indenture, the Notes and the Guarantees are governed by and construed in accordance with the laws of the State of New York. The Intercreditor Agreement will be governed by and construed in accordance with, English law

Certain Definitions

"Acquired Debt" means Debt of a Person:

(a) existing at the time such Person becomes a Restricted Subsidiary or is merged into or consolidated with the Issuer or any Restricted Subsidiary; or

(b) assumed in connection with the acquisition of assets from any such Person,

provided that, in each case, such Debt was not Incurred in connection with, or in contemplation of, such Person becoming a Restricted Subsidiary or such acquisition, as the case may be.

Acquired Debt shall be deemed to be Incurred on the date the acquired Person becomes a Restricted Subsidiary (or is merged into or consolidated with the Issuer or any Restricted Subsidiary, as the case may be) 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.

"Agent" means the Paying Agent, the Registrar and the Transfer Agent (each an "Agent" and together the "Agents").

"Agreed Security Principles" means the agreed security principles appended to the Indenture.

"Applicable Redemption Premium" means, with respect to any Note on any redemption date, the greater of:

(a) 1.0% of the principal amount of the Note; and

(b) the excess of:

(i) the present value at such redemption date of: (x) the redemption price of such Note at , 2020 (such redemption price being set forth in the table appearing below the caption "*Optional Redemption—Optional Redemption on or after , 2020*" plus (y) all required interest payments that would otherwise be due to be paid on such Note during the period between the redemption date and , 2020 (excluding accrued but unpaid interest), computed using a discount rate equal to the Bund Rate at such redemption date plus 50 basis points; over

(ii) the outstanding principal amount of the Note.

For the avoidance of doubt, calculation of the Applicable Redemption Premium shall be made by or on behalf of the Issuer and shall not be a duty or obligation of the Trustee or any Agent.

"Asset Sale" means any sale, issuance, conveyance, transfer, lease (other than operating leases) or other disposition (including, without limitation, by way of merger, consolidation, amalgamation or other combination 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 Subsidiary (other than directors' qualifying shares or shares required by applicable law to be held by a Person other than the Issuer or a Subsidiary);

(b) any 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 single transaction or series of related transactions that involves assets or Capital Stock having a Fair Market Value of less than the greater of £15 and 13.0% of Consolidated EBITDA;

(ii) any transfer or disposition of assets (including Capital Stock of any Subsidiary) by the Issuer to any Restricted Subsidiary, or by any Restricted Subsidiary to the Issuer or any Restricted Subsidiary;

(iii) any transfer or disposition of obsolete, damaged, surplus, worn out or permanently retired equipment or facilities or other assets that are no longer useful in the conduct of the Issuer's and any Restricted Subsidiary's business;

(iv) sales, discounts or dispositions of receivables (a) on commercially reasonable terms in the ordinary course of business, (b) in any factoring or supply chain financing transaction or similar in the ordinary course of business or (c) in connection with any Qualified Receivables Financing;

(v) any transfer or disposition of assets that is governed by the provisions of the Indenture described under "*—Certain Covenants—Merger, Consolidation or Sale of Assets*" or "*—Certain Covenants—Change of Control*";

(vi) any "fee in lieu" or other disposition of assets to any governmental authority or agency that continue in use by the Issuer or any Restricted Subsidiary, so long as the Issuer or any Restricted Subsidiary may obtain title to such assets upon reasonable notice by paying a nominal fee;

(vii) transfers of Capital Stock in a Restricted Subsidiary to a Person making contributions to such Restricted Subsidiary to fund its capital expenditure, to the extent the Issuer determines in good faith appropriate to reflect the level of such contribution compared to the contribution, if any, made by the Issuer or any Restricted Subsidiary;

(viii) the sale, lease, sublease, assignment or other disposition of any real or personal property or any equipment, inventory, trading stock or other assets in the ordinary course of business, including, without limitation, pursuant to agreements entered into in the ordinary course of business;

(ix) (a) an issuance or transfer of Capital Stock by a Restricted Subsidiary (i) to the Issuer or to another Restricted Subsidiary or (ii) as part of, or pursuant to, an equity incentive or compensation plan approved by the Board of Directors of the Issuer or (b) the issuance of directors' qualifying shares and shares issued to individuals as required by applicable law;

(x) any issuance, sale or disposition of Capital Stock, Debt or other securities of an Unrestricted Subsidiary;

(xi) any making of a Restricted Payment that does not violate the covenant described above under "*—Certain Covenants—Limitation on Restricted Payments*" and the making of any Permitted Investment, or, solely for purposes of paragraphs (1)(b) and (2) under "*—Certain Covenants—Limitation on Asset Sales*," asset sales, in respect of which (but only to the extent that) the proceeds are used to make such Restricted Payments or Permitted Investments);

(xii) any transfer, termination, unwinding or other disposition of any Hedging Agreements in the ordinary course of business and not for speculative purposes;

(xiii) 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 or any other transfer of title with respect to any secured investment in default;

(xiv) any disposition in connection with a Permitted Lien;

(xv) the licensing, sub-licensing, lease, sublease, conveyance or assignment of intellectual property or other general intangibles and licenses, sub-licenses, leases, subleases, conveyances or assignments of other property, in each case, in the ordinary course of business;

(xvi) the abandonment or disposition of patents, trade marks or other intellectual property that are, in the good faith opinion of the Issuer, no longer economically practicable to maintain or useful in the conduct of the business of the Issuer and its Subsidiaries taken as a whole;

(xvii) any disposition arising from foreclosure, condemnation or any similar action with respect to any property or other assets;

(xviii) the surrender or waiver of contract rights or the settlement, release or surrender of contract, tort or other claims of any kind;

(xix) any disposition with respect to property, whether tangible or intangible, built by or on behalf of, or owned or otherwise acquired by, the Issuer or any Restricted Subsidiary (a) pursuant to a customary sale and leaseback transaction, asset securitizations and other similar financings permitted by the Indenture or (b) on behalf of, or for the benefit of, a customer, or with the intention to transfer such property to a customer, in connection with a transaction or series of transactions under which the Issuer or any Restricted Subsidiary earns a fee for, or derives a benefit from, participating in such transaction or series of transactions;

(xx) a disposition of cash or Cash Equivalents;

(xxi) sales, transfers or other disposition 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 arrangements and similar binding agreements; *provided* that any cash or Cash Equivalents received in such sale, transfer or disposition is applied in accordance with the "*—Certain Covenants—Limitation on Asset Sales*" covenant;

(xxii) any sale or other disposition made pursuant to, or as a result of, a final judgment or court order related to a liquidation or unpaid claim;

(xxiii) any disposition in connection with a Tax Sharing Agreement;

(xxiv) discount or 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; or

(xxv) any disposition of assets to any governmental authority or agency pursuant to state asset acquisition laws, regulations or rules.

"Board of Directors" means:

(a) with respect to any corporation, the board of directors or managers of the corporation (which, in the case of any corporation having both a supervisory board and an executive or management board, shall be the executive or management board) or any duly authorized committee thereof;

(b) with respect to any partnership, the board of directors of the general partner of the partnership or any duly authorized committee thereof;

(c) with respect to a limited liability company, the managing member or members (or analogous governing body) or any controlling committee of managing members thereof; and

(d) with respect to any other Person, the board or any duly authorized committee thereof or committee of such Person serving a similar function.

"Bund Rate" as selected by the Issuer, means the yield to maturity at the time of computation of direct obligations of the Federal Republic of Germany (Bunds or Bundesanleihen) with a constant maturity as officially compiled and published in the most recent financial statistics that have become publicly available at least two Business Days (but not more than five Business Days) prior to the repayment date (or, if such financial statistics are not so published or available, any publicly available source of similar market data selected in good faith by the Issuer) most nearly equal to the period from the repayment date to , 2020; *provided*, *however*, that if the period from the repayment date to , 2020 is not equal to the constant maturity of a direct obligation of the Federal Republic of Germany for which a weekly average yield is given, the Bund Rate shall be obtained by linear interpolation (calculated to the nearest one twelfth of a year) from the weekly average yields of direct obligations of the Federal Republic of Germany for which such yields are given, except that if the period from such repayment date to , 2020 is less than one year, the weekly average yield on actually traded direct obligations of the Federal Republic of Germany adjusted to a constant maturity of one year shall be used and provided that "Bund Rate" shall be at least 0.00%.

"Business Day" means a day other than a Saturday, Sunday or other day on which banking institutions in London, United Kingdom, New York, United States or a place of payment under the Indenture are authorized or required by law to close other than a day which is not a TARGET Settlement Day.

"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, 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 (as in effect on the Issue Date for purposes of determining whether a lease is a capital lease), 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 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 Pre-Expansion 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 Pre-Expansion European Union or the United States of America, Switzerland, Norway or Canada, as the case may be, and which are not callable or redeemable at the Issuer's or any Restricted Subsidiary's option;

(b) overnight bank deposits, time deposit accounts, certificates of deposit, banker's acceptances and money market deposits (and similar instruments) with maturities of twelve months or less from the date of acquisition issued 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 Pre-Expansion 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 £250.0 million (or the foreign currency equivalent thereof as of the date of such investment) and whose long-term debt is rated "Baa3" or higher by Moody's or "BBB−" or higher by S&P or the equivalent rating category of another internationally recognized rating agency

(c) commercial paper having one of the two highest ratings obtainable from Moody's or S&P and, in each case, maturing within one year after the date of acquisition;

(d) repurchase obligations with a term of not more than thirty days for underlying securities of the type described in clause (a) or (b) above, entered into with any financial institution meeting the qualifications described in clause (b) above; and

(e) interests in any investment company or money market fund at least 95% of the assets of which constitute Cash Equivalents of the kinds described in clauses (a) through (d) above.

"Change of Control" means the occurrence of any of the following events:

(a) the Issuer becomes aware of 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) becoming 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, no Change of Control shall be deemed to occur by reason of the Issuer becoming a Subsidiary of a Successor Parent; or

(b) the sale (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 the assets of the Issuer and its Subsidiaries, taken as a whole, to another Person other than a Restricted Subsidiary.

"Clearing System Business Day" means Monday to Friday, inclusive, except December 25 and January 1.

"Clearstream" means Clearstream Banking S.A. and its successors.

"Collateral" means the rights, property and assets securing or otherwise benefitting the Notes and/or the Guarantees as described under the caption "*—Security*" and any rights, property or assets over which a lien has been granted to secure the obligations of the Issuer or the Guarantors under the Notes, the Guarantees or the Indenture.

"Commission" means the U.S. Securities and Exchange Commission.

"Commodities Agreement" means any agreement or arrangement designed to protect the relevant Person against fluctuations in commodities prices.

"Consolidated EBITDA" means, for any period, Consolidated Net Income for such period plus the following to the extent deducted in calculating such Consolidated Net Income, without duplication:

(a) provision for taxes based on income or profits of the Issuer and the Restricted Subsidiaries for such period, and any charge for such taxes incurred and any charge for or in respect of any surrender of group relief by the Issuer or a Restricted Subsidiary pursuant to a Tax Sharing Agreement; plus

(b) the Consolidated Fixed Charges of the Issuer and the Restricted Subsidiaries for such period; plus

(c) depreciation, amortization (including, without limitation, amortization of intangibles and deferred financing fees), goodwill and other non-cash charges and 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 the Issuer and the Restricted Subsidiaries for such period) of the Issuer and the Restricted Subsidiaries (excluding any such non-cash charge or expense to the extent that it represents an accrual of or reserve for cash charges or expenses in any future period or amortization of a prepaid cash charge or expense that was paid in a prior period) for such period; plus

(d) any expenses, charges or other costs related to the issuance, offer or sale of any Capital Stock, or any Permitted Investment, acquisition, disposition, recapitalization or listing or the Incurrence of Debt, in each case, whether or not successful; plus

(e) the amount of any minority interest expense consisting of subsidiary income attributable to minority equity interests of third parties in any Restricted Subsidiary in such period or any prior period, except to the extent of dividends declared or paid on, or other cash payments in respect of, Capital Stock held by such parties; plus

(f) the proceeds of any business interruption insurance received or that become receivable during such period to the extent the associated losses arising out of the event that resulted in the payment of such business interruption insurance proceeds, or such amount becoming payable, were included in computing Consolidated Net Income; plus

(g) payments received or that become receivable with respect to expenses that are covered by the indemnification provisions in any agreement entered into by the Issuer or any Restricted Subsidiary to the extent such expenses were included in computing Consolidated Net Income; plus

(h) any income, charge or other expense attributable to post-employment benefit, pension, fund or similar obligation other than the current service costs and any past service costs and curtailments and settlements attributable to the scheme; plus

(i) any Receivables Fees and discounts on the sale of accounts receivables in connection with any Qualified Receivables Financing or any other receivables financing representing, in the Issuer's reasonable determination, the implied interest component of such discount for such period; minus

(j) non-cash items reducing such Consolidated Net Income for such period, other than the reversal of a reserve for cash charges in a future period in the ordinary course of business.

"Consolidated Fixed Charges" means, for any period, without duplication and in each case determined in accordance with IFRS, the sum of:

(a) consolidated interest expense of the Issuer and the Restricted Subsidiaries to the extent deducted in calculating Consolidated Net Income for such period, plus, to the extent not otherwise included in consolidated interest expense:

   (i) amortization of original issue discount (but not including deferred financing fees, debt issuance costs and premium, commissions, fees and expenses owed or paid with respect to financings);

   (ii) the net payments made or received pursuant to any Hedging Agreements (including amortization of fees and discounts);

   (iii) commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing and similar transactions; and

   (iv) the interest portion of any deferred payment obligation and amortization of debt issuance costs; plus

(b) the interest component of the Issuer's and the Restricted Subsidiaries' Capitalized Lease Obligations accrued and/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 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; plus

(e) cash and non-cash dividends due (whether or not declared) on the Issuer's Redeemable Capital Stock and any Restricted Subsidiary's Preferred Stock (to any Person other than the Issuer or any Restricted Subsidiary), in each case for such period,

minus (i) accretion or accrual of discounted liabilities other than Debt; (ii) any expense resulting from the discounting of any Debt in connection with the application of purchase accounting in connection with any acquisition; (iii) interest with respect to Debt of any Holding Company of any Person appearing upon the balance sheet of such Person solely by reason of push-down accounting under IFRS; (iv) any Additional Amounts with respect to the Notes or other similar tax gross-up on any Debt (including, without limitation, under any Credit Facility), which is included in interest expenses under IFRS; (v) any capitalized, accrued or accreting or pay-in-kind interest or principal on Subordinated Shareholder Debt; and (vi) any interest income of the Issuer and the Restricted Subsidiaries.

"Consolidated Net Debt" means, as of any date of determination, the sum of the total amount of Debt of the Issuer and the Restricted Subsidiaries, less cash and Cash Equivalents, in each case that would be stated on the balance sheet of the Issuer and the Restricted Subsidiaries on a consolidated basis on such date. In respect of any applicable period, the exchange rate used to calculate Consolidated Net Debt will be the weighted average exchange rate for the period of the Issuer's most recent two consecutive fiscal halves for which internal consolidated financial statement are available prior to the date of determination; *provided* that, where applicable, any amount of Debt will be stated so as to take into account the hedging effect of any currency hedging entered into in respect of or by reference to that Debt.

"Consolidated Net Income" means, for any period, the Issuer's and the Restricted Subsidiaries' consolidated net income (or loss) for such period as determined in accordance with IFRS, adjusted by excluding (to the extent included in such consolidated net income or loss), without duplication:

(a) the portion of net income (and the loss unless and to the extent funded in cash by the Issuer or a Restricted Subsidiary) of any Person (other than the Issuer or a Restricted Subsidiary), including Unrestricted Subsidiaries, in which the Issuer or any Restricted Subsidiary has an equity ownership interest, except that the Issuer's or a Restricted Subsidiary's equity in the net income of such Person for such period shall be included in such Consolidated Net Income to the extent of the aggregate amount of dividends or other distributions actually paid to the Issuer or any Restricted Subsidiary in cash dividends or other distributions during such period;

(b) solely for the purpose of determining the amount available for Restricted Payments under paragraph (2)(c)(i) of the covenant described under "*—Certain Covenants—Limitation on Restricted Payments*," the net income (but not the loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary is not at the date of determination permitted, directly or indirectly, by operation of the terms of its articles of incorporation, charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental 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 Indenture, (iii) contractual restrictions in effect on the Issue Date with respect to a Restricted Subsidiary, and other restrictions with respect to such Restricted Subsidiary that, taken as a whole, are not materially less favorable to the Holders than such restrictions in effect on the Issue Date, and (iv) restrictions specified in the covenant described under "*—Certain Covenants—Limitation on Dividends and Other Payment Restrictions Affecting Restricted Subsidiaries*") except that the Issuer's equity in the net income of any such Restricted Subsidiary for such period will be included in such Consolidated 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 another 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);

(c) net after-tax gains attributable to the termination of any employee pension benefit plan;

(d) any restoration to net income of any contingency reserve, except to the extent provision for such reserve was made out of income accrued at any time following the Issue Date;

(e) any net gain or loss arising from the acquisition of any securities or extinguishment, under IFRS, of any Debt of such Person;

(f) the net income attributable to discontinued operations (including, without limitation, operations disposed of during such period whether or not such operations were classified as discontinued);

(g) the cumulative effect of a change in accounting principles;

(h) the net gain (or loss) realized upon the sale or other disposition of any asset or disposed operations of the Issuer or any Restricted Subsidiary (including pursuant to a sale and leaseback transaction) which is not sold or otherwise disposed of in the ordinary course of business (as determined in good faith by an Officer or the Board of Directors of the Issuer);

(i) any pre-tax special, extraordinary, one-off, irregular, exceptional, unusual or non-recurring gain, loss, expense or charge (including one-off investment in plant, property and equipment, for example vehicles or material handling equipment), or any charges in respect of any restructuring, redundancy, relocation, refinancing, integration or severance or other post-employment arrangements, signing, retention or completion bonuses, transaction costs (including costs related to the refinancing or any investments), acquisition costs, business optimization, system establishment, software or information technology implementation or development costs, costs related to governmental investigations and curtailments or modifications to pension or post-retirement benefits schemes, litigation or any asset impairment charges or the financial impacts of natural disasters (including fire, flood and storm and related events);

(j) any non-cash compensation charge or expense arising from any grant of stock, stock options or other equity based awards and any non-cash deemed finance charges in respect of any pension liabilities or other provisions;

(k) any unrealized gains or losses in respect of any Hedging Agreements or other derivative instruments or forward contracts or any ineffectiveness recognized in earnings related to a qualifying hedge transaction 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 any Hedging Agreements;

(l) any unrealized foreign currency transaction gains or losses in respect of Debt or other obligations of the Issuer or any Restricted Subsidiary denominated in a currency other than the functional currency of such Person and any unrealized foreign exchange gains or losses resulting from re-measuring assets and liabilities denominated in foreign currencies;

(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;

(n) any goodwill or other intangible asset impairment charge or write-off or write-down; and

(o) the impact of capitalized, accrued or accreting or pay-in-kind interest or principal on Subordinated Shareholder Debt.

"Consolidated Net Leverage Ratio" means, as at any date of determination, the ratio of: (1) the *pro forma* Consolidated Net Debt on such date, to (2) the *pro forma* Consolidated EBITDA for the period of the Issuer's most recent two consecutive fiscal halves for which internal consolidated financial statement are available prior to the date of determination; *provided* 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 Net Leverage Ratio is an Incurrence of Debt or both, Consolidated EBITDA and Consolidated Net Debt for such period shall be calculated, without duplication, 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;

(b) if the Issuer or any Restricted Subsidiary has repaid, repurchased, redeemed, defeased or otherwise acquired, retired or discharged any Debt (each a "Discharge") any Debt since the beginning of such period that is no longer outstanding or if the transaction giving rise to the need to calculate the Consolidated Net Leverage Ratio is a Discharge of Debt or both, Consolidated EBITDA and Consolidated Net Debt for such period shall be calculated, without duplication, after giving effect on a *pro forma* basis to such Discharge as if such Discharge had occurred on the first day of such period;

(c) 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 Debt for such period shall be reduced by an amount equal to the Consolidated Net Debt 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 Debt 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);

(d) if, since the beginning of such period, the Issuer or any Restricted Subsidiary (by merger, consolidation, amalgamation or other combination 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 Debt for such period shall be calculated after giving *pro forma* effect thereto as if such Investment or acquisition occurred on the first day of such period; and

(e) 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 (c) or (d) if made by the Issuer or a Restricted Subsidiary during such period, Consolidated EBITDA and Consolidated Net Debt 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,

provided, *however*, the *pro forma* calculation of the Consolidated Net Leverage Ratio shall not give effect to (i) any Debt Incurred on the date of determination pursuant to paragraph (2) of "*—Certain Covenants—Limitation on Debt*" (other than with respect to clause (q) of such covenant) 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 paragraph (2) of "*—Certain Covenants—Limitation on Debt*."

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 purposes of this definition, without double counting, (1) *pro forma* effect may be given to any transaction referred to in clauses (a) through (e) above, or the amount of income or earnings relating thereto, and the *pro forma* calculations in respect thereof (including, without limitation, in respect of anticipated cost savings or synergies relating to any such transaction (calculated on a *pro forma* basis as though such cost savings or synergies had been realized on the first day of the relevant period) net of the amounts of any actual benefits realized during the relevant period from such actions) shall be as determined in good faith by the Group Finance Director of the Issuer or an authorized responsible financial or accounting Officer of the Issuer and (2) when determining *pro forma* Consolidated EBITDA of the Issuer and the Restricted Subsidiaries, the Issuer may adjust Consolidated EBITDA to add an amount equal to the cost savings projected to be realized as the result of actions taken or to be taken on or prior to the date that is 18 months after the consummation of any operational change (calculated on a *pro forma* basis as though such cost savings had been realized on the first day of the relevant period), net of the amount of any actual benefits realized during the relevant period from such actions, as determined in good faith by the Group Finance Director of the Issuer or an authorized responsible financial or accounting Officer of the Issuer.

"*Consolidated Senior Secured Net Leverage*" means, as of the date of determination, the sum of the total amount of Senior Secured Debt of the Issuer and its Restricted Subsidiaries less cash and Cash Equivalents, in each case on a consolidated basis.

"*Consolidated Senior Secured Net Leverage Ratio*" means, as at any date of determination, the ratio of: (1) Consolidated Senior Secured Net Leverage as of the end of the most recent fiscal half for which internal consolidated financial statements are available, to (2) Consolidated EBITDA for the period of the Issuer's most recent two consecutive fiscal halves for which internal consolidated financial statements are available, with such *pro forma* adjustments as are consistent with the *pro forma* provisions set forth in the definition of Consolidated Net Leverage Ratio.

"*Contingent Obligations*" means, with respect to any Person, any obligation of such Person guaranteeing in any manner, whether directly or indirectly, any operating lease, dividend or other obligation that does not constitute Debt ("primary obligations") of any other Person (the "primary obligor"), including any obligation of such Person, whether or not contingent:

(1) to purchase any such primary obligation or any property constituting direct or indirect security therefor;

(2) to advance or supply funds:

   (a) for the purchase or payment of any such primary obligation; or

   (b) to maintain the working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor; or

(3) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation against loss in respect thereof.

"Contribution Amounts" means the aggregate amount of capital contributions applied by the Issuer to permit the Incurrence of Contribution Debt pursuant to clause (2)(s) of the covenant described under the caption "*—Certain Covenants—Limitation on Debt*."

"Contribution Debt" means Debt of the Issuer or any Restricted Subsidiary in an aggregate principal amount not greater than 100% of the aggregate amount of net cash contributions (other than the proceeds from the issuance of Redeemable Capital Stock or Preferred Stock or contributions by the Issuer or any Restricted Subsidiary) made to the equity capital of the Issuer or such Restricted Subsidiary (in each case, other than by a Subsidiary of the Issuer) (whether through the issuance or sale of Capital Stock (other than Redeemable Capital Stock or Preferred Stock) or Subordinated Shareholder Debt or otherwise contributed to equity (other than through Redeemable Capital Stock or Preferred Stock)) in each case after the Issue Date; *provided* that such Contribution Debt:

(a) is Incurred within 180 days after the making of the related cash capital contribution; and

(b) is so designated as "Contribution Debt" pursuant to an Officer's Certificate no later than the date of Incurrence thereof.

"Credit Facility" or "Credit Facilities" means, one or more debt facilities or indentures, as the case may be, (including the Senior Credit Facility) or commercial paper facilities, arrangements, instruments, note purchase agreements or commercial paper facilities and overdraft facilities, in each case, with banks, insurance companies or other institutional lenders or investors providing for revolving credit loans, term loans, bankers acceptances, receivables or inventory financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables), notes, letters of credit or other Debt, in each case, as amended, supplemented, restated, modified, renewed, refunded, replaced, refinanced, repaid, increased or extended in whole or in part from time to time (each, for purposes of paragraph (2)(a) of "*—Certain Covenants—Limitation on Debt*," a "refinancing") (and whether in whole or in part and whether or not with the original administrative agent and lenders or another administrative agent or agents or other banks, institutions or investors and whether provided under the Senior Credit Facility or one or more other credit or other agreements, indentures, note purchase agreements, financing agreements or otherwise) and in each case including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing (including any notes and letters of credit issued pursuant thereto and any Guarantee and collateral agreement, patent and trademark security agreement, mortgages or letter of credit applications and other guarantees, pledges, charges, agreements, security agreements and collateral documents). Without limiting the generality of the foregoing, the term "Credit Facility" shall include any agreement or instrument (a) changing the maturity of any Debt Incurred thereunder or contemplated thereby, (b) adding Subsidiaries of the Issuer as additional borrowers or guarantors thereunder, (c) increasing the amount of Debt Incurred thereunder or available to be borrowed thereunder or (d) otherwise altering the terms and conditions 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 on any date of determination, without duplication:

(a) the principal of indebtedness of such Person for borrowed money (including overdrafts) or for the deferred purchase price of property or services, excluding any trade payables and other accrued current liabilities Incurred in the ordinary course of business;

(b) the principal of obligations of such Person evidenced by bonds, notes, debentures or other similar instruments;

(c) all reimbursement obligations of such Person in connection with any letters of credit, bankers' acceptances or other similar facilities (the amount of such obligation being equal at any time to the aggregate amount of drawings thereunder that have not then been reimbursed);

(d) all debt of such Person created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even if the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), which is due more than one year after its incurrence but excluding trade payables arising in the ordinary course of business;

(e) all Capitalized Lease Obligations of such Person;

(f) all obligations of such Person under or in respect of any Hedging Agreements (the amount of any such obligation to be equal at any time to the termination value of such agreement or arrangement giving rise to such obligation that would be payable by such Person at such time);

(g) all Debt referred to in (but not excluded from) the preceding clauses (a) through (f) 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 Person, even though such 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);

(h) all guarantees by such Person of Debt referred to in this definition of any other Person;

(i) all Redeemable Capital Stock of such Person valued at the greater of its voluntary maximum fixed repurchase price and involuntary maximum fixed repurchase price; and

(j) Preferred Stock of any Restricted Subsidiary,

in each case to the extent it appears as a liability on the balance sheet in accordance with IFRS; *provided* that the term "Debt" shall not include: (i) non-interest bearing instalment obligations and accrued liabilities Incurred in the ordinary course of business that are (a) not more than 180 days past due or (b) more than 180 days past due but with the consent of the payee or as the result of a *bona fide* ongoing negotiation over such liabilities; (ii) anything accounted for as an operating lease in accordance with IFRS as at the Issue Date; (iii) any pension obligations of the Issuer or a Restricted Subsidiary; (iv) Debt incurred by the Issuer or one of the Restricted Subsidiaries in connection with a transaction where (a) such Debt is borrowed from a bank or trust company organized under, or authorized to operate as a bank or trust company under, the laws of a member state of the Pre-Expansion European Union or of the United States of America or any state thereof, Switzerland, Norway or Canada or any commercial banking institution that is a member of the U.S. Federal Reserve System, in each case having a combined capital and surplus and undivided profits of not less than £250.0 million, whose long-term, unsecured, unsubordinated and unguaranteed debt has a rating immediately prior to the time such transaction is entered into, of "BBB−" or higher by S&P, "Baa3" or higher by Moody's or the equivalent rating category of another internationally recognized rating agency and (b) 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 a Tax Sharing Agreement, up to an amount not to exceed, with respect to such obligations, the amount of such Taxes that the Issuer and the Restricted Subsidiaries would have been required to pay on a separate company basis, or on a consolidated basis if the Issuer and the Restricted Subsidiaries had paid tax on a consolidated, combined, group, affiliated or unitary basis on behalf of an affiliated group consisting only of the Issuer and the Restricted Subsidiaries; (vi) any guarantee, indemnity, bond, standby letter of credit or similar instrument in respect of commercial obligations of the Issuer or any Restricted Subsidiary in the ordinary course of business to the extent such guarantees, indemnities, bonds or letters of credit 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 the fifth Business Day following receipt by such Person of a demand for reimbursement following payment on the guarantee, indemnity, bond or letter of credit; (vii) Subordinated Shareholder Debt; (viii) in connection with any previous or future purchase by the Issuer of any Restricted Subsidiary of any business, any post-closing payment adjustments to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after the closing; *provided*, *however*, that, at the time of closing, the amount of any such payment is not definitively determinable and, to the extent such payment thereafter becomes fixed and determined, the amount is paid within 60 days thereafter, (ix) obligations under or in respect of Qualified Receivables Financings and (x) Contingent Obligations Incurred in the ordinary course of business.

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 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.

"Default" means any event that is, or after the giving of 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 one of the Restricted Subsidiaries in connection with an Asset Sale that is so designated as "Designated Non-cash Consideration" pursuant to an Officer's Certificate, setting forth the basis of such valuation, less the amount of cash or Cash Equivalents received in connection with a subsequent sale of such Designated Non-cash Consideration.

"Disinterested Member" means, with respect to any transaction or series of related transactions, a member of the Issuer's Board of Directors who does not have any material direct or indirect financial interest in or with respect to such transaction or series of related transactions, *provided* that the ownership of Capital Stock in a Person that has a direct or indirect financial interest in or with respect to such transactions or series of related transactions will not in itself disqualify a member of the Issuer's Board of Directors from being a Disinterested Member with respect to any transaction or series of related transactions.

"Equity Offering" means an issuance or sale of Capital Stock (which is Qualified Capital Stock) of the Issuer, or any Holding Company of the Issuer, other than on Form S-8 (or any successor form) under the Securities Act or any similar offering in other jurisdictions; *provided* that the net proceeds of such issuance or sale are contributed to the equity capital of, or as Subordinated Shareholder Debt to, the Issuer or any of the Restricted Subsidiaries.

"Euroclear" means Euroclear Bank SA/NV and its successors, as operator of the Euroclear System.

"European Government Obligations" means any security that is (1) a direct obligation of any country that is a member of the European Monetary Union on the date of the Indenture, for the payment of which the full faith and credit of such country is pledged or (2) an obligation of a person controlled or supervised by and acting as an agency or instrumentality of any such country the payment of which is unconditionally guaranteed as a full faith and credit obligation by such country, which, in either case under the preceding clause (1) or (2), is not callable or redeemable at the option of the issuer thereof.

"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.

"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 Issuer's Board of Directors, Chief Executive Officer or Group Finance Director, in each case whose determination will be conclusive.

"Fitch" means Fitch Ratings Inc., or any of its successors or assigns that is a Nationally Recognized Statistical Rating Organization.

"Fixed Charge Coverage Ratio" means, as of any date of determination, the ratio of (1) *pro forma* Consolidated EBITDA to (2) *pro forma* Consolidated Fixed Charges for the Issuer's most recent two consecutive fiscal halves for which internal consolidated financial statement are available prior to the date of determination; *provided* 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 Fixed Charge Coverage Ratio is an Incurrence of Debt or both, Consolidated EBITDA and Consolidated Fixed Charges for such period shall be calculated, without duplication, 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;

(b) if the Issuer or any Restricted Subsidiary has Discharged (as defined under the definition of "Consolidated Net Leverage Ratio") any Debt since the beginning of such period that is no longer outstanding or if the transaction giving rise to the need to calculate the Fixed Charge Coverage Ratio is a Discharge of Debt or both (in each case other than Debt Incurred under any revolving credit facility (including the Senior Credit Facility) unless such Debt has been permanently repaid), Consolidated EBITDA and Consolidated Fixed Charges for such period shall be calculated, without duplication, after giving effect on a *pro forma* basis to such Discharge as if such Discharge had occurred on the first day of such period;

(c) 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 Fixed Charges for such period shall be reduced by an amount equal to the Consolidated Fixed Charges 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 Fixed Charges 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);

(d) if, since the beginning of such period, the Issuer or any Restricted Subsidiary (by merger, consolidation, amalgamation or other combination 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 Fixed Charges for such period shall be calculated after giving *pro forma* effect thereto as if such Investment or acquisition occurred on the first day of such period; and

(e) 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 (c) or (d) if made by the Issuer or a Restricted Subsidiary during such period, Consolidated EBITDA and Consolidated Fixed Charges 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,

provided, *however*, the *pro forma* calculation of the Fixed Charge Coverage Ratio shall not give effect to (i) any Debt Incurred on the date of determination pursuant to paragraph (2) of "*—Certain Covenants—Limitation on Debt*" (other than with respect to clause (q) of such covenant) 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 paragraph (2) of "*—Certain Covenants—Limitation on Debt*."

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 purposes of this definition, without double counting, (1) *pro forma* effect may be given to any transaction referred to in clauses (a) through (e) above, or the amount of income or earnings relating thereto, and the *pro forma* calculations in respect thereof (including, without limitation, in respect of anticipated cost savings or synergies relating to any such transaction (calculated on a *pro forma* basis as though such cost savings or synergies had been realized on the first day of the relevant period) net of the amounts of any actual benefits realized during the relevant period from such actions) shall be as determined in good faith by the Group Finance Director of the Issuer or an authorized responsible financial or accounting Officer of the Issuer and (2) when determining *pro forma* Consolidated EBITDA of the Issuer and the Restricted Subsidiaries, the Issuer may adjust Consolidated EBITDA to add an amount equal to the cost savings projected to be realized as the result of actions taken or to be taken on or prior to the date that is 18 months after the consummation of any operational change (calculated on a *pro forma* basis as though such cost savings had been realized on the first day of the relevant period), net of the amount of any actual benefits realized during the relevant period from such actions, as determined in good faith by the Group Finance Director of the Issuer or an authorized responsible financial or accounting Officer of the Issuer.

"Group" means the Issuer and its Subsidiaries.

"guarantee" 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.

When used as a verb, "guarantee" shall have a corresponding meaning.

"Guarantee" means any guarantee of the Issuer's obligations under the Indenture and the Notes by any Restricted Subsidiary or any other Person in accordance with the provisions of the Indenture. When used as a verb, "Guarantee" shall have a corresponding meaning.

"Guarantors" means (a) as of the Issue Date, the Initial Guarantors and (b) thereafter, any other Person that executes a Guarantee in accordance with the provisions of the Indenture and the Intercreditor Agreement, and their respective successors and assigns, in each case, until the Guarantee of such Person has been released in accordance with the provisions of the Indenture.

"Hedging Agreements" means non-speculative Currency Agreements, Interest Rate Agreements and Commodities Agreements entered into in the ordinary course of business.

"Hedging Obligations" of any Person means the obligations of such Person pursuant to any Hedging Agreements.

"Holder" means the Person in whose name a Note is recorded on the Registrar's books.

"Holding Company" of a Person means any other Person (other than a natural person) of which the first Person is a Subsidiary.

"IFRS" means International Financial Reporting Standards as endorsed by the European Union (a) for purposes of the covenant described under "*—Certain Covenants—Reports to Holders*," as in effect from time to time and (b) for other purposes of the Indenture, as in effect on the Issue Date. Except as otherwise set forth in the Indenture, all ratios and calculations based on IFRS contained in the Indenture shall be computed in accordance with IFRS as in effect on the Issue Date; *provided* that at any date after the Issue Date, the Issuer may, by written notice to the Trustee, make an election to establish that IFRS means IFRS as in effect on a date that is after the Issue Date and on or prior to the date of such election. Notwithstanding the foregoing, the impact of IFRS 16 Leases and any successor standard thereto shall be disregarded with respect to all ratios, calculations and determinations based upon IFRS to be calculated or made, as the case may be, pursuant to the Indenture and (without limitation) any lease, concession or license of property that would be considered an operating lease under IFRS as of the Issue Date and any guarantee given by the Issuer or any Restricted Subsidiary in the ordinary course of business solely in connection with, and in respect of, the obligations of the Issuer or any Restricted Subsidiary under any such operating lease shall be accounted for in accordance with IFRS as in the effect on the Issue Date.

"Incur" has the meaning given to such term in paragraph (1) under the caption "*—Certain Covenants—Limitation on Debt*"; *provided* that any Debt or Capital Stock of a Person existing at the time such Person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Subsidiary at the time it becomes a Subsidiary. Accrual of interest, the accretion of accreted value, the payment of interest in the form of additional Debt, and the payment of dividends on Capital Stock constituting Debt in the form of additional shares of the same class of Capital Stock, will not be deemed to be an Incurrence of Debt. Any Debt issued at a discount (including Debt on which interest is payable through the issuance of additional Debt) shall be deemed Incurred at the time of original issuance of the Debt at the initial accreted amount thereof.

"Initial Guarantors" means Victoria Midco Holdings Limited, Victoria Carpets Limited, Westex (Carpets) Limited, Abingdon Flooring Limited, Interfloor Limited, View Logistics Limited, The Victoria Carpet Company Proprietary Limited, Quest Flooring Pty Ltd, Primary Flooring Pty Ltd, Keraben Grupo, S.A.U. and Ceramica Saloni, S.A.

"Intercreditor Agreement" means the intercreditor agreement dated as of August 5, 2018 and among, *inter alios*, the Issuer, the Guarantors, the Trustee and the Security Agent, as amended and restated from time to time.

"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.

"Investment Grade Status" shall occur when all of the Notes receive two of the following:

(a) a rating of "BBB−" or higher from S&P;

(b) a rating of "Baa3" or higher from Moody's; and/or

(c) a rating of "BBB−" or higher from Fitch,

or the equivalent of such rating by any such rating organization or, if no rating of Moody's, Fitch or S&P then exists, the equivalent of such rating by any other Nationally Recognized Statistical Rating Organization.

"Investments" means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the forms of loans (including Guarantees or other similar obligations), advances or capital contributions (excluding advances or extension of credit to officers, customers, licensees, leasees, suppliers, directors or employees made in the ordinary course of business), or purchases or other acquisitions in consideration of Debt, Capital Stock or other securities, together with all items that are or would be classified as investments on a balance sheet (excluding the notes thereto) prepared in accordance with IFRS. If the Issuer or any Subsidiary of the Issuer sells or otherwise disposes of any Capital Stock of any direct or indirect Subsidiary of the Issuer such that, after giving effect to any such sale or disposition, such Person is no longer a Subsidiary of the Issuer, the Issuer will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of the Issuer's Investments in such Subsidiary that were not sold or disposed of in an amount determined as provided in the definition of Fair Market Value. The acquisition by Issuer or any Subsidiary of the Issuer of a Person that holds an Investment in a third Person will be deemed to be an Investment by Issuer or such Subsidiary in such third Person in an amount equal to the Fair Market Value of the Investments held by the acquired Person in such third Person in an amount determined as provided in the final sentence of paragraph (1) of the covenant described above under the caption "*—Certain Covenants—Restricted Payments*." If the Issuer or any Restricted Subsidiary issues, sells or otherwise disposes of any Capital Stock of a Person that is a Restricted Subsidiary such that, after giving effect thereto, such Person is no longer a Restricted Subsidiary, any Investment by the Issuer or any Restricted Subsidiary in such Person remaining after giving effect thereto will be deemed to be a new Investment equal to the Fair Market Value of the Capital Stock of such Subsidiary not sold or disposed of in an amount determined as provided in the final sentence of paragraph (1) of the covenant described above under the caption "*—Certain Covenants—Limitation on Restricted Payments*." The amount of any Investment outstanding at any time shall be the original cost of such Investment, reduced (at the Issuer's option) by any dividend, distribution, interest payment, return of capital, repayment or other amount or value received in respect of such Investment.

"Issue Date" means , 2018.

"Issuer" means Victoria PLC, an English public limited liability company and any successor thereto.

"Lien" means any mortgage or deed of trust, charge, pledge, lien (statutory or otherwise), security interest, hypothecation, assignment for or by way of security or 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.

"Limited Condition Acquisition" means any acquisition, including by way of merger, amalgamation or consolidation, by the Issuer or one or more of the Restricted Subsidiaries the consummation of which is not conditioned upon the availability of, or on obtaining, third-party financing; *provided* that Consolidated Net Income (and any other financial term derived therefrom), other than for purposes of calculating any ratios in connection with the Limited Condition Acquisition and the related transactions, shall not include any Consolidated Net Income of or attributable to the target company or assets involved in any such Limited Condition Acquisition unless and until the closing of such Limited Condition Acquisition shall have actually occurred.

"Management Advances" means loans or advances made to, or guarantees with respect to loans or advances made to, directors, officers, employees or consultants of any Parent, the Issuer or any Restricted Subsidiary:

(1) (a) in respect of travel, entertainment or moving related expenses Incurred in the ordinary course of business or (b) for purposes of funding any such person's purchase of Capital Stock or Subordinated Shareholder Debt (or similar obligations) of the Issuer, its Subsidiaries or any Parent;

(2) in respect of moving related expenses Incurred in connection with any closing or consolidation of any facility or office; or

(3) 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 common stock or common equity interests 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 common stock or common equity interests for the 30 consecutive trading days immediately preceding the date of declaration of such dividend.

"Maturity" means, with respect to any debt, the date on which any principal of such debt 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.

"Nationally Recognized Statistical Rating Organization" means a nationally recognized statistical rating organization within the meaning of Section 3(a)(62) of the Exchange Act.

"Net Cash Proceeds" means:

(a) with respect to any Asset Sale, the proceeds thereof in the form of cash or Cash Equivalents actually received (except to the extent that such obligations are financed or sold with recourse to the Issuer or any Restricted Subsidiary), net of:

  (i) 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;

  (ii) provisions for all taxes paid or payable, or required to be accrued as a liability under IFRS as a result of such Asset Sale;

  (iii) 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

  (iv) 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 or potential purchase price adjustments associated with such Asset Sale, all as reflected in an Officer's Certificate delivered to the Trustee; and

(b) with respect to any capital contributions, issuance or sale of Capital Stock or options, warrants or rights to purchase Capital Stock, or debt securities or Capital Stock that have been converted into or exchanged for Capital Stock as referred to under "*—Certain Covenants—Limitation on Restricted Payments*," the proceeds of such issuance or sale in the form of cash or Cash Equivalents, payments in respect of deferred payment obligations when received in the form of, or stock or other assets when disposed of 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 attorney's fees, accountant's fees and brokerage, consultation, underwriting and other fees and expenses actually Incurred in connection with such issuance or sale and net of taxes paid or payable as a result of thereof.

"Officer" means (a) with respect to the Issuer or any Guarantor, the Chairman of the Board, the Chief Executive Officer, the Group Finance Director, the General Counsel or the Secretary (i) of such Person or (ii) if such Person is owned or managed by a single entity, of such entity, or (b) any other individual designated as an "Officer" for the purposes of the Indenture by the Board of Directors.

"Officer's Certificate" means with respect to any Person a certificate signed by an Officer of such Person.

"Parent" means any Person of which the Issuer at any time is or becomes a Subsidiary after the Issue Date and any holding companies established for purposes of holding an investment in any Parent.

"Pari Passu Debt" means Senior Debt including, without limitation, (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 any businesses in which the Issuer or any of its Subsidiaries is engaged on the Issue Date, or that is similar, related, complementary, enhancing (in the reasonable opinion of the Issuer), incidental, ancillary thereto or an extension, development or expansion thereof.

"Permitted Collateral Liens" means:

(a) Liens on the Collateral that are described in one or more of the clauses (f), (g), (i), (j), (k), (n), (o) (to the extent the acquired assets become Collateral and any Liens on such assets at the time they are acquired are not released), (p), (q), (r), (s), (w), (y), (aa) and (cc) of the definition of Permitted Liens;

(b) Liens on the Collateral to secure any Debt of the Issuer or any Restricted Subsidiary that is permitted to be Incurred under paragraph (1) or clauses (a), (b), (e)(i) (but only to the extent such guarantee is in respect of Debt that is permitted to be secured on the Collateral pursuant to any other clause of this definition), (f) (*provided* that any such Lien may not extend to any assets or property of the Issuer or any Restricted Subsidiary other than assets or property acquired, improved, constructed or leased with the proceeds of such Debt and any improvements or accessions to such assets and property), (h), (q) (*provided* that immediately following the Incurrence of Debt pursuant to such clause (q) and after giving effect thereto on a *pro forma* basis, the Consolidated Senior Secured Net Leverage Ratio would have been less than 3.25 to 1.00 or would not be greater than it was immediately prior to giving effect to the relevant acquisition, merger or consolidation), or (t), in each case, of paragraph (2) of the covenant described under the caption "*—Certain Covenants—Limitation on Debt*"; and

(c) any Permitted Refinancing Debt in respect of Debt referred to in the foregoing clause (b)

provided, however, that, with respect to clauses (b) and (c) above, any such Lien ranks equal or junior to all other Liens on such Collateral securing the Notes or the Guarantees (except that any Debt Incurred under clauses (a) and (h) of paragraph (2) of the covenant described under the caption "*—Certain Covenants—Limitation on Debt*" may receive priority as to enforcement proceeds from such Collateral) and each of the secured parties to any such Debt (acting directly or through its respective creditor representative) will have entered into the Intercreditor Agreement or an Additional Intercreditor Agreement.

A Lien shall be deemed to rank equally with another Lien notwithstanding (i) any different preference or hardening period applicable thereto, (ii) any other difference in priority so long as an "assignment of ranking" or other sharing arrangement has been entered into by or for the benefit of beneficiaries of each such Lien or (iii) any difference in validity or enforceability.

For purposes of determining compliance with this definition, (i) a Lien need not be incurred solely by reference to one category of Permitted Collateral Liens described in this definition but may be incurred under any combination of such categories (including in part under one such category and in part under any other such category), (ii) in the event that a Lien (or any portion thereof) meets the criteria of one or more of such categories of Permitted Collateral Liens, the Issuer shall, in its sole discretion, classify or reclassify such Lien (or any portion thereof) in any manner that complies with this definition, (iii) the principal amount of Debt secured by a Lien outstanding under any category of Permitted Collateral Liens shall be determined after giving effect to the application of proceeds of any such Debt to refinance any such other Debt, (iv) any Lien securing Debt that was permitted to secure such Debt at the time of the Incurrence of such Debt shall also be permitted to secure any increase in the amount of such Debt in connection with the accrual of interest and the accretion of accreted value, (v) if any Debt or other obligation is secured by any Lien outstanding under any category of Permitted Collateral Liens measured by reference to a percentage of Consolidated EBITDA at the time of incurrence of such Debt or other obligations, and is refinanced by any Debt or other obligation secured by any Lien incurred by reference to such category of Permitted Collateral Liens, and such refinancing would cause the percentage of Consolidated EBITDA to be exceeded if calculated based on the Consolidated EBITDA on the date of such refinancing, such percentage of Consolidated EBITDA shall not be deemed to be exceeded (and such refinancing Lien shall be deemed permitted) so long as the principal amount of such refinancing Debt or other obligation does not exceed an amount equal to the principal amount of such Debt or other obligation being refinanced, plus the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses (including accrued and unpaid interest) incurred or payable in connection with such refinancing and (vi) if any Debt or other obligation is secured by any Lien outstanding under any category of Permitted Collateral Liens measured by reference to an amount in Sterling, and is refinanced by any Debt or other obligation secured by any Lien incurred by reference to such category of Permitted Collateral Liens, and such refinancing would cause such Sterling amount to be exceeded, such Sterling amount shall not be deemed to be exceeded (and such refinancing Lien shall be deemed permitted) so long as the principal amount of such refinancing Debt or other obligation does not exceed an amount equal to the principal amount of such Debt being refinanced, plus the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses (including accrued and unpaid interest) incurred or payable in connection with such refinancing.

"Permitted Investments" means any of the following (in each case made by the Issuer or any of the Restricted Subsidiaries):

(a) Investments in cash or Cash Equivalents;

(b) intercompany Debt to the extent permitted under clause (d) of the definition of "Permitted Debt";

(c) Investments in: (i) the Issuer; (ii) a Restricted Subsidiary (including the Capital Stock of a Restricted Subsidiary); or (iii) another Person (including the Capital Stock of such Person) if as a result of such Investment such other Person becomes a Restricted Subsidiary or such other Person is merged or consolidated or amalgamated with or into, or transfers or conveys all or substantially all of its assets to, or is liquidated into, the Issuer or a Restricted Subsidiary;

(d) Investments as a result of or retained in connection with an Asset Sale permitted under or made in compliance with "*—Certain Covenants—Limitation on Asset Sales*" to the extent such Investments are non-cash proceeds permitted thereunder;

(e) Investments (i) in payroll, travel, entertainment, moving, other relocation and similar advances to cover matters that are expected at the time of such advances to be treated as expenses in accordance with IFRS and (ii) Investments in the ordinary course of business consisting of endorsements for collection or deposit and customary trade arrangement with customers;

(f) Management Advances;

(g) Investments in the Notes, any Additional Notes and other Debt of the Issuer or any Restricted Subsidiary;

(h) Investments existing, or made pursuant to legally binding commitments in existence, at the Issue Date and any Investment that amends, extends, renews, replaces or refinances an Investment existing on the date of the Indenture; *provided* that the amount of any such Investment may be increased (i) as required by the terms of such Investment as in existence on the Issue Date or (ii) as otherwise not prohibited under the Indenture;

(i) Investments in any Hedging Agreements permitted under clause (2)(h) of "*—Certain Covenants—Limitation on Debt*";

(j) Investments in a Person to the extent that the consideration therefor consists of the Issuer's Qualified Capital Stock or the net proceeds of the substantially concurrent issue and sale (other than to any Subsidiary) of shares of the Issuer's Qualified Capital Stock or Subordinated Shareholder Debt;

(k) any Investments received (i) in satisfaction of judgments, foreclosure, perfection or enforcement of any liens or settlement of debts, (ii) in compromise of obligations of such persons 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 or (iii) in compromise or resolution of obligations of trade creditors or customers that were incurred in the ordinary course of business of the Issuer or any of the Restricted Subsidiaries, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer; or (iv) litigation, arbitration or other disputes;

(l) any transaction to the extent constituting an Investment that is permitted and made in accordance with the provisions of clauses (a), (g), (h) and (i) of paragraph (2) of the covenant described under "*—Certain Covenants—Limitation on Transactions with Affiliates*";

(m) lease, utility and workers' compensation, performance and other similar deposits made in the ordinary course of business;

(n) Investments consisting of purchases and acquisitions of inventory, supplies, trading stock, materials and equipment or licenses or leases of intellectual property, in any case, either in the ordinary course of business or in furtherance of a Permitted Business and, in either case, as not prohibited by the Indenture;

(o) guarantees permitted to be incurred under the "*Limitation on Debt*" covenant and (other than with respect to, or given in connection with the incurrence of, Debt) guarantees, keepwells and similar arrangements in the ordinary course of business;

(p) pledges or deposits with respect to leases or utilities provided to third parties in the ordinary course of business or liens otherwise described in the definition of "Permitted Liens" or made in connection with Liens permitted under the covenant "*Limitation on Liens*";

(q) (x) a minority Investment in any Person engaged in a Permitted Business and (y) Investments by the Issuer or any Restricted Subsidiary in Qualified Joint Ventures or Unrestricted Subsidiaries, including a guarantee thereof or loans or letter of credit thereto, the amount of which, measured by reference to the Fair Market Value of each such Investment on the day it was made but net of any distributions, dividends payments or other returns in respect of such Investments, not to exceed the greater of £35.0 million and 31.0% of Consolidated EBITDA in the aggregate outstanding at any one time; *provided*, that if an Investment is made pursuant to this clause (q) 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 the covenant described above under the caption "*—Certain Covenants—Limitation on Restricted Payments*," such Investment shall thereafter be deemed to have been made pursuant to clause (c) of the definition of "Permitted Investments" and not this clause (q);

(r) Investments acquired after the Issue Date as a result of the acquisition by the Issuer or any of the Restricted Subsidiaries of another Person, including by way of a merger, amalgamation or consolidation with or into the Issuer or any of the Restricted Subsidiaries in a transaction that is not prohibited by the covenant described above under the caption "*—Certain Covenants—Merger, Consolidation or Sale of Assets*" to the extent that such Investments were not made in contemplation of such acquisition, merger, amalgamation or consolidation and were in existence on the date of such acquisition, merger, amalgamation or consolidation;

(s) (i) Investments in receivables owing to the Issuer or any Restricted Subsidiary created or acquired in the ordinary course of business and (ii) advance payments made in relation to capital expenditures in the ordinary course of business;

(t) any acquisition of assets or Capital Stock solely in exchange for the issuance of the Issuer's Capital Stock (other than Redeemable Capital Stock);

(u) other Investments in any Person having an aggregate Fair Market Value (measured on the date each such Investment was made but net of any distributions, dividends payments or other returns in respect of such Investments), when taken together with all other Investments made pursuant to this clause (u) that are at the time outstanding, not to exceed the greater of £45.0 million or 40.0% of Consolidated EBITDA; *provided* that, if an Investment is made pursuant to this clause (u) 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 the covenant described under "*—Certain Covenants—Limitation on Restricted Payments*," such Investment shall thereafter be deemed to have been made pursuant to clause (c) of the definition of "Permitted Investments" and not this clause (u);

(v) loans or advances to directors, officers, employees or consultants of any Parent, the Issuer or any of its Restricted Subsidiaries to fund the purchase of Capital Stock of the Issuer or any Parent not to exceed £5.0 million in any calendar year (with unused amounts in any twelve-month period being carried over to succeeding periods); and

(w) Investments in receivables made in connection with any Qualified Receivables Financing, including Investments held in accounts permitted or required by the arrangements governing such Qualified Receivables Financing or any related Debt.

"Permitted Liens" means the following types of Liens:

(a) Liens existing or contemplated by written arrangements as of 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 securing Debt (including Liens securing any obligations in respect thereof) consisting of (i) the Notes or the Guarantees, as the case may be;

(d) any interest or title of a lessor under any lease or any Capitalized Lease Obligation;

(e) Liens to secure Debt (including Capitalized Lease Obligations) permitted by clause (2)(f) of "*—Certain Covenants—Limitation on Debt*"; *provided* that any such Lien may not extend to any assets or property of the Issuer or any Restricted Subsidiary other than assets or property acquired, improved, constructed or leased with the proceeds of such Debt and any improvements or accessions to such assets and property;

(f) Liens arising out of conditional sale, title retention, consignment, deferred payment, supply agreements or similar arrangements for the sale or purchase of goods entered into by the Issuer or any Restricted Subsidiary in the ordinary course of business;

(g) 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 the Issuer's or any Restricted Subsidiary's business and with respect to amounts not yet delinquent for more than 60 days or being contested in good faith by appropriate proceedings and for which a reserve or other appropriate provision, if any, as shall be required in conformity with IFRS shall have been made;

(h) 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;

(i) 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;

(j) 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, trade contracts, surety or appeal bonds, performance bonds or other obligations of a like nature Incurred in the ordinary course of business;

(k) zoning restrictions, survey exceptions, 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 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;

(l) (a) mortgages, liens, security interests, restrictions, encumbrances or any other matters of record that have been placed by any developer, landlord or other third party on property over which the Issuer or any Restricted Subsidiary has easement rights or on any real property leased by the Issuer or any Restricted Subsidiary and subordination or similar agreements relating thereto and (b) any condemnation or eminent domain proceedings or compulsory purchase order affecting real property;

(m) 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;

(n) 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;

(o) Liens on property of, or on shares of Capital Stock or Debt of, any Person existing at the time such Person is acquired by, merged with or into or consolidated with, the Issuer or any Restricted Subsidiary (or at the time the Issuer or a Restricted Subsidiary acquires such property, Capital Stock or Debt); *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 acquired or than those of the Person merged into or consolidated with the Issuer or Restricted Subsidiary; and (ii) were created prior to, and not in connection with or in contemplation of, such acquisition, merger, consolidation, amalgamation or other combination;

(p) Liens securing the Issuer's or any Restricted Subsidiary's obligations under any Hedging Agreements permitted under clause (2)(h) "*—Certain Covenants—Limitation on Debt*" or any collateral for the Debt to which such Hedging Agreements relate;

(q) 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;

(r) Liens Incurred in connection with any cash management program established in the ordinary course of business for the Issuer's or any Restricted Subsidiary's benefit;

(s) Liens made to secure obligations arising from statutory, regulatory, contractual, or warranty requirements of the Issuer or any Restricted Subsidiary, including rights of offset and set-off;

(t) Liens on assets of a Restricted Subsidiary that is not a Guarantor to secure Debt of such Restricted Subsidiary (or any other Restricted Subsidiary that is not a Guarantor) and that is otherwise not prohibited under the Indenture;

(u) any extension, renewal or replacement, in whole or in part, of any Lien (excluding any Liens pursuant to clause (x) of this definition); *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;

(v) Liens securing Debt Incurred to refinance Debt that has been secured by a Lien (excluding any Liens pursuant to clause (x) of this definition) permitted by the Indenture; *provided* that: (i) any such Lien shall not extend to or cover any assets not securing the Debt so refinanced; and (ii) the Debt so refinanced shall have been permitted to be Incurred;

(w) purchase money Liens to finance property or assets of the Issuer or any Restricted Subsidiary acquired in the ordinary course of business; *provided* that: (i) the related purchase money Debt shall not exceed the cost of such property or assets and shall not be secured by any property or assets of the Issuer or any Restricted Subsidiary other than the property and assets so acquired; and (ii) the Lien securing such Debt shall be created within 90 days of any such acquisitions;

(x) Liens Incurred by the Issuer or any Restricted Subsidiary with respect to obligations that do not exceed the greater of £20.0 million and 18.0% of Consolidated EBITDA;

(y) Liens resulting from escrow arrangements, including in respect of software or other intangible assets, entered into in connection with any type of disposition, including by way of license, of assets;

(z) any right of refusal, right of first offer, option or other arrangement to sell or otherwise dispose of an asset of the Issuer or any Restricted Subsidiary;

(aa) leases, subleases, licenses, sublicenses and other conveyances of assets (including real property) entered into in the ordinary course of business;

(bb) any encumbrance or restriction (including, but not limited to, pursuant to put and call agreements or buy/ sell arrangements) with respect to Capital Stock of any joint venture or similar arrangement pursuant to any joint venture or similar agreement;

(cc) Liens (including put and call arrangements) on Capital Stock, Debt or other securities of an Unrestricted Subsidiary or a joint venture that is not a Subsidiary of the Issuer that secure Debt or other obligations of such Unrestricted Subsidiary or joint venture respectively;

(dd) Liens on insurance policies and proceeds thereof, or other deposits, to secure insurance premium financings;

(ee) Liens on cash, Cash Equivalents or other property arising in connection with the defeasance, discharge or redemption of Debt; or

(ff) Liens on receivables and other assets of the type described in the definition of "Qualified Receivables Financing" Incurred in connection with a Qualified Receivables Financing.

For purposes of determining compliance with this definition, (i) a Lien need not be incurred solely by reference to one category of Permitted Liens described in this definition but may be incurred under any combination of such categories (including in part under one such category and in part under any other such category), (ii) in the event that a Lien (or any portion thereof) meets the criteria of one or more of such categories of Permitted Liens, the Issuer shall, in its sole discretion, classify or reclassify such Lien (or any portion thereof) in any manner that complies with this definition, (iii) the principal amount of Debt secured by a Lien outstanding under any category of Permitted Liens shall be determined after giving effect to the application of proceeds of any such Debt to refinance any such other Debt, (iv) any Lien securing Debt that was permitted to secure such Debt at the time of the Incurrence of such Debt shall also be permitted to secure any increase in the amount of such Debt in connection with the accrual of interest and the accretion of accreted value, (v) if any Debt or other obligation is secured by any Lien outstanding under any category of Permitted Liens measured by reference to a percentage of Consolidated EBITDA at the time of incurrence of such Debt or other obligations, and is refinanced by any Debt or other obligation secured by any Lien incurred by reference to such category of Permitted Liens, and such refinancing would cause the percentage of Consolidated EBITDA to be exceeded if calculated based on the Consolidated EBITDA on the date of such refinancing, such percentage of Consolidated EBITDA shall not be deemed to be exceeded (and such refinancing Lien shall be deemed permitted) so long as the principal amount of such refinancing Debt or other obligation does not exceed an amount equal to the principal amount of such Debt or other obligation being refinanced, plus the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses (including accrued and unpaid interest) incurred or payable in connection with such refinancing, (vi) if any Debt or other obligation is secured by any Lien outstanding under any category of Permitted Liens measured by reference to an amount in Sterling, and is refinanced by any Debt or other obligation secured by any Lien incurred by reference to such category of Permitted Liens, and such refinancing would cause such Sterling amount to be exceeded, such Sterling amount shall not be deemed to be exceeded (and such refinancing Lien shall be deemed permitted) so long as the principal amount of such refinancing Debt or other obligation does not exceed an amount equal to the principal amount of such Debt being refinanced, plus the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses (including accrued and unpaid interest) incurred or payable in connection with such refinancing and (v) if any Debt or other obligation is secured by any Lien outstanding under any category of Permitted Liens measured by reference to an amount in euro, and is refinanced by any Debt or other obligation secured by any Lien incurred by reference to such category of Permitted Liens, and such refinancing would cause such euro amount to be exceeded, such euro amount shall not be deemed to be exceeded (and such refinancing Lien shall be deemed permitted) so long as the principal amount of such refinancing Debt or other obligation does not exceed an amount equal to the principal amount of such Debt being refinanced, plus the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses (including accrued and unpaid interest) incurred or payable in connection with such refinancing.

"Permitted Parent Payments" means, without duplication as to amounts, payments to any Parent to permit such entity to pay:

(a) customary indemnification obligations of any Parent owing to directors, officers, employees or other Persons under its articles of incorporation, charter or by-laws or pursuant to written agreements with any such Person to the extent relating to the Issuer and/or its Subsidiaries;

(b) obligations of any Parent in respect of directors' fees, remuneration and expenses (including director and officer insurance (including premiums therefore)) to the extent relating to the Issuer and/or its Subsidiaries;

(c) professional fees and expenses of any Parent related to the ownership of the Capital Stock of the Issuer and its Subsidiaries (including, without limitation, accounting, legal, audit corporate reporting, and administrative expenses and other reasonable and normal course expenses required to maintain such Parent's corporate existence or its holding of the Capital Stock of the Issuer);

(d) any income taxes to the extent such income taxes are attributable to the income of the Parent derived from the Issuer and its Subsidiaries or the Issuer and its Subsidiaries and reduced by any such income taxes directly paid by the Issuer or any of its Subsidiaries;

(e) payments to cover franchise taxes and other fees, taxes and expenses required to maintain the corporate existence of the Issuer and its Subsidiaries; and

(f) expenses incurred by any Parent in connection with any public offering or other sale of Capital Stock or Debt, (i) where the net proceeds of such offering or sale are intended to be received by or contributed to the Issuer or a Subsidiary of the Issuer or (ii) in a pro-rated amount of such expenses in proportion to the amount of such net proceeds intended to be so received or contributed to the Issuer or a Subsidiary of the Issuer.

"Permitted Refinancing Debt" means any renewals, extensions, substitutions, defeasances, discharges, refinancings, exchanges or replacements (each, for purposes of this definition and paragraph (2) of

"*—Certain Covenants—Limitation on Debt*," a "refinancing") of any Debt of the Issuer or a Restricted Subsidiary or pursuant to this definition, including any successive refinancings, as 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 refinanced is Subordinated Debt, the Stated Maturity of such Debt is no earlier than the Stated Maturity of the Debt being refinanced or, if shorter, the Stated Maturity of the Notes; and

(c) if the Debt being refinanced is subordinated in right of payment to the Notes or the Guarantees (as applicable), such Permitted Refinancing Debt is subordinated in right of payment to, the Notes or the Guarantees (as applicable) on terms at least as favorable to the Holders of Notes as those contained in the documentation governing the Debt being renewed, extended, substituted, defeased, discharged, refinanced or replaced,

provided further, however, that Permitted Refinancing Debt shall not include (i) Debt of the Issuer or a Restricted Subsidiary that refinances Debt of an Unrestricted Subsidiary or (ii) Debt of a Restricted Subsidiary that is not a Guarantor that refinances Debt of the Issuer or a Guarantor.

"Permitted Reorganization" means any amalgamation, demerger, merger, voluntary liquidation, consolidation, reorganization, winding up or corporate reconstruction involving any Parent, the Issuer or any of its Restricted Subsidiaries (a "Reorganization") that is made on a solvent basis; *provided* that:

(a) any payments or assets distributed in connection with such Reorganization remain within the Issuer and its Restricted Subsidiaries; and

(b) if any of the Guarantees are released pursuant to "*—Guarantees—Release of the Guarantees*," substantially equivalent Guarantees must be granted by a surviving entity, if any.

"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.

"Pre-Expansion European Union" means the European Union as of January 1, 2004, including the countries of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom, but not including any country which became or becomes a member of the European Union after January 1, 2004.

"Preferred Stock" means, with respect to any Person, Capital Stock of any class or classes (however designated) of such Person that 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.

"*pro forma*" means, with respect to any calculation made or required to be made pursuant to the terms of the Notes, a calculation made in good faith by the Issuer's Group Finance Director.

"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 or Regulation S under the Securities Act, whether or not it includes registration rights entitling the holders of such debt securities to registration thereof with the Commission for public resale. The term "Public Debt" shall not include (i) the Notes, (ii) any Debt issued to institutional investors in a direct placement of such Debt that is not underwritten by an intermediary (it being understood that, without limiting the foregoing, a financing that is distributed to not more than ten Persons (*provided* that multiple managed accounts and affiliates of any such Persons shall be treated as one Person for the purposes of this definition) shall be deemed not underwritten), (iii) any bank Debt, commercial bank or similar Debt, Capitalized Lease Obligation or recourse transfer of any financial asset or (iv) any other type of Debt Incurred in a manner not customarily viewed as a "securities offering."

"Qualified Capital Stock" of any Person means any and all Capital Stock of such Person other than Redeemable Capital Stock.

"Qualified Joint Venture" means a joint venture in which the Issuer or any of the Restricted Subsidiaries has a direct or indirect ownership interest that is engaged in a Permitted Business and that is not a Subsidiary of (i) the Issuer or (ii) any of the Restricted Subsidiaries.

"Qualified Receivables Financing" means any transaction or series of transactions that may be entered into by the Issuer or any of its Restricted Subsidiaries pursuant to which the Issuer or any of its Restricted Subsidiaries may sell, convey or otherwise transfer to (a) a Receivables Subsidiary or (b) any other Person, or may grant a security interest in, any receivables (whether now existing or arising in the future) of the Issuer or any of its Restricted Subsidiaries, and any assets related thereto including, without limitation, all contracts and all guarantees or other obligations in respect of such accounts receivable, the proceeds of such receivables, the bank accounts into which the proceeds of such receivables are collected and other assets which are customarily transferred, or in respect of which security interests are customarily granted, in connection with asset securitizations, receivable sale facilities, factoring facilities or invoice discounting facilities involving receivables; *provided* that the Board of Directors will have determined in good faith that such Qualified Receivables Financing (including financing terms, covenants, termination events and other provisions) is in the aggregate economically fair and reasonable to the Issuer and the applicable Restricted Subsidiary or Receivables Subsidiary.

"Receivables 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 a Restricted Subsidiary in connection with, any Qualified Receivables Financing.

"Receivables Repurchase Obligation" means any obligation of a seller of receivables in a Qualified Receivables Financing to repurchase receivables arising as a result of a breach of a representation, warranty or covenant or otherwise, including as a result of a receivable or 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.

"Receivables Subsidiary" means a wholly owned Subsidiary of the Issuer (or another Person formed for the purposes of engaging in a Qualified Receivables Financing with the Issuer in which the Issuer or any Subsidiary of the Issuer makes an Investment and to which the Issuer or any Subsidiary of the Issuer transfers accounts receivable and related assets) which engages in no activities other than in connection with the financing of accounts receivable of the Issuer and its Subsidiaries, all proceeds thereof and all rights (contractual or other), collateral and other assets relating thereto, and any business or activities incidental or related to such business, and which is designated by the Board of Directors (as provided below) as a Receivables Subsidiary and:

(1) no portion of the Debt or any other obligations (contingent or otherwise) of which (a) is guaranteed by the Issuer or any Restricted Subsidiary (excluding guarantees of obligations (other than the principal of, and interest on, Debt) pursuant to Standard Securitization Undertakings), (b) is subject to terms that are substantially equivalent in effect to a guarantee of any losses on securitized or sold receivables by the Issuer or any Restricted Subsidiary, (c) is recourse to or obligates the Issuer or any Restricted Subsidiary in any way other than pursuant to Standard Securitization Undertakings, or (d) subjects any property or asset of the Issuer or any Restricted Subsidiary, directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to Standard Securitization Undertakings;

(2) with which neither the Issuer nor any Restricted Subsidiary of the Issuer has any material contract, agreement, arrangement or understanding (except in connection with a Qualified Receivables Financing) other than on terms which the Issuer reasonably believes to be no less favorable to the Issuer or such Restricted Subsidiary than those that might be obtained at the time from Persons that are not Affiliates of the Issuer; and

(3) to which neither the Issuer nor any Restricted Subsidiary of the Issuer has any obligation to maintain or preserve such entity's financial condition or cause such entity to achieve certain levels of operating results.

Any such designation by the Board of Directors shall be evidenced to the Trustee by filing with the Trustee a copy of the resolution of the Board of Directors giving effect to such designation and an Officer's Certificate certifying that such designation complied with the foregoing conditions.

"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 Asset Sales*" and "*—Certain Covenants—Change of Control*" 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 Asset Sales*" and "*—Certain Covenants—Change of Control*."

"Replacement Assets" means (i) non-current properties and assets (including Capital Stock of a Person that is or becomes a Restricted Subsidiary and such Restricted Subsidiary's property, business or assets are used or useful in a Permitted Business or any and all businesses that in the good faith judgment of the Board of Directors of the Issuer are reasonably related) that replace the properties and assets that were the subject of an Asset Sale, or (ii) non-current properties and assets that are used or useful in a Permitted Business or any and all businesses that in the good faith judgment of the Board of Directors of the Issuer are reasonably related.

"Restricted Investment" means an Investment other than a Permitted Investment.

"Restricted Subsidiary" means any Subsidiary of the Issuer other than an Unrestricted Subsidiary.

"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.

"Security Agent" means Barclays Bank PLC in its capacity as security agent for the secured creditors under the Intercreditor Agreement or any Additional Intercreditor Agreement or any successor thereto appointed in accordance with the Intercreditor Agreement or any Additional Intercreditor Agreement.

"Security Documents" means the security arrangements, charge agreements, collateral assignments, debentures and any other instrument and document executed and delivered pursuant to the Intercreditor Agreement or any of the foregoing, and in each case pursuant to which the Collateral is charged, assigned or granted to or on behalf of the Security Agent for the benefit of the holders of the Notes and the Trustee or notice of such charge, assignment or grant is given, in each case as the same may be amended, supplemented or otherwise modified from time to time.

"Security Interest" has the meaning assigned thereto under the heading "*—Security—Priority*."

"Senior Credit Facility" means the £60.0 million revolving credit facility made available to Victoria PLC pursuant to the Senior Credit Facility Agreement.

"Senior Credit Facility Agreement" means the revolving credit facility agreement, dated as of August 5, 2018, among, *inter alios*, the Issuer, as borrower, the Guarantors, Barclays Bank PLC as agent, the lenders as described therein and other parties named therein from time to time, as amended and restated from time to time.

"Senior Debt" means (i) any Debt of the Issuer or any Guarantor that is either secured or not Subordinated Debt and (ii) any Debt of a Restricted Subsidiary that is not a Guarantor other than Debt Incurred pursuant to clause (2)(d) of the covenant described under the heading "*—Certain Covenants—Limitation on Debt*."

"Senior Secured Debt" means, as of any date of determination, with respect to any specified Person, the total amount of Debt under Credit Facilities of such Person and its Restricted Subsidiaries on a consolidated basis that is secured by a first-priority Lien on the Collateral that is incurred under paragraph (1) of the covenant described under "*—Certain Covenants—Limitation on Debt*" or clauses (a), (b), (c), (q), (s) and (t) of paragraph (2) of the covenant described under "*—Certain Covenants—Limitation on Debt*" and any Permitted Refinancing Debt in respect thereof.

"Significant Subsidiary" means any Restricted Subsidiary that would be a "significant subsidiary" of the Issuer within the meaning of Rule 1-02 (but excluding clause (1) of the definition of "significant subsidiary") under Regulation S-X promulgated by the SEC, as in effect on the Issue Date.

"Standard Securitization Undertakings" means representations, warranties, covenants, indemnities and guarantees of performance entered into by the Issuer or any Subsidiary of the Issuer which the Issuer has determined in good faith to be customary in a Qualified Receivables Financing, including those relating to the servicing of the assets of a Receivables Subsidiary, it being understood that any Receivables Repurchase Obligation shall be deemed to be a Standard Securitization Undertaking.

"Stated Maturity" means, when used with respect to any Note or any instalment of interest thereon, the date specified in such Note as the fixed date on which the principal of such Note or such instalment of interest, respectively, is due and payable, and, when used with respect to any other debt, means the date specified in the instrument governing such debt as the fixed date on which the principal of such debt, or any instalment of interest thereon, is due and payable, including pursuant to any mandatory redemption provision, but shall not include any Contingent Obligations to repay, redeem or repurchase such principal prior to the date originally scheduled for the payment thereof.

"Sterling" means the lawful currency of the United Kingdom.

"Sterling Equivalent" means, with respect to any monetary amount in a currency other than Sterling, at any time for the determination thereof, the amount of Sterling obtained by converting such foreign currency involved in such computation into Sterling at the spot rate for the purchase of Sterling 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 two Business Days prior to such determination.

"Subordinated Debt" means Debt of the Issuer or any of the Guarantors that is expressly subordinated in right of payment to the Notes or the Guarantees of such Guarantors, as the case may be.

"Subordinated Shareholder Debt" means, collectively, any funds provided to the Issuer by any direct or indirect Parent of the Issuer, or Affiliate of such Parent, pursuant to any security, instrument or agreement, other than Capital Stock, that pursuant to its terms:

(a) does not (including upon the happening of any event) mature or require any amortization or other payment of principal prior the first anniversary of the maturity of the Notes (other than through conversion or exchange of any such security or instrument for Qualified Capital Stock or for any other security or instrument meeting the requirements of the definition);

(b) does not (including upon the happening of any event) require the payment in cash or otherwise, of interest or any other amounts prior to the first anniversary of the maturity of the Notes (*provided* that interest may accrete while such Subordinated Shareholder Debt is outstanding and accretion interest may become due upon maturity as permitted by clause (a) or acceleration of maturity as permitted by clause (c) below and any interest may be satisfied at any time by the issue to the holders thereof of additional Subordinated Shareholder Debt);

(c) does not (including upon the happening of any event) provide for the acceleration of its maturity and its holders have no right (including upon the happening of any event) to declare a default or event of default or take any enforcement action, prior to the first anniversary of the maturity of the Notes;

(d) is not secured by a Lien or any assets of the Issuer or a Restricted Subsidiary and is not guaranteed by any Subsidiary of the Issuer;

(e) is contractually subordinated and junior in right of payment to the prior payment in full in cash of all obligations (including principal, interest, premium (if any) and Additional Amounts (if any)) of the Issuer under the Notes and the Guarantors under the Guarantees; and

(f) is not (including upon the happening of any event) mandatorily convertible or exchangeable, or convertible or exchangeable at the option of the holder, in whole or in part, prior to the date on which the Notes mature other than into or for Qualified Capital Stock of the Issuer;

provided that in any event or circumstance that results in such Debt ceasing to qualify as Subordinated Shareholder Debt, such Debt shall constitute an Incurrence of such Debt by the Issuer, and any and all Restricted Payments made through the use of the net proceeds from the Incurrence of such Debt since the date of the original issuance of such Subordinated Shareholder Debt shall constitute new Restricted Payments that are deemed to have been made after the date of the original issuance of such Subordinated Shareholder Debt.

"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 of such Person; 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 of such Person 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).

"Successor Parent" with respect to any Person means any other Person with more than 50% of the total voting power of the Voting Stock of which is, at the time the first Person becomes a Subsidiary of such other Person, "beneficially owned" (as defined below) by one or more Persons that "beneficially owned" (as defined below) more than 50% of the total voting power of the Voting Stock of the first Person immediately prior to the first Person becoming a Subsidiary of such other Person. For purposes hereof, "beneficially own" has the meaning correlative to the term "beneficial owner," as such term is defined in Rules 13d-3 and 13d-5 under the Exchange Act (as in effect on the Issue Date).

"TARGET Settlement Day" means any day on which the Trans European Automated Real Time Gross Settlement Express Transfer (TARGET) System is open.

"Tax Sharing Agreement" means any tax consolidation agreement or any similar arrangements in respect of any consolidated, combined, affiliated or unitary tax group or an arrangement relating to the surrender of group relief to which the Issuer or any of the Restricted Subsidiaries is a party.

"Unrestricted Subsidiary" means 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 covenant under the caption "*—Certain Covenants—Designation of Unrestricted and Restricted Subsidiaries*") and any Subsidiary thereof.

"U.S. dollars" means the lawful currency of the United States of America.

"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).

LIMITATIONS ON VALIDITY AND ENFORCEABILITY OF THE SECURITY AND THE GUARANTEES AND CERTAIN INSOLVENCY LAW CONSIDERATIONS

Set out below is a summary of certain limitations on the enforceability of the Guarantees and the security interests in each of the jurisdictions in which Guarantees or Collateral are being provided. It is a summary only, and proceedings of bankruptcy, insolvency or a similar event could be initiated in any of these jurisdictions and in the jurisdiction of organization of a future Guarantor of the Notes. The application of these various laws in multiple jurisdictions could trigger disputes over which jurisdiction's law should apply, and could adversely affect your ability to enforce your rights and to collect payment in full under the Notes, the Guarantees and the security interests on the Collateral.

Also set out below is a brief description of certain aspects of insolvency law in England and Wales, Spain and Australia. In the event that any one or more of the Issuer or the Guarantors, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced, or the outcome of such proceedings.

European Union

The Issuer and some of the Guarantors are incorporated and organized under the laws of member states of the European Union.

The EC Regulation No. 2015/848 on Insolvency Proceedings (the "**Insolvency Regulation**") applies to insolvencies which commence after June 26, 2017 (subject to certain exceptions).

Pursuant to Article 3(1) of the Insolvency Regulation, the court which shall have jurisdiction to open insolvency proceedings in relation to a company is the court of the EU member state (other than Denmark) where the company concerned has its "centre of main interests." The determination of where any such company has its "centre of main interests" is a question of fact on which the courts of the different EU member states may have differing and conflicting views.

The term "centre of main interests" is not a static concept and may change from time to time but is determined for the purposes of deciding which courts have competent jurisdiction to open insolvency proceedings at the time of the filing of the insolvency petition. In the case of a company or legal person, the centre of main interests is presumed to be located in the country of the registered office in the absence of proof to the contrary. That presumption shall only apply if the registered office has not been moved to another EU member state within the three-month period prior to the request for the opening of insolvency proceedings. Specifically, the presumption of the centre of main interests being at the place of the registered office should be rebuttable if the company's central administration is located in an EU member state other than the one where it has its registered office, and where a comprehensive assessment of all the relevant factors establishes, in a manner that is ascertainable by third parties, that the company's actual center of management and supervision of its interests is located in that other EU member state.

If the centre of main interests of a company, at the time an insolvency application is made, is located in an EU member state (other than Denmark), only the courts of that EU member state have jurisdiction to open main insolvency proceedings in respect of that company under the Insolvency Regulation. The types of insolvency proceedings which may be opened as main proceedings in the relevant jurisdiction are listed in Annex A to the Insolvency Regulation.

If the centre of main interests of a company is in one EU member state (other than Denmark), under Article 3(2) of the Insolvency Regulation, the courts of another EU member state (other than Denmark) have jurisdiction to open secondary and territorial insolvency proceedings against that company only if such company has an "establishment" (within the meaning and as defined in Article 2(10) of the Insolvency Regulation) in the territory of such other EU member state. Secondary proceedings may be any insolvency proceeding listed in Annex A of the Insolvency Regulation. Territorial proceedings are, in effect, secondary proceedings which are commenced prior to the opening of main insolvency proceedings. An "establishment" is defined to mean any place of operations where the company carries out or has carried out in the three-month period prior to the request to open main insolvency proceedings a non-transitory economic activity with human means and assets. The effects of those insolvency proceedings opened in that other EU member state are restricted to the assets of the company which are situated in such other EU member state.

Pursuant to Article 3(4) of the Insolvency Regulation, where main proceedings in the EU member state in which the company has its centre of main interests have not yet been opened, territorial insolvency proceedings can only be opened in another EU member state where the company has an establishment and either: (a) insolvency proceedings cannot be opened in the EU member state in which the company's centre of main interests is situated under that EU member state's law; or (b) the territorial insolvency proceedings are opened at the request of a creditor whose claim arises from the operation of the establishment or a public authority requests the opening of such proceedings. Irrespective of whether the insolvency proceedings are main or secondary insolvency proceedings, such proceedings will always, subject to certain exemptions, be governed by the Lex fori concursus, that is, the local insolvency law of the court that has assumed jurisdiction for the insolvency proceedings of the debtor.

The courts of all EU member states (other than Denmark) must recognise the judgment of the court opening main proceedings and give the same effect to the order in the other relevant EU member state so long as no secondary proceedings have been opened there. The insolvency practitioner appointed by a court in an EU member state that has jurisdiction to open main proceedings may exercise the powers conferred on him by the law of that EU member state in another EU member state (such as to remove assets of the company from that other EU member state), subject to certain limitations, as long as no insolvency proceedings have been opened in that other EU member state or any preservation measure taken to the contrary further to a request to open insolvency proceedings in that other EU member state where the company has assets.

It remains to be seen what impact the recent vote by the United Kingdom to leave the EU will have on the regulatory environment in the EU.

England and Wales

The Issuer and certain of the Guarantors are companies incorporated under the laws of England and Wales (an "**English company**"). As a general rule, insolvency proceedings with respect to an English company should be commenced in England based on English insolvency laws; although insolvency proceedings in respect of English companies could also be based in other jurisdictions under certain circumstances (see "*—European Union*" above).

Formal insolvency proceedings under the laws of England and Wales may be initiated in a number of ways, including by the company or a creditor making an application for administration in court, the company or the holder of a "qualifying floating charge" (discussed below) making an application for administration out of court, or by a creditor filing a petition to wind up the company or the company resolving to do so (in the case of a liquidation). An English company may be wound up if it is unable to pay its debts, and may be placed into administration if it is, or is likely to become, unable to pay its debts, and the administration is reasonably likely to achieve one of three statutory purposes (as described below).

Under the Insolvency Act 1986 as amended (the "**Insolvency Act**"), a company is deemed to be unable to pay its debts if it is insolvent on a "cash flow" basis (i.e. it is proved to the satisfaction of the court that it is unable to pay its debts as they fall due), if it is insolvent on a "balance sheet" basis (i.e. it is provided to the satisfaction of the court that the value of the company's assets is less than the amount of its liabilities, taking into account its contingent and prospective liabilities), if it fails to satisfy a creditor's statutory demand for a debt exceeding £750 within the specified time or if it fails to satisfy in full a judgment debt (or similar court order).

Administration

The Insolvency Act empowers English courts to make an administration order in respect of an English company in certain circumstances. An administrator can also be appointed out of court by the company, its directors or the holder of a qualifying floating charge, and different procedures apply according to the identity of the person making the appointment. During the administration, in general, no resolution may be passed, and no order may be made, for the winding up of the debtor and no proceedings or other legal process may be commenced or continued against the debtor, or security enforced over the company's property, except with permission of the court or the consent of the administrator.

Upon the appointment of an administrator, no step may be taken to enforce security over the company's property except with the consent of the administrator or permission of the court. The same requirements for consent or permission apply to the institution or continuation of legal process (including legal proceedings, execution, distress and diligence) against the company or property of the company. In either case, a court will consider a range of discretionary factors in determining any application for leave in light of the hierarchy of statutory objectives of administration described above.

Accordingly, if an English company were to enter into administration, the collateral granted by that English company could not be enforced while that English company was in administration without the permission of the court or consent of the administrator. There can be no assurance that the security agent would obtain such permission of the court or consent of the administrator.

In addition, while an administrator is in office, the powers of the board of directors of an English company (save those that do not interfere with the exercise of that administrators' powers, and those permitted by the administrator) are suspended, and an administrator is given wide powers to conduct the business and, subject to certain requirements under the Insolvency Act, dispose of the property of a company in administration (including property subject to a floating charge).

Certain creditors of a company in administration may be able to realize their security over that company's property notwithstanding the statutory moratorium. This is by virtue of the disapplication of the administration moratorium in relation to a "security financial collateral arrangement" (generally, a charge over cash or financial instruments, such as shares, bonds or tradeable capital market debt instruments and credit claims) under the Financial Collateral Arrangements (No. 2) Regulations 2003 (as amended) (the "**FCARs**").

It is likely, to the extent that it is not a financial collateral arrangement, that the security granted by an English company may not be enforced while it is in administration.

The administration of a company must achieve one of the following statutory objectives: (1) the rescue of the company (as distinct from the business carried on by the company) as a going concern (the primary objective); (2) the achievement of a better result for the company's creditors as a whole than would be likely if the company were wound up (without first being in administration) (the secondary objective); or (3) the realization of some or all of the company's property to make a distribution to one or more secured or preferential creditors (the tertiary objective). An administrator must attempt to achieve the objectives of administration in order, unless he thinks either that it is not reasonably practicable to achieve the primary objective, or that the secondary objective would achieve a better result for the company's creditors as a whole. Therefore, the administrator cannot pursue the tertiary objective unless he thinks that it is not reasonably practicable to achieve either the primary objective or the secondary objective and that it will not unnecessarily harm the interests of the creditors of the company as a whole to pursue the tertiary objective.

Administrative receivership

In order to empower the Security Agent to appoint an administrative receiver to an English company, the floating charge granted by the relevant English company must constitute a qualifying floating charge for the purposes of English insolvency law and the qualifying floating charge must, unless the relevant Security Document pre-dates September 15, 2003, fall within one of the exceptions of the Insolvency Act to the prohibition on the appointment of administrative receivers.

In order to constitute a qualifying floating charge in England, the floating charge must be created by an instrument which (a) states that the relevant statutory provision applies to it, (b) purports to empower the holder to appoint an administrator of the company or (c) purports to empower the holder to appoint an administrative receiver within the meaning given by Section 29(2) of the Insolvency Act.

The Security Agent will be the holder of a qualifying floating charge if it holds one or more debentures secured by (a) a qualifying floating charge which relates to the whole or substantially the whole of the relevant English company's property, (b) a number of qualifying floating charges which, together, relate to the whole or substantially the whole of the relevant English company's property, or (c) charges and other forms of security which, together, relate to the whole or substantially the whole of the relevant English company's property and one of the charges is a qualifying floating charge.

The most relevant exception to the prohibition on the appointment of an administrative receiver is the exception relating to "capital market arrangements" (as defined in the Insolvency Act), which may apply if the issue of the Notes creates a debt of at least £50.0 million for the relevant company under the arrangement and the arrangement involves the issue of a "capital market investment" (which is defined in the Insolvency Act, and is generally a rated, listed or traded debt instrument). Where a company is in administrative receivership, an administrator can only be appointed by court order (and only in the limited circumstances set out in the Insolvency Act). The appointment of an administrator automatically dismisses any administrative receiver already appointed to the debtor, and any already appointed fixed charge receiver must resign if requested to do so by the administrator, subject to the application of the FCARs. Where the company is already in administration, no receiver may be appointed.

Liquidation/winding-up

Liquidation is an asset realization and distribution procedure under which the assets of the company are realized and distributed by the liquidator to creditors in the statutory order of priority prescribed by the Insolvency Act (see below "Priority of claims"). At the end of the liquidation process the company will normally be dissolved.

There are two forms of winding-up: (a) compulsory liquidation, by order of the court; and (b) voluntary liquidation, by resolution of the company's members, and which is in turn divided into members' voluntary liquidation ("**MVL**") and creditors' voluntary liquidation ("**CVL**"). The most common grounds for the compulsory winding-up of a company is that it is either unable to pay its debts (as defined in Section 123 of the Insolvency Act) or the court is of the opinion that it is just and equitable for the company to be wound up.

The effect of a compulsory liquidation differs in a number of respects from that of a voluntary liquidation. In a compulsory liquidation, under Section 127 of the Insolvency Act, any disposition of the relevant company's property made after the commencement of the winding up is, unless sanctioned by the court, void. Subject to certain exceptions, when an order is made for the winding-up of a company by the court, it is deemed to have commenced from the time of the presentation of the winding-up petition. In the case of a liquidation commenced by way of an English court order, there is a stay on the commencement or continuation of proceedings against the company except by leave of the court and subject to such terms as the court may impose (although security enforcement is not affected).

In the context of a voluntary liquidation however, there is no equivalent to the retrospective effect of a winding-up order; the winding-up commences on the passing of the members' resolution to wind up. As a result, there is no equivalent of Section 127 of the Insolvency Act. There is also no automatic stay in the case of a voluntary liquidation—it is for the liquidator, or any creditor or contributory of the company, to apply for a stay. This is important because, in the absence of a stay being obtained, it means secured creditors for example can go ahead and enforce their security.

An MVL is a solvent liquidation that is controlled by the shareholders. It commences when the shareholders pass a special resolution to place the company into liquidation and there is no involvement by the court. Not more than five weeks prior to the making of the winding up resolution, the directors must swear a statutory declaration of solvency stating that, after having made full enquiry into the company's affairs, they have formed the opinion that it will be able to pay its debts, including interest and the costs of the MVL process, within a stated period not exceeding 12 months from the start of the liquidation.

A CVL is also commenced by the shareholders resolving to place the company into liquidation and has no court involvement. In contrast to an MVL, however, the directors do not swear a statutory declaration of solvency for a CVL (meaning the company can be solvent or insolvent). If the creditors choose a different person to act as liquidator from the shareholders, the creditors' choice will prevail.

Under English insolvency law, a liquidator has, among other things, the power to bring or defend legal proceedings on behalf of the company, to carry on the business of the company as far as it is necessary for its beneficial winding up, to sell the company's property and execute documents in the name of the company, to disclaim any onerous property by serving a prescribed notice on the relevant party and to challenge antecedent transactions.

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. In most cases, this will only arise if the English company is placed into administration or liquidation within a specified period of the granting of the guarantee or security. Therefore, if during the specified period an administrator or liquidator is appointed to an English company, the administrator or liquidator may challenge the validity of the security or guarantee given by such company. The Issuer cannot be certain that, in the event that the onset of an English company's insolvency is within any of the requisite time periods set out below, the grant of a security interest or guarantee in respect of the Notes would not be challenged or that a court would uphold the transaction as valid.

Onset of insolvency

The date of the onset of insolvency, for the purposes of transactions at an undervalue, preferences and invalid floating charges (all discussed below), depends on the insolvency procedure in question.

In administration, the onset of insolvency is the date on which (a) the court application for an administration order is issued or (b) the notice of intention to appoint an administrator is filed at court, or (c) otherwise, the date on which the appointment of an administrator takes effect. In a compulsory liquidation the onset of insolvency is the date the winding-up petition is presented to court, whereas in a voluntary liquidation it is the date the company passes a winding-up resolution. Where liquidation follows administration, the onset of insolvency will be as for the initial administration.

Connected persons

If the given transaction at an undervalue, preference, or invalid floating charge has been entered into by the company with a "connected person", then particular specified time periods and presumptions will apply to any challenge by an administrator or liquidator (as set out below).

A "connected person" of a company granting a security interest or guarantee for the purposes of transactions at an undervalue, preferences and invalid floating charges is a party who is (i) a director of the company, (ii) a shadow director, (iii) an associate of such director or shadow director, or (iv) an associate of the relevant company.

A party is associated with an individual if they are (i) a relative of the individual, (ii) the individual's husband, wife or civil partner, (iii) a relative of the individual's husband, wife or civil partner, or (iv) the husband, wife or civil partner of a relative of the individual.

A party is associated with a company if they are employed by that company.

A company is associated with another company if (i) the same person has control of both companies, or (ii) it is controlled by a person, that person's associates have control of the other company, or (iii) it is controlled by a group of two or more persons who also control the other company, and the groups either consist of the same persons or could be regarded as consisting of the same persons by treating (in one or more cases) a member of either group as replaced by a person of whom he is an associate.

A person is to be taken as having control of a company if the directors of the company or of another company which has control of it (or any of them) are accustomed to act in accordance with his directions or instructions, or he is entitled to exercise, or control the exercise of, one third or more of the voting power at any general meeting of the company or of another company which has control of it. Where two or more persons together satisfy either of these conditions, they are to be taken as having control of the company.

The potential grounds for challenge available under the English insolvency legislation that may apply to any security interest or guarantee granted by an English company include, without limitation, the following.

Transaction at an undervalue

Under English insolvency law, a liquidator or administrator of an English company could apply to the court for an order to set aside the creation of a security interest or a guarantee if such liquidator or administrator believes that the creation of such security interest or guarantee constituted a transaction at an undervalue. It will only be a transaction at an undervalue if at the time of the transaction or in consequence of the transaction, the English company is unable to pay its debts or becomes unable to pay its debts (as defined in Section 123 of the Insolvency Act). The transaction can be challenged if the English company enters into liquidation or administration proceedings within a period of two years from the date the English company grants the security interest or the guarantee. A transaction might be subject to being set aside as a transaction at an undervalue if the company made a gift to a person, if the company received no consideration or if the company received consideration of significantly less value, in money or money's worth, than the consideration given by such company.

However, a court will generally not intervene 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 it. 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 company to the position it would have been in had it not entered into the transaction. In any 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 set out above), in which case there is a presumption of insolvency and the connected person must demonstrate the solvency of the English company in such proceedings. An order by the court for a transaction at an undervalue may affect the property of, or impose any obligation on, any person whether or not he is the person with whom the company entered into the transaction, but such an order will not prejudice any interest in property which was acquired from a person other than the company in good faith and for value, or prejudice any interest deriving from such an interest, and will not require a person who received a benefit from the transaction in good faith and for value to pay a sum to the liquidator or administrator of the company, except where that person was a party to the transaction.

Preference

Under English insolvency law, a liquidator or administrator of an English company could apply to the court for an order to set aside the creation of a security interest or a guarantee if such liquidator or administrator believed that the creation of such security interest or such guarantee constituted a preference. It will only be a preference if at the time of the transaction or in consequence of the transaction the English company is unable to pay its debts or becomes unable to pay its debts (as defined in Section 123 of the Insolvency Act). The transaction can be challenged if the English company enters into liquidation or administration proceedings within a period of six months (if the beneficiary of the security or the guarantee is not a connected person) or two years (if the beneficiary is a connected person) from the date the English company takes the decision to grant the security interest or the guarantee. A transaction may constitute a preference if it has the effect of putting a creditor of the English company (or a surety or guarantor for any of the company's debts or liabilities) in a better position (in the event of the company going into insolvent liquidation) than such creditor, guarantor or surety would otherwise have been in had that transaction not been entered into. If the court determines that the transaction was a preference, the court can make such order as it thinks fit to restore the company to the position it would have been in had it not entered into the transaction.

However, for the court to determine a preference, it must be shown that the English company was influenced by a desire to produce the preferential result. In any proceedings, it is for the administrator or liquidator to demonstrate that the English company was unable to pay its debts and that there was such desire to prefer the relevant creditor, unless the beneficiary of the transaction was a connected person, in which case the connected person must demonstrate in such proceedings that there was no such desire, on the part of the company, to prefer them.

An order by the court for a preference may affect the property of, or impose any obligation on, any person whether or not he is the person to whom the preference was given, but such an order will not prejudice any interest in property which was acquired from a person other than the company in good faith and for value, or prejudice any interest deriving from such an interest, and will not require a person who received a benefit from the preference in good faith and for value to pay a sum to the liquidator or administrator of the company, except where the payment is to be in respect of a preference given to that person at a time when he was a creditor of the company.

The desire to prefer requires a "positive wish to improve the creditor's position in the event of the company's insolvent liquidation" (*Re Fairway Magazines Ltd* 1993 BCLC 643). A preferential effect for a creditor may be foreseen by the company without being desired. Where a company is influenced by "proper commercial considerations" there will be no desire to prefer and therefore no voidable preference (*Re MC Bacon Ltd (No. 1)* 1990 BCLC 324).

Transaction defrauding creditors

Under English insolvency law, where it can be shown that a transaction was at an undervalue and was made for the purpose of putting assets beyond the reach of a person who is making, or may make, a claim against a company, or of otherwise prejudicing the interests of a person in relation to the claim which that person is making or may make, the transaction may be set aside by the court as a transaction defrauding creditors. This provision may be used by any person who claims to be a "victim" of the transaction and is not therefore limited to liquidators or administrators and, subject to certain conditions, the UK Financial Conduct Authority and the UK Pensions Regulator. There is no statutory time limit in the English insolvency legislation within which the challenge must be made and the relevant company does not need to be insolvent at the time of or as a result of the transaction. If the court determines that the transaction was a transaction defrauding creditors, the court can make such orders as it thinks fit to restore the position to what it would have been if the transaction had not been entered into and to protect the interests of the victims of the transaction. The relevant court order may affect the property of, or impose any obligation on, any person, whether or not he is the person with whom the transaction was entered into. However, such an order will not prejudice any interest in property which was acquired from a person other than the debtor company in good faith, for value and without notice of the relevant circumstances, and will not require a person who received a benefit from such transaction to pay any sum unless such person was a party to the transaction.

Extortionate credit transaction

An administrator or a liquidator can apply to court to set aside an extortionate credit transaction. The court can review extortionate credit transactions entered into by an English company up to three years before the day on which the English company entered into administration or went into liquidation. A transaction is "extortionate" if, having regard to the risk accepted by the person providing the credit, the terms of it are (or were) such as to require grossly exorbitant payments to be made (whether unconditionally or in certain contingencies) in respect of the provision of the credit or it otherwise grossly contravened ordinary principles of fair dealing.

Fixed versus floating charges

There are a number of ways in which fixed charge security has an advantage over floating charge security, namely: (a) an administrator appointed to a charging company can convert floating charge assets to cash and use such cash, or use cash subject to a floating charge, to meet certain, statutory administration expenses (which can include the costs of continuing to operate the business of the charging company) 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 a floating charge over the same charged assets (provided that the floating charge has not crystallised at the time the fixed charge was granted); (c) general costs and expenses (including the remuneration of the insolvency officeholders) properly incurred in a winding-up or administration are generally payable out of the assets of the charging company (including the assets that are the subject of the floating charge) in priority to floating charge claims (the same does not apply to fixed charge assets); (d) until the floating charge security crystallises, a company is entitled to deal with assets that are subject to floating charge security in the ordinary course of 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; (e) there are particular insolvency "clawback" risks in relation to floating charge security; (f) where the floating charge is not a security financial collateral arrangement, floating charge security is (i) subject to the claims of certain preferential creditors (such as employee, salary claims (up to a cap per employee), employee holiday claims and certain unpaid pension contributions) and (ii) subject to the ring-fencing of the Prescribed Part (see "*—Prescribed part*" below) for unsecured creditors; and (g) an administrator may dispose of or take action relating to property subject to a floating charge without the prior consent of the charge holder or court but the floating charge holder retains the same priority in respect of the proceeds from the disposal of the assets subject to the floating charge. With prior approval of the court, an administrator may deal with property subject to a fixed charge provided that disposing of the property is likely to promote the administration's purpose and that the administrator apply the net proceeds from the disposal of the property in question towards discharging the obligations of the company to the charge holder.

There is a possibility that a court could find that some or all of the fixed security interests expressed to be created by the security documents governed by English law properly take effect as floating charges as the description given to them as fixed charges is not determinative. Whether the purported fixed security interests will be upheld as fixed security interests rather than floating security interests will depend, among other things, on whether the secured party has the requisite degree of control over the chargor's ability to deal in the relevant assets and the proceeds thereof and, if so, whether such control is exercised by the security holder in practice. Where the chargor is free to deal with the assets that are the subject of a purported fixed charge in its discretion and without the consent of the chargee, the court would be likely to hold that the security interest in question constitutes a floating charge, notwithstanding that it may be described as a fixed charge.

If any fixed security interests are recharacterised as floating security interests: (a) the proceeds of those assets could be applied in meeting other liabilities of the company in priority to the claims of the purported fixed charge holder in insolvency proceedings; and (b) it is possible that any purported floating charge security may no longer relate to the whole or substantially the whole of the property of the relevant company and therefore may not constitute a "qualifying floating charge" (see also "Administrative receivership" above).

Avoidance of floating charges

Under English insolvency law, floating charges created by an English company that is unable to pay its debts at the time of (or as a result of) granting the floating charge, will be invalid, except to the extent of the value of (i) the money paid to, or (ii) the goods or services supplied to, or (iii) 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 certain interest) (the "**Consideration**"). The requirement for an English company to be insolvent at the time of granting the floating charge or becoming insolvent as a consequence of doing so does not apply where the floating charge is granted to a connected person. If the floating charge is granted to a connected person then the floating charge is invalid except to the extent of the Consideration.

The transaction can be challenged if the relevant English company enters into liquidation or administration proceedings within a period of one year (if the beneficiary is not a connected person) or two years (if the beneficiary is a connected person) for the date the relevant English company grants the floating charge. However, if the floating charge qualifies as a "security financial collateral agreement" under the Financial Collateral Arrangements (No. 2) Regulations 2003 (as amended), the floating charge will not be subject to challenge as described in this paragraph.

An administrator or liquidator (as applicable) does not need to apply to court for an order declaring that a floating charge is invalid. Any floating charge created during the relevant time period is automatically invalid, except to the extent of the value of the Consideration, whether the relevant English company is solvent or insolvent at the time of grant.

Limitation on enforcement

The grant of a guarantee or security by any of the English companies in respect of the obligations of another group company must satisfy certain legal requirements. More specifically, such a transaction must be allowed by the respective company's memorandum and articles of association. To the extent that the above do not allow such an action, there is the risk that the grant of the guarantee and the subsequent security can be found to be void and the respective creditor's rights unenforceable. Some comfort may be obtained for third parties if they are dealing with an English company in good faith; however, the relevant legislation is not without difficulties in its interpretation. Further, corporate benefit must be established for each English company in question by virtue of entering into the proposed transaction. Section 172 of the Companies Act 2006 provides that a director must act in the way that he considers, in good faith, would be most likely to promote the success of the English company for the benefit of its members as a whole. If the directors enter into a transaction where there is no or insufficient commercial benefit, they may be found as abusing their powers as directors and such a transaction may be vulnerable to being set aside by a court.

Security over shares

Security over shares granted by an English company or over shares of an English company are, under English law, equitable charges, not legal charges. An equitable charge arises where a chargor creates an encumbrance over the property in favour of the chargee but the chargor retains legal title to the shares. Remedies in relation to equitable charges may be subject to equitable considerations or are otherwise at the discretion of the court.

Security over bank accounts

With respect to any security over bank accounts (each an "**Account Charge**") granted by an English company, the banks with which some of those accounts are held (each an "**Account Bank**") may hold a right at any time (at least prior to them being notified of a crystallisation event under the Account Charge) to exercise the rights of netting or set-off to which they are entitled under their cash pooling or other arrangements with that guarantor. As a result, and if the security granted over those accounts is merely a floating (rather than fixed) charge, the collateral constituted by those bank accounts will be subject to the relevant Account Bank's rights to exercise netting and set-off with respect to the bank accounts charged under the relevant Account Charge. Once the floating charge has crystallised and converted into a fixed charge (as it would on enforcement or the occurrence of certain insolvency events with respect to the relevant English company) and the Account Bank has been formally notified of that fact, the collateral will no longer be subject to the relevant Account Bank's netting and set-off rights.

Scheme of arrangement

Although it is not an insolvency proceeding, pursuant to Part 26 of the Companies Act 2006, the English courts have jurisdiction to sanction a scheme of arrangement that effects a compromise of a company's liabilities between a company and its creditors (or any class of its creditors). An English company may be able to pursue a scheme in respect of its financial liabilities. In addition, a foreign guarantor which is liable to be wound up under the Insolvency Act and has a "sufficient connection" to England and Wales could also pursue a scheme. In practice, a foreign company is likely to satisfy the first limb of this test and the second limb has been found to be satisfied where, amongst other things, the company's COMI is in England, the company's finance documents are English law-governed, or the company's finance documents have been amended in accordance with their terms to be governed by English law. Ultimately, each case will be considered on its particular facts and circumstances so previous cases will not necessarily determine whether or not any of the grounds of the second limb are satisfied in the present case.Before the court considers the sanction of a scheme of arrangement at a hearing where the fairness and reasonableness of the scheme will be considered, affected creditors will vote on the proposed compromise or arrangement in respect of their claims in a single class or in a number of classes, depending on the rights of such creditors that will be affected by the proposed scheme and any new rights that such creditors are given under the scheme. Such compromise can be proposed by the company or its creditors. If a majority in number representing 75% or more by value of those creditors present and voting at the meeting(s) of each class of creditors vote in favour of the proposed scheme, irrespective of the terms and approval thresholds contained in the finance documents, then that scheme will (subject to the sanction of the court) be binding on all affected creditors, including those affected creditors who did not participate in the vote and those who voted against the scheme. The scheme then needs to be sanctioned by the court at a sanction hearing where the court will review the fairness of the scheme and consider whether it is reasonable. The court has the discretion as to whether to sanction the scheme as approved, make an order conditional upon modifications being made or reject the scheme.

Priority of claims

One of the primary functions of administration and liquidation under English law is to realize the assets of the insolvent company and to distribute realizations made from those assets to its creditors. Under the Insolvency Act and the Insolvency Rules 2016, creditors are placed into different classes, with the proceeds from the realization of the insolvent company's property applied in descending order of priority, as set out below. With the exception of the "Prescribed Part" (see "—Prescribed part" below), distributions cannot be made to a class of creditors until the claims of the creditors in a prior ranking class have been paid in full. Unless creditors have agreed otherwise, distributions are made on a pari passu basis, that is, the assets are distributed in proportion to the debts due to each creditor within a class.

The general priority on insolvency is as follows (in descending order of priority):

- **First ranking:** holders of fixed charge security but only to the extent the value of the secured assets covers that indebtedness and creditors with a proprietary interest in specific assets in the possession (but not full legal and beneficial ownership) of the debtor but only with respect to the assets in which they have a proprietary interest;
- **Second ranking:** expenses of the insolvent estate (there are statutory provisions setting out the order of priority in which expenses are paid);
- **Third ranking:** preferential creditors. Ordinary preferential debts include (but are not limited to) debts owed by the insolvent company in relation to: (a) contributions to occupational and state pension schemes; (b) wages and salaries of employees for work done in the four months before the insolvency date, up to a maximum of £800 per person; (c) holiday pay due to any employee whose contract has been terminated, whether the termination takes place before or after the date of insolvency; and (d) bank and building deposits eligible for compensation under the Financial Services Compensation Scheme ("**FSCS**") up to the statutory limit. As between one another, ordinary preferential debts rank equally. Secondary preferential debts include bank and building deposits eligible for compensation under the FSCS to the extent that claims exceed the statutory limit, and rank for payment after the discharge of the ordinary preferential debts. As between one another, secondary preferential debts rank equally;

- **Fourth ranking:** holders of floating charge security, according to the priority of their security. This would include any floating charge that was stated to be a fixed charge in the document that created it but which, on a proper interpretation, was rendered a floating charge. However, before distributing asset realisations to the holders of any floating charges, the Prescribed Part (as defined below) must, subject to certain exceptions, be set aside for distribution to unsecured creditors;
- **Fifth ranking**:
  - firstly, provable debts of unsecured creditors (save where such creditors are deferred under section 74(2(f)) of the Insolvency Act) and any secured creditor to the extent of any unsecured shortfall, in each case including accrued and unpaid interest on those debts up to the date of commencement of the relevant insolvency proceedings. In the case of any unsecured shortfall for secured creditors, the insolvency officeholder is not permitted to make a distribution from the Prescribed Part to such secured creditors unless the Prescribed Part is sufficient to first pay out all unsecured creditors;
  - secondly, interest on the company's debts (at the higher of the applicable contractual rate and the official rate) in respect of any period after the commencement of liquidation, or after the commencement of any administration which had been converted into a distributing administration. However, in the case of interest accruing on amounts due under the Notes or the Guarantees, such interest due to the holders of the Notes may, if there are sufficient realisations from the secured assets, be discharged out of such security recoveries; and
  - thirdly, non-provable liabilities, being liabilities that do not fall within any of the categories above and therefore are only recovered in the (unusual) event that all categories above are fully paid; and
- **Sixth ranking:** shareholders. If after the repayment of all unsecured creditors in full, any remaining funds exist, these will be distributed to the shareholders of the insolvent company.

Subject to the above order of priority, subordinated creditors are ranked according to the terms of the subordination language in the relevant documentation (and provided that such terms do not contravene the Insolvency Act).

Prescribed part

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 (the "Prescribed Part"). Under current law, this applies to 50% of the first £10,000 of floating charge realizations and 20% of the remainder over £10,000, and the Prescribed Part is subject to a maximum aggregate cap of £600,000. The Prescribed Part must be made available to unsecured creditors unless the cost of doing so would be disproportionate to the resulting benefit to creditors. As noted above, the Prescribed Part will not be available for any shortfall claims of secured creditors.

Foreign currency

Under English insolvency law, where creditors are asked to submit formal proofs of claims for their debts, the office-holder will convert all foreign currency denominated proofs of debt into sterling at a single rate for each currency determined by the office-holder by reference to the exchange rates prevailing on the relevant date. If a creditor considers the rate to be unreasonable, they may apply to the court.

Spain

Under Spanish law, the guarantees and the security interests must guarantee or secure a primary obligation and therefore, they have an ancillary nature. Due to this, they would be declared null, void and/or terminated if the principal obligation is declared null, void and/or terminated. Any transfer of the principal obligation carries along with it the transfer of the security interest. Additionally, the transfer of the security interest itself cannot be done independently from the principal obligation due to its accessory nature. In the event that the guarantor or security provider is able to prove that there are no existing and valid guaranteed or secured obligations, Spanish courts may consider that the guarantor or security provider's obligations under the relevant guarantee or security agreement are not enforceable. In addition, a guarantee or security interest may not be enforced in Spain without having validly accelerated (totally or partially, as applicable) the underlying agreements governing the guaranteed or secured obligations, and may be affected by any amendment, supplement, waiver, repayment, novation or extinction of the secured obligations. Therefore, the primary obligation must be clearly identified in the guarantee or security agreement.

A Spanish court may not accept acceleration (*vencimiento anticipado*) of an agreement if the default were of minimal importance. To be recognized by the Spanish courts as giving rise to the remedy of acceleration, a default must be material. The decision to accelerate an agreement must be based on objective facts and cannot be left to the sole discretion of one party as this would not be permitted by article 1,256 of the Spanish Civil Code.

A Spanish company must have a corporate interest in granting the security interest. It is difficult to determine whether or not a corporate benefit is obtained when granting the so-called upstream security interests. Some factors may be considered, such as the receipt by the Spanish company of the funds (even indirectly) or the actual benefit that the Spanish company receive from the financing. The absence of a corporate interest may lead to the creditors of the Spanish company to contest, on the grounds of Section 1,111 of the Spanish Civil Code, acts carried out by the Spanish company implying fraud of the creditors' rights. In addition, directors' liability may be triggered. See *"Risks Related to the Notes and Our Structure—Each Guarantee and security interest will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defenses that may limit its validity and enforceability"*.

In particular, Spanish law may limit the ability of a Spanish Guarantor to guarantee the Notes or to grant security interests over its assets to secure the Notes. Recent Spanish rulings which do not constitute settled case law indicate, and certain scholars understand, that risk associated with a guarantee or the value of a security interest provided by a Spanish company to guarantee or secure indebtedness held by other companies within its corporate group must be reasonable and economically and operationally justified from the Spanish company's perspective and justified under the corporate interest of such company. Therefore, as stated in section "Insolvency laws" below, guarantees granted by a Spanish company in favor of other group companies may be challenged on the basis that such guarantees have no consideration unless evidence could be provided that there was a tangible and identifiable economic interest for the Spanish companies (beyond an abstract group interest). Whether there is a specific consideration in favor of the guarantor for the granting of the guarantee, is a factual matter that will need to be proven on a case by case basis. The lack of proof in that regard, may entail, if the guarantee is challenged, that a judge declares the guarantee null and/or void.

Spanish law prohibits financial assistance: (i) for public limited liability companies (*sociedades anónimas*) in relation to the acquisition of their own shares or the shares of any direct or indirect parent company, and (ii) for private limited liability companies (*sociedades de responsabilidad limitada*), in relation to the acquisition of their own shares and the shares of any member of their corporate group. Therefore, guarantees or security interests granted by subsidiaries incorporated under the laws of Spain shall not extend to any payment obligation incurred by the Issuer for the purpose of acquiring the shares of such Spanish subsidiary or the shares or its direct or indirect parent company or, as applicable, any member of their group, to the extent that such guarantee or security interest would constitute unlawful financial assistance within the meaning of Articles 150 and 143 of the Spanish Companies Act (*Real Decreto Legislativo 1/2010, de 2 de julio, por el que se aprueba el texto refundido de la Ley de Sociedades de Capital*). This limitation would also apply to the refinancing of acquisition debt although this is widely debated between academics. No whitewash procedures are available. Accordingly, any guarantee or security interest granted by any Spanish company will be limited by the amount of the funds that are not used for unlawful financial assistance purposes. For example, where proceeds from the Notes are used to refinance the Senior Secured Bridge Facilities, the value of the Guarantee granted by Saloni would be limited to the portion of Senior Secured Bridge Facilities not used to fund our acquisition of Saloni.

In addition, and whilst this remains debatable, it is possible that certain defenses available to the Spanish Guarantors relating to corporate benefit, fraudulent conveyance or transfer, voidable preference, capital preservation or thin capitalization may limit the amount guaranteed under the Guarantee. Such limitation, *inter alia*, may be referred to the net equity, net assets or share capital of the Spanish Guarantor or even the portion of the proceeds of the Notes used directly or indirectly to pay or refinance obligations of the Spanish Guarantor.

First demand guarantee

The structure of first demand guarantees is not specifically regulated in the Spanish Civil Code but their validity and effectiveness have been reviewed in several judgments and defined by the Spanish Supreme Court (*Tribunal Supremo*) as autonomous guarantees, detached from the underlying agreement whose obligations are being guaranteed. These judgments acknowledge the validity of provisions pursuant to which guarantors waive the ability to call on enforceability exceptions different to those stated under the guarantee. Notwithstanding the foregoing, certain case law has also admitted the possibility that, with certain limitations, the guarantor automatically raises the enforceability exception of fraud, bad faith or abuse of right (*abuso de derecho*) in the event where the beneficiary enforces the guarantee in a fraudulent manner or in bad faith. Certain case law has also admitted that the guarantor can stay enforcement by showing that there has been no event of default (the guarantor bearing the burden of proof), usually through a motion for declaratory relief filed by the guarantor.

Enforcement

Under Spanish law, a secured party may not appropriate the collateral subject to a security interest, nor dispose of such collateral as it deems fit; the so-called "pacto comisorio" (or appropriation of collateral by the creditor) is prohibited as a general rule. Because of this prohibition, a creditor must initiate the enforcement of the security interest and use as payment of the debt the proceeds obtained in the sale of the collateral in a public auction or through certain other proceedings aimed at ensuring that fair value is obtained from the enforcement process. These proceedings are monitored either by a court or a notary public, depending on the type of proceeding. The only applicable exceptions to the prohibition of the "pacto comisorio" are the following:

- financial collateral arrangements: Royal Decree-Law 5/2005, of March 11, 2005 ("**RDL 5/2005**"), which implements in Spain Directive 2002/47/EC of the European Parliament and of the Council of June 6, 2002, on financial collateral arrangements, regulates, among other matters, financial collateral arrangements. RDL 5/2005 regulates the two following types of financial collateral arrangements: title transfer collateral arrangements (*acuerdos de garantía financiera con cambio de titularidad*) and security financial collateral arrangements (*acuerdos de garantía pignoraticia*) (i.e. pledges over cash or securities); and
- pledges of credit rights: As an exception to the general rule that requires the enforcement of pledges through a public auction, pledges over credit rights may be "foreclosed" by way of set-off since the pledged credit rights or receivables are considered "liquid" (i.e. credit rights arising from the relevant bank accounts and receivables). In other words, the asset does not need to be "realized" into money because it is precisely the right to claim an amount of money such as the balance of a bank account or the right to receive payment of the receivable.

Without notarization of the security documents, the secured parties will not have access to the executive summary proceedings (juicio ejecutivo) in case of judicial enforcement of the security documents in Spain, having the secured parties to follow necessarily the ordinary judicial proceedings (juicio ordinario).

The terms "enforceable," "enforceability," "valid," "legal," "binding" and "effective" (or any combination thereof) mean that all of the obligations assumed by the relevant party under the relevant documents are of a type enforced by Spanish courts; the terms do not mean that these obligations will necessarily be enforced in all circumstances in accordance with their terms. Enforcement before the courts will in any event be subject to:

- the nature of the remedies available; and
- the availability of defenses such as (without limitation) setoff (unless validly waived), circumvention of law (*fraude de ley*), abuse in the exercise of rights (*abuso de derecho*), misrepresentation, force majeure, unforeseen circumstances, undue influence, duress, abatement and counterclaim.

Parallel debt/Security agent

Spanish law does not recognize the concept of "security agent" holding security on behalf of a syndicate of lenders or parallel debt structures, and there is some uncertainty as to whether a Spanish court would recognize the authority of a security agent (including the Security Agent) and whether this would cause delays in the enforcement and the consequences of not being able to enforce the collateral as provided in the relevant security agreements. Although this by itself does not prohibit appointing the Security Agent, the absence of regulation creates uncertainty as to how a Spanish court would recognize the Security Agent's actions in an enforcement situation. Some legal scholars argue that a security agent (such as the Security Agent) would only be entitled to enforce its portion of the secured obligation but not that of the other secured parties. Therefore, validity and enforceability of security interests granted in favor of the secured parties through the Security Agent, and enforcement thereof by the Security Agent, may be subject to a due and express power of attorney granted by each of the secured parties (e.g., lenders and the holders of the notes) in favor of the Security Agent for such purpose, duly notarized and legalized (and, if applicable, duly apostilled in accordance with the Hague Convention of October 5, 1961). Regardless of the authority that may be conferred upon the security agent under the relevant financing framework agreement, such agent will need to prove that it is duly and expressly empowered for such purpose by means of duly notarized and apostilled powers of attorney by all lenders in its favor.

Likewise, validity and enforceability of security interests granted in favor of the secured parties through the Security Agent, in its capacity as joint and several creditor (*acreedor solidario*) of the secured parties, has not been tested before the Spanish courts. Moreover, the structure of joint and several creditor is not expressly contemplated under Spanish law in a situation in which the joint and several creditor does not hold a portion of the secured obligation itself. As a result, the ability of the Security Agent to represent the Trustee and the holders of the Notes may be challenged.

- The concept of "parallel debt" may be questioned under Spanish law and we are not aware of any court precedent where it has been recognized by a Spanish Court.

Enforcement Proceedings in Spain

Creditors are entitled to initiate actions under the following three types of proceedings: (i) the so-called declarative proceeding (*juicio declarativo*) provided for under the Spanish Civil Procedure Act 1/2000, of January 7, 2000 (Ley 1/2000, de 7 de enero, de Enjuiciamiento Civil); (ii) the executive proceeding (*juicio ejecutivo*) provided for under the same Spanish regulation; and (iii) the procedure managed by notaries to enforce guarantees under article 1872 of the Spanish Civil Code, which must be jointly interpreted with the Notary Public Law of 28 May 1862 (the "**Notarial Law**") that establishes the requisites to be met by the mentioned notary public auction system regulated in the Spanish Civil Code. The aforementioned procedures are aimed at selling the relevant asset in a public auction monitored either by a Court or by a notary public if the debtor does not verify payment of the amount due prior to the public auction. As for first demand guarantees, either declarative proceedings or executive proceedings (if the guarantee is granted in accordance with the Spanish Civil Procedure Act 1/2000) could be used to enforce payment from the guarantor.

The law regulating the enforcement of pledges through auctions organized by notaries as described in the Notarial Law was significantly amended by Law 15/2015 of 2 July on voluntary jurisdiction ("**Law 15/2015**"). There is a high degree of uncertainty surrounding this new legal framework given that some provisions of the Notarial Law seem be in conflict with laws on the enforcement of pledges that were not expressly repealed by Law 15/2015. As a result, certain aspects of these types of auctions are open to interpretation.

The recognition by Spanish courts of security interests created abroad will be governed by Spanish law. Generally, such security interests will be upheld provided that the security interests are not contrary to Spanish public policy (*orden público*). Once this test is met, the Spanish courts should not re-characterize or otherwise amend the security interest to conform it to security interests regulated by Spanish law.

After the debtor is declared insolvent, the enforcement of in rem securities (e.g., mortgages, pledges) affecting assets owned by the debtor and necessary for the continuity of its professional or business activities (presumably most of the debtor's assets) will be stayed until the first of the following circumstances occurs: (i) approval of a creditors' agreement (unless the content has been approved by the favorable vote of the creditor secured by the security, in which case the creditor will be bound to whatever has been agreed in the creditors' agreement), or (ii) one year has elapsed since the declaration of insolvency without liquidation proceedings having been initiated.

Pursuant to Spanish law, the creation of pledges requires the fulfillment of certain formalities in order for such security interests to be considered existing and perfected. "Ordinary" pledges (which may be created over shares/quotas, credit rights arising from contracts, etc.), for instance, require the transfer of possession of the pledged assets to the pledgee, and their formalization in a notarial document (which is not compulsory in all cases but habitual and advisable in order for the security interest to be effective vis-à-vis third parties). The specific way to fulfill the request of transfer of possession varies depending on the nature of the assets to be pledged.

In respect of pledges over credit rights arising from contracts or bank deposits/accounts, the transfer of possession requirement is met by formalizing such pledge in a notarial document and the pledge is typically notified to the relevant debtor/depositary bank. Hence, the formalizing of the pledge and (although not strictly and legally required) the notice to the relevant debtor/depositary bank would suffice for the purposes of creating this security.

Insolvency laws

Any insolvency proceedings against Keraben and Saloni would be likely based on Spanish insolvency laws. However, pursuant to the Regulation (EU) 2015/848 of the European Parliament and of the Council of 20 May 2015 on insolvency proceedings and the Spanish Act 22/2003, of July 9, 2003, on Insolvency (the "**Spanish Insolvency Act**"), where a Spanish company conducts business in another country, the jurisdiction of the Spanish courts may be limited if the company's center of main interest is found to be in a country other than the Kingdom of Spain. This "centre of main interests" is deemed to be where the insolvent party conducts the administration of its interests on a regular basis and which may be recognized as such by third parties. Insolvency proceedings conducted by the court of the "centre of main interests" are considered "the principal insolvency proceedings" and have universal reach affecting all the assets of the insolvent party worldwide, with certain exceptions, such as security interests over assets located outside of Spain. If the "centre of main interests" is not in Spain, but the insolvent party has a permanent establishment in Spain, Spanish courts will only have jurisdiction over the assets located in Spain (the "**territorial insolvency proceedings**").

The following is a brief description of certain aspects of the Spanish Insolvency Act.

The Spanish full-blown insolvency proceeding (bankruptcy), which is referred to as "concurso de acreedores," applies to all persons or entities (save for limited exceptions specifically contemplated in the Spanish Insolvency Act). These proceedings may lead either to reorganization through the implementation of an agreement between the creditors and the debtor (composition agreement) or to the liquidation of the debtor's assets.

Both the debtor and creditors may initiate the insolvency proceeding. Bankruptcy is considered voluntary (*concurso voluntario*) if filed by the debtor and involuntary (*concurso necesario*) if filed by a third-party creditor.

A debtor (in the case of a company, its directors) is required to file the insolvency petition upon inability to regularly pay its liabilities as they become due. The debtor is also entitled (but not required) to apply for such insolvency proceedings when it foresees its inability to regularly pay liabilities as they become due. It is presumed that the debtor becomes aware of its insolvency, unless otherwise proven, if any of the circumstances that qualify as the basis for a petition for mandatory insolvency occur. Where the debtor fails to file a petition for insolvency within the time period established by law (two months), (i) the directors may be removed from office and substituted by an insolvency authority once the insolvency is declared and the insolvency process is initiated; (ii) the debtor may be unable to exercise certain courses of action (including, *inter alia*, the possibility of submitting a pre-arranged settlement proposal); and (iii) the directors may be held liable for the impaired claims accrued as from the consent of insolvency, should the debtor be liquidated and insolvency be classified as "guilty."

The general obligation to file for insolvency within two months from the date of being in a situation of current insolvency (*insolvencia actual*) does not apply if the debtor notifies the applicable Court that it has initiated negotiations with its creditors to obtain accessions to a pre-arranged anticipated composition agreement (*propuesta de convenio anticipado*) or to reach an out-of-court refinancing agreement set out in Section 71 bis.1 or in the 4th Additional Provision of the Spanish Insolvency Act (the so-called 5 bis communication). Effectively, by means of the 5 bis communication, the debtor gains a three-month period to achieve an agreement with its creditors or to obtain accessions to an anticipated composition agreement and one further month to file for insolvency, if after the above mentioned period of three months has elapsed without an agreement being reached and the situation of insolvency persists. During such period of time, creditors' applications for insolvency will not be accepted and enforcement will be prevented: (i) by creditors, other than public, over assets which are necessary for the continuity of the debtor's business activities; and (ii) by financial creditors referred to in the 4th Additional Provision of the Spanish Insolvency Act over any asset, provided financial creditors holding at least 51% of the financial indebtedness (by value) of the insolvent debtor have expressed their will to commence negotiations in order to reach a refinancing agreement and have committed not to initiate or continue enforcement proceedings against the debtor. Further, any outstanding enforcement action which falls into the above categories that was commenced before the filing for a pre-insolvency moratorium will be suspended.

Creditors may file for the declaration of insolvency of the debtor but must provide evidence of its actual and not just its imminent insolvency. To this end, creditors must prove to the court: (i) a generalized default on payments by the debtor; (ii) a seizure of assets affecting or comprising the generality of the debtor's assets; (iii) a misplacement, "fire sale," hasty, loss-making or ruinous liquidation of the debtor's assets; or (iv) a generalized default on certain tax, social security and employment obligations during the applicable statutory period (i.e. three months). However, creditors having acquired debt by means of *inter vivos* acts and by a singular title after becoming due and payable may not file for the declaration of insolvency of the debtor within six months of the date of the debt acquisition.

Creditors must communicate their claims to the insolvency trustee (*administrador concursal*) within one month from the publication of the judicial resolution declaring the insolvency of the debtor in the Official Gazette (*Boletín Oficial del Estado*), by providing original documentation that justifies their claims. In addition, the insolvency trustee is obliged to include all creditors appearing in the corporate documentation of the debtor in the list of creditors to be attached to the insolvency trustee's report, even if such creditors did not communicate their claims to the insolvency trustee.

The sole declaration of insolvency does not imply the automatic suspension of the business activities of the debtor. The insolvency court can either determine that the debtor continues to be managed by its management body under the supervision of one or three insolvency trustees, or that the management body loses control over the debtor, in which case the insolvency trustees will take over the full management of the debtor.

The debtor may not carry out any management activity or enter into any new transactions concerning the disposal of its assets, unless approved by either the insolvency trustee or the management body with the authorization of the insolvency trustee, in both cases with the acquiescence of the insolvency court. Actions carried out by the debtor that breach any required supervision of the bankruptcy authorities may be declared null and void.

Neither private nor governmentally-led foreclosure proceedings can be initiated or continued against the debtor's assets after its declaration of insolvency. See the section "*Enforcement Proceedings in Spain*" for any details on the exceptions to the foregoing.

Set-off is not allowed under the Spanish Insolvency Act once a debtor has been declared insolvent, but where the operating requirements of set-off are met before the declaration of insolvency, set-off can still apply. However, set-off may be exercised by a determined creditor vis-à-vis the insolvent company if the law governing the reciprocal credit right of the insolvent company permits it during insolvency proceedings. Accrual of both legal and contractual interest is suspended from the declaration of the insolvency except for those credits secured with *in rem* security up to the maximum amount covered by the relevant security.

The general rule is the maintenance of all contracts entered into by the debtor from which obligations derive for both parties that are still outstanding, regardless of the declaration of insolvency or the existence of an early termination for insolvency clause in the relevant contract (which shall be deemed as not included within the agreement). Contracts can be terminated if one of the parties breaches its contractual obligations, although the court, even existing a termination cause, may force the fulfillment of the contract if it is in the interest of the debtor's estate. Contracts can also be terminated if the insolvency trustees deem it convenient for the debtor's estate upon approval of the insolvency court. In addition, the insolvency trustees and, under certain circumstances, other creditors may seek the termination of certain acts and contracts harmful to the debtor's estate by initiating a claw-back action (see further details below). There are specific rules for employment agreements, mainly affecting collective dismissals, which are dealt with by the insolvency court.

The judge's insolvency resolution contains an express request for creditors to declare debts owed to them within a one-month period, by providing original documentation that justifies their claims. Based on such documentation provided by the creditors and that held by the debtor, the insolvency trustee draws up a list of acknowledged claims and classifies them according to the categories established under law, which are as follows: (i) claims against the debtor's state, (ii) claims benefiting from special privileges, (iii) claims benefitting from general privileges, (iv) ordinary claims and (v) subordinated claims.

(a) Claims against the insolvency estate (*créditos contra la masa*) are not considered part of the debtor's general debt and are payable when due according to their own terms (and, therefore, are paid before other debts under insolvency proceedings). Debt against the insolvency estate includes, among others, (i) certain amounts of the employee payroll, (ii) costs and expenses of the insolvency proceedings, (iii) certain amounts arising from services provided by the insolvent debtor under reciprocal contracts and outstanding obligations that remain in force after insolvency proceedings are declared and deriving from obligations to return and indemnify in cases of voluntary termination or breach by the insolvent debtor, (iv) those that derive from the exercise of a clawback action within the insolvency proceedings of acts performed by the insolvent debtor and correspond to a refund of consideration received by it (except in cases of bad faith), (v) certain amounts arising from obligations created by law or from the non-contractual liability of the insolvent debtor after the declaration of insolvency and until its conclusion, (vi) certain debts incurred by the debtor in the ordinary course of business following the declaration of insolvency; (vii) in case of liquidation, the credit rights granted to the debtor under a composition agreement (*convenio*) in accordance with article 100.5 of the Spanish Insolvency Act, (viii) 50% of the new funds lent under a refinancing arrangement entered into in compliance with the requirements set forth in Article 71. bis or the 4th Additional Provision of the Spanish Insolvency Act. This classification shall not apply to the new funds lent by the debtor or persons being in a special relationship with the debtor resulting from a share capital increase, loans or acts with analogous purpose.

(b) Claims benefiting from special privileges, representing security on certain assets (essentially *in rem security*). Creditors benefiting from special privileges, representing security over certain assets (*in rem* securities) up to the amount of the value of their security, provided that such security is listed in the creditors' list (in this regard, the value of a security shall be 90% of the reasonable value of the secured asset determined in accordance with the rules provided for in the Spanish Insolvency Act minus senior claims). The part of the claim exceeding the value of their security will be classified according to the nature of the claim. These claims may entail separate proceedings, and are subject to certain restrictions related to a mandatory waiting period that may last up to one year and certain additional limitations set forth in the Spanish Insolvency Act, provided that the relevant asset is necessary for the continuity of the debtor's business. However, within such waiting period or while any enforcement proceedings remain suspended under the Spanish Insolvency Act, the insolvency trustee has the option to pay the relevant claims against the insolvency estate under specific payment rules. Privileged creditors are not subject to composition agreements (*convenios*), unless they give their express support by voting in favor of the arrangement or, in case they do not give such express support, if creditors holding security which represent at least 60% (or 75% depending on the conditions of the composition agreement) of the total value of secured claims of the same class vote in favor of such composition agreement. In the event of liquidation, they are the first to collect payment against the secured assets.

(c) Claims benefiting from general privileges including, among others, certain labor debts and certain debts with public administrations. Other debts with public administrations corresponding to tax debts and social security obligations are recognized as privileged for half of their amount, and so is 50% of the amount of the debts held by the creditor applying for the corresponding insolvency proceedings, to the extent such application has been approved. New funds under a refinancing arrangement entered into in compliance with the requirements set forth in Article 71. bis or the 4th Additional Provision of the Spanish Insolvency Act in the amount not admitted as a debt against the insolvency estate (*crédito contra la masa*) will also be credits with general privileges. The holders of general privileges are not to be affected by the restructuring (if under a composition agreement) except if they give their express support by voting in favor of the composition agreement or, in the case they do not give such express support, if creditors holding claims benefiting from general privileges which represent at least 60% (or 75% depending on the conditions of the composition agreement) of the total value of claims benefiting from general privileges of the same class vote in favor of such composition agreement. If they do not agree to the arrangement and, in the event of liquidation, they are the first to collect payment (in the order established by law) and with the exception of secured assets, from which payments will be collected first by the relevant creditors holding claims with a special privilege.

(d) Ordinary claims (non-subordinated and non-privileged claims) will be paid on a prorated basis from the proceeds of the assets not subject to secured claims, former pre-deduction of estate claims and generally privileged claims.

(e) Subordinated claims are thus classified contractually or pursuant to law. Debts subordinated by virtue of law include, among others, those credits held by parties in special relationships with the debtor. In the case of individuals, this includes their relatives. In the case of a legal entity, this includes directors (whether duly appointed or "*de facto*" acting as such—*administradores de hecho*-) and those holding general powers of attorney (including those that have held those positions during the two years prior to the insolvency declaration); group companies and their common shareholders, and any shareholders holding over 5% (for listed companies) or 10% (for non-listed companies) of the entity's share capital. Notwithstanding the above, creditors who have directly or indirectly capitalized their credit rights or were appointed as directors pursuant to a refinancing arrangement entered into in compliance with the requirements set forth in Section 71 *bis* or the 4th Additional Provision of the Spanish Insolvency Act shall not be considered as being in a special relationship with the debtor, in respect of credits against the debtor, as a result of the financing granted under such refinancing arrangement. Furthermore, in the absence of evidence to the contrary, assignees or awardees of claims belonging to any of the persons mentioned in this paragraph are presumed to be persons specially related to the insolvent debtor as long as the acquisition has taken place within two years prior to the insolvency proceedings being declared open. Claims related to accrued and unpaid interest unless and to the extent they are secured by an in rem right are also subordinated. Subordinated creditors are second-level creditors; they may not vote on a composition agreement (*convenio*) and in the event of liquidation collect payment according to the ranking established in the Spanish Insolvency Act (once ordinary creditors have been paid in full).

Once the insolvency proceeding is instituted, the harmful actions to the debtor's estate carried out by the debtor within two years prior to the date of declaration of the insolvency proceeding may be declared rescinded (*rescindido*) or clawed back. Some transactions are presumed detrimental to the debtor's estate without the parties being able to provide evidence to the contrary, non-rebuttable presumptions, (e.g., disposal of assets without consideration and payment of non-matured unsecured obligations). In some cases, the prejudice is presumed although such presumption can be challenged (rebuttable presumption) as in the case of (i) disposal acts in favor of specially-related persons to the debtor; (ii) the granting of in rem rights as security for preexisting obligations (or new obligations in substitution of the preexisting obligations); or (iii) early repayment of secured obligations. In the remaining cases, detriment would have to be evidenced by the party seeking rescission.

Under no circumstances can be rescinded: (i) ordinary transactions carried out within the debtor's ordinary course of the business cannot be rescinded, provided that they are carried out under market conditions, (ii) actions contemplated in the specific legislation regarding systems of payment, set-off or liquidation of values and derivative instruments, (iii) guarantees constituted in favor of Public Law credits or credits in favor of the labor authorities, and (iv) transactions subject to foreign law in case the beneficiary of the transaction can prove that such transaction cannot be rescinded under the law to which it is subject to.

The Spanish Insolvency Act excludes as well certain types of refinancing agreements from the scope of claw-back actions, including the guarantees and security interest granted in execution of such agreements as explained in the section referred to as "*Cramdown effects of certain refinancing agreements in Spain*" below.

On top of claw-back actions, acts and contracts entered into by the debtor in fraud of creditors within the last four years may be judicially challenged (through the so-called "***actio pauliana***").

If a rescission action is successful, restoration of the assets that are the subject of the transaction, together with the proceeds and interest, will be ordered by the judge. If the assets cannot be restored to the debtor, the counterparty to the insolvent debtor must pay an amount in cash equal to the value of the assets at the time of their disposal, plus interest. If the judge rules that the transaction has been conducted in bad faith, the liable party will be obligated to indemnify the debtor for loss and damages suffered as its claim will be classified as subordinated. If the judge does not conclude that the transaction was conducted in bad faith, the counterparty to the debtor will settle its credit simultaneously with the restoration of the assets and rights to the insolvency estate as per bilateral contracts.

The foreclosure of a security interest under the different proceedings set forth in the Spanish Civil Procedure Law (e.g., judicial or notarial auction) does not guarantee -at least in practice- that the proceeds to be obtained as a result of the enforcement proceeding are equivalent to the amount secured by such asset or even to the value on the asset.

Enforcement of guarantees may be limited since the guarantor may not be required to pay any amount in excess of the amount owed by the principal debtor or under condition less favorable than those applicable to the principal debtor.

Guarantees or security interests granted by a Spanish company in favor of a third party, to secure other group companies' debt may be subject to clawback, on the basis that such guarantees or security interests may be considered as detrimental to the guarantor's estate, if the guarantor is not able to show that there was a tangible and identifiable corporate benefit for the guarantor to grant such guarantee or security (beyond an abstract group interest or general mentions to pertinence to the same group of companies or the so-called "group interest"). Whether or not the granting of any upstream guarantee or security by the guarantor is detriment to the guarantor's estate is a factual matter that will need to be proven on a case by case basis (the beneficiary of the guarantee bearing the burden of such proof). Notwithstanding the foregoing, Spanish case law recognizes the validity of upstream guarantees.

Conclusion of insolvency

Settlement

Once the debtor's assets and liabilities have been identified, the Spanish Insolvency Act encourages creditors to reach a composition agreement regarding payment of the insolvency debts. Such an agreement may be proposed either by the debtor or by the creditors, and shall set forth how, when and up to what amount creditors are to be paid. Once executed, the composition agreement must be honored by the debtor and respected by the creditors.

The composition agreement must contain proposals for write-offs and stays. Article 100 of Spanish Insolvency Act provides that it may also contain alternative or additional proposals for all creditors or for certain classes of creditors (except for public entities), including conversion of credits into shares, into profit-sharing credits, convertible bonds or subordinated debt, or any financial instrument different from the original debt. It may also include proposals for allocation of all assets or of certain assets related to the debtor's business activity to a specific person with a commitment from the acquirer to continue the activity and to pay off the debt as determined in the composition agreement.

The proposals in the composition agreement shall include a payment schedule.

In order for a composition agreement to be deemed approved by the creditors, the following majorities shall be met at the creditors' meeting:

(a) In case the composition agreement contains write-offs equal to or less than 50% of the amount of the claims; to stays on the payment of principal, interest or any other outstanding amount, for a period not exceeding five years; or, in the case of creditors other than those related to the public administration or employment matters, the conversion of debt into profit participating loans (*préstamos participativos*) over the same period, at least 50% of the ordinary claims have voted in favor of such composition agreement. Notwithstanding the above, a simple majority will suffice when the composition agreement consists of (i) full payment of ordinary claims within a period not exceeding three years or (ii) immediate repayment of outstanding ordinary claims applying a write off of less than 20%.

(b) In case the composition agreement contains stays of between five and ten years; write-offs of more than 50% of the amount of the claims and, in the case of creditors other than those related to the public administration or employment matters, the conversion of debt into profit-participating loans over the same period and any other proposal under article 100 of the Spanish Insolvency Act, 65% of the ordinary credits should have voted for the composition agreement.

The holders of subordinated credits and those creditors considered as especially related to the debtor are not entitled to vote.

Although in principle privileged creditors are not subject to an approved composition agreement (unless they have expressly voted in its favor), the effects of an approved composition agreement can be extended to privileged creditors provided that the relevant composition agreement has been approved by the following majorities of creditors within its category of creditors (labor creditors, public law creditors, financial creditors or others):

(a) In case the composition agreement contains a write-off (or debt discharges) equal to or less than 50% of the amount of the claims, stays for a period no longer than 5 years or conversion of debt into profit participating loans, also for a period no longer than 5 years, at least 60% of privileged creditors have voted in favor; and

(b) In case the composition agreement contains a write-off of more than 50% of the claim; stays (for a period between 5 and 10 years), conversion of debt into profit participating loans also for a period between 5 and 10 years, and any other proposal under article 100 of the Insolvency Act, at least 75% of privileged creditors have voted in favor.

Cramdown effects of certain refinancing agreements in Spain

In order to seek protection against clawback, refinancing agreements (out-of-court workouts) can also be judicially sanctioned (*homologado*) by the commercial court that will be competent to conduct an eventual insolvency proceedings of the debtor, upon request by the debtor or by any creditor having entered into such refinancing agreements, provided that, among other requirements, (i) they entail a significant enlargement of debtor's credit or a change in the debt structure by either granting a longer term or replacing previous claims with new ones, all these in accordance with a viability plan enabling the continuity of the debtor business activity in the short and medium term; (ii) they have been subscribed by creditors holding financial liabilities representing, at least, 51% of the debtor's financial liabilities whether or not subject to financial supervision (that is to say the Spanish Insolvency Act excludes public creditors, labor creditors and those of commercial transactions in order to calculate whether the required thresholds are met) at the date of the refinancing agreement; (iii) the debtor's auditor issues a certificate acknowledging that the required thresholds have been reached (in the case of a group a companies, the majority refers both individually to each company and to the Group as a whole -where the intercompany claims are not taken into account-); and (iv) the refinancing agreement and the documents sustaining performance of conditions (i) to (iii) above are formalized in a notarial deed. Such judicially sanctioned refinancing agreements may not be subject to a claw-back action, but may be challenged in certain cases pursuant to general fraudulent conveyance law (i.e., in case of breach of formalities or in case they impose disproportionate sacrifices on dissenting creditors—see below).

As to the rules to calculate whether the required thresholds have been reached, all creditors holding an interest in a syndicated loan will be deemed to have adhered to the refinancing agreement (for the purposes of petitioning protection against clawback) if it is favorably voted upon by at least 75% of the liabilities represented by the loan, or a lower majority if so established in the syndicated loan agreement.

The following cramdown effects of homologated refinancing agreements may be imposed on dissenting or non-participating unsecured financial creditors including secured financial creditors to the extent of that part of their secured claim not covered by their security interest, as such security interest is to be valued in accordance with the rules set out by the latest reform of the Spanish Insolvency Act, provided they achieve the thresholds mentioned below:

(a) If the judicially sanctioned refinancing agreement is supported by creditors representing at least 60% of the debtor's financial liabilities, stays of payments may be granted for up to five years or the debt converted into so-called profit participation loans (*préstamos participativos*) of duration up to five years.

    Further, these effects may be extended to the amount of secured claims of non-participating or dissenting creditors, when the agreement has been entered into by financial creditors holding secured claims which represent at least 65% of the value of all secured claims of the debtor.

(b) If the homologated refinancing agreement is supported by creditors representing at least 75% of the debtor's aggregate financial liabilities:

    (i) stays of payments for up to ten years;

    (ii) uncapped haircuts;

    (iii) capitalization of debt. Nevertheless, those creditors that have not supported such refinancing agreement (either because they did not sign the agreement or because they oppose it) may choose between (i) the debt for equity swap contemplated by the agreement; or (ii) a discharge of their claims equal to the nominal amount (including any share premium) of the shares/quota shares that would have corresponded to that creditor as a consequence of the relevant debt for equity swap;

    (iv) conversion of debt into profit participation loans of up to ten years, convertible obligations, subordinated loans, payment in kind facilities, or in any other financial instrument with a ranking, maturity and features different to the original debt; and

    (v) assignment of assets or rights as assignment in kind for total or partial payment of the debt (*datio pro soluto*).

Further, these effects may be extended to the amount of secured claims of non-participating or dissenting creditors in the amount covered by their security interest (valued in accordance with the rules set out in the Fourth Additional Provision of the Spanish Insolvency Act), when the agreement has been entered into by financial creditors holding secured claims which represent at least 80% of the value of all secured claims of the debtor.

Liquidation

Failure to obtain the approval of a composition agreement or upon debtor's petition at any time leads to liquidation. The debtor must file a petition for liquidation if, after a composition agreement has been approved, it becomes aware of no longer being able to meet the payment commitments and obligations undertaken after the approval of such composition agreement. Additionally, in such case, if the debtor does not file a petition for liquidation while the composition agreement is in force, any creditor may file such petition based on Article 2.4 of the Spanish Insolvency Law. Therefore, the company will be aimed at dissolution and the directors and liquidators will be removed. Deferred credits will compulsorily fall due and credits consisting of other benefits are converted into cash credits.

The insolvency trustee will be required to prepare a liquidation plan that must be approved by the insolvency court. The insolvency trustee is required to report quarterly on the liquidation and has one year to complete it. If the liquidation is not completed within one year, the court may appoint a different insolvency trustee.

Termination of the insolvency proceedings

Article 176.4 of the Spanish Insolvency Act also foresees the termination of the insolvency proceeding at any stage when it is proven that all credits have been paid, or that all creditors have been entirely satisfied by other means, or that the situation of insolvency (*i.e.* the impossibility to face payment obligations regularly) has been overcome.

Finally, it must be noted that article 176 bis of the Spanish Insolvency Act foresees the termination of the insolvency proceeding at any time when assets are not enough to pay post-insolvency debt, as long as no future claw back actions are envisaged, nor actions claiming liability to third parties, nor the assessment of the proceeding as guilty.

Fraudulent Conveyance Laws

Under Spanish law, in addition to insolvency claw back action, the insolvency administrator and any creditor may bring an action to rescind a contract or agreement (*acción rescisoria pauliana*) against the debtor and the third party which is a party to such contract or agreement, provided that the same is performed or entered into fraudulently and the creditor cannot obtain payment of the amounts owed in any other way. Although case law is not entirely consistent, it is broadly accepted that the following requirements must be met in order for a creditor to bring such action:

- the debtor owes the creditor an amount under a valid contract and the fraudulent action took place after such debt was created;
- the debtor has carried out an act that is detrimental to the creditor and beneficial to the third party;
- such act was fraudulent;
- there is no other legal remedy available to the creditor to obtain compensation for the damages suffered; and
- debtor's insolvency, construed as the situation where there has been a relevant decrease in the debtor's estate making it impossible or more difficult to collect the claim.

The existence of fraud (which must be evidenced by the creditor) is one of the essential requirements under Spanish law for the action to rescind to succeed (as opposed to claw back actions where the subjective component or fraud does not have to be proven). Pursuant to article 1,297 of the Spanish Civil Code: (i) agreements by virtue of which the debtor transfers assets for no consideration, and (ii) transfers for consideration carried out by parties who have been held liable by a court (*sentencia condenatoria*) or whose assets have been subject to a writ of attachment (*mandamiento de embargo*) will be considered fraudulent. The presumption referred to in (i) above is a *iuris et de iure* presumption (*i.e.* it cannot be rebutted by evidence), unlike the presumption indicated in (ii) above, which is a *iuris tantum* presumption (*i.e.* it is a rebuttable presumption).

If the rescission action were to be upheld, the third party would be liable to return to the debtor the consideration received under the contract in order to satisfy the debt owed to the creditor (or any other debts that may be owed to other creditors). Following that, the creditor would need to carry out the actions necessary to obtain the amount owed by the debtor.

If the consideration received by the third party under the contract cannot be returned to the debtor, the third party must indemnify the creditor for such damages if it is proved that such third party incurred in willful misconduct when entering into the fraudulent agreement with the debtor. In any other case (i.e. if it is proved that the third party acted in good faith and was not aware of the debtor's fraudulent intention) it will be the person who has actually and consciously caused the damage to the creditor who will have to reimburse the corresponding amount.

The deadline to file a rescission action expires after four years as from the date when the claim could have been filed.

Australia

In the event of insolvency, insolvency proceedings may be initiated in Australia under the insolvency laws of Australia, the procedural and substantive provisions of which may differ from comparable provisions of bankruptcy law or the insolvency laws of other jurisdictions with which you may be familiar.

There are three main forms of insolvency processes in Australia: voluntary administration (which may result in a deed of company arrangement), receivership and winding-up (also called liquidation). Corporate reorganizations can also be effected using, among other things, schemes of arrangement.

Voluntary Administration

Voluntary administration is a non-terminal insolvency process begun by the appointment of one or more administrators to a company.

The most common method for appointment of an administrator is by resolution of the company's board. However, a creditor with a security interest over the whole, or substantially the whole, of the company's property can also appoint an administrator, as can a liquidator or provisional liquidator (if the company is already in liquidation or provisional liquidation). A company need not be presently insolvent to enter into voluntary administration, however in the case of an appointment by the company's board or a liquidator or provisional liquidator, the appointer must believe that the company is likely to become insolvent at some future time.

Voluntary administration is the only formal process in Australia with rehabilitation as one of its express goals. During the period of voluntary administration, there is a moratorium on claims by the company's creditors, such that (with certain exceptions) no proceedings against the company, or in relation to the company's property, can be commenced or continued with, and no enforcement processes can begin or proceed other than with the consent of the administrator or the relevant Australian Court.

Similarly, a security interest cannot be enforced over the property of the company except with the consent of the administrator or the Court, unless the secured creditor holds a security interest over the whole or substantially the whole of the company's property and enforces the security interest within a 13 business days following the appointment of the administrator. These restrictions may affect the enforceability of the security interests granted by the Australian Guarantors if a voluntary administrator were appointed to those entities.

The duration of voluntary administration is prescribed in the Australian Corporations Act and is intended to be for a short period of time, although the administrator can seek an order from an Australian Court to lengthen the period of the administration where the circumstances justify that course. During the period of voluntary administration, the administrator controls the company (the powers of the directors and officers are suspended). The administrator may carry on the business of the company and does so as the company's agent.

At the second creditors' meeting, creditors will be asked to vote on whether the company should execute a Deed of Company Arrangement if one is proposed (see below), be wound up (see below) or revert to the control of its directors. That decision is made by the company's creditors (by a majority in number and value) at a meeting convened by the administrator. If the vote is split between value and number, the administrator which generally chairs the meeting of creditors has a casting vote on the outcome. The voluntary administration ends when the company executes a Deed of Company Arrangement or the creditors resolve that it be wound up or revert to the control of its directors.

Deed of Company Arrangement

A deed of company arrangement is a statutory instrument which, once executed, binds the company, its officers, members, the deed's administrators, its unsecured creditors (whether or not they voted in favor of it), any secured creditors who vote in favor of it and any other parties to the document. Secured creditors who do not vote in favor of the deed of company arrangement will generally not be bound by its terms.

The content of a deed of company arrangement will depend on the arrangement proposed which is put to vote at a meeting of the company's creditors at the second creditors' meeting held during the voluntary administration procedure. A deed of company arrangement will generally provide for the restructure or rehabilitation of the company, usually by compromising claims against the company in exchange for a distribution to creditors. It may also provide for the realization of assets, the orderly winding down of the company's business, the pursuit of litigation for the benefit of creditors and, as stated above, the compromise of claims against the company. It will generally also provide for a moratorium on claims against the company for the period in which the deed of company arrangement operates.

A deed of company arrangement can be terminated in accordance with its terms, by an order of the relevant Australian Court, or by resolution of the company's creditors.

The consequences of termination will depend on the terms of the deed or (if applicable) the Court orders made or the creditors' resolution. Two common consequences of termination are:

- that the company is wound up (for example, if the deed has not been performed, the Court makes orders terminating the deed or the creditors pass a resolution terminating the deed and that the company be wound up); or
- that the company returns to the control of its directors and officers (if the deed has been performed).

Receivership

Receivership is a form of non-terminal insolvency process, under which a receiver (or receiver and manager) is appointed in respect of a company to take control of or get in specific property, so as to protect the rights of a party (usually a secured creditor) entitled to that property. Receivers are generally appointed privately by a secured creditor in accordance with the terms of a security document. In certain limited circumstances, receivers may also be appointed by an Australian Court.

Depending on the extent of the assets securing the company's obligation to the secured creditor and the terms of the security, the secured creditor will usually have the ability to appoint either a receiver or a receiver and manager. A receiver is charged with the realization or management of the secured asset over which he or she has been appointed. Where the terms of the relevant security permit it to do so, a receiver and manager may be empowered to take control of the debtor's business as a going concern for the purpose of repayment of the secured debt, through realization of the debtor's assets and/or through the income generated by the debtor's business. For the purposes of this document, there is no distinction between receivers and receivers and managers, so the term "receivers" is used to describe both types of appointment.

A receiver's powers are determined by the terms of the security under which she or he is appointed (or in the case of a Court appointed receiver, the relevant Court orders). Receivers' powers and obligations are also subject to the Australian Corporations Act and general law. Generally, a receiver's powers will include the power to enter into possession and control of the secured property, lease or sell the property, and to carry on the business of the debtor and do all things which the debtor is normally empowered to do. It is common for the document creating the security interest to provide that receivers exercise their powers as agent of the company. As such, while directors and officers of the debtor are not formally displaced by the appointment of a receiver, the powers of the receiver supersede those of the existing company management, in respect of dealing with secured property. The directors may however be required to provide the receiver with reports as to the company's affairs and to cooperate with the receiver to the extent necessary to achieve the purposes of the receivership.

A receivership can occur concurrently with a voluntary administration, deed of company arrangement or a liquidation. Where a receivership occurs concurrently with a voluntary administration, the administrator's powers are subject to the functions and powers of the receiver. Where a receivership occurs concurrently with a winding up (or liquidation), the receiver's powers are not diminished, although there may be some restrictions on the extent to which the receiver may exercise those powers.

A receiver owes her or his primary duty to the secured creditor who appointed them. However, the Australian Corporations Act also imposes certain statutory duties on a receiver. In particular, s 420A(1) of that Act, obliges receivers to take reasonable care to ensure that, if sold, the secured property is sold for market value (or, if the assets do not have a market value, for the best price reasonably obtainable having regard to the circumstances that exist when the property is sold). Receivers are also officers of the company and therefore, are subject to the officers' duties imposed by the Australian Corporations Act.

In the normal course, a privately-appointed receivership will terminate where the purpose for which the receiver was appointed has been achieved. This will usually be the repayment of the debt owed to the secured creditor. If there are insufficient assets held by the debtor to repay the secured debt in full, the receivership will terminate when the receiver exhausts all of the available assets of the debtor and retires. On termination of the receivership (assuming there is no concurrent voluntary administration, deed of company arrangement or liquidation), control of the company and all of its remaining assets are returned to the company's directors and officers.

Winding Up

A winding-up (or liquidation) is a terminal insolvency process by which a company's affairs are brought to an end, and its assets are distributed among its creditors and (if there is a surplus after creditors are paid) its members.

A winding up most commonly occurs where a company is insolvent, and is commenced:

- where a Court makes an order that the company be wound up in insolvency (or for some other reason);
- by resolution of the company's members (known as a creditors' voluntary winding up if the company is insolvent); or
- by resolution of the company's creditors at the conclusion of a voluntary administration.

It is also possible for a company to be wound up on a solvent basis, most commonly because its members wish it to cease trading and have their capital returned (known as a members' voluntary winding up).

During a winding up:

- subject to Court order, a stay is imposed upon existing proceedings against the company and claimants are prohibited from commencing new proceedings;
- instead claimants must lodge a proof of debt with the liquidator for the amount of their claim against the company;
- any distress or execution put in force against the property of the company is void. However, a secured creditor does not require the leave of the Court to deal with the charged property. Where a receivership and liquidation occur concurrently, a liquidator will generally not have power to deal with the company's assets that are the subject of a valid security interest in favor of the secured creditor.

On liquidation, unsecured creditors have a right to vote at any creditors' meetings and distribution of a fund of assets protected and properly administered. Secured creditors generally retain the right to enforce their security and may elect to appoint a receiver.

Once appointed, a liquidator is able to bring proceedings, amongst other things, against persons in relation to "voidable transactions", pursuant to section 588FE(1) of the Australian Corporations Act. The most commonly prosecuted "voidable transaction" claims, and their relevance to noteholders are discussed further in the limitations section, below.

The proceeds of successful claims will be available for distribution to the company's creditors.

Section 556(1) of the Australian Corporations Act provides a prescribed order (commonly referred to as a "**waterfall**") for the payment of certain unsecured debts and claims against the company, which must be paid in priority to all other unsecured debts and claims against the company. These include, among others, debts or amounts owing to employees for certain claims.

The final step in a winding-up is the deregistration of the company. The steps for deregistration are governed by the Australian Corporations Act. Once deregistered, the company ceases to exist and the liquidator's role comes to an end.

Scheme of Arrangement

A scheme of arrangement is a Court approved compromise or arrangement between a company and its creditors or members, or a specific class of creditors (for creditors' schemes) or members (for members' schemes).

Schemes can be utilized by companies to provide for a modification or adjustment of the rights of the company's creditors or members which, if approved by the requisite majority of creditors or members of the class to which the scheme was proposed and approved by the Court, will be binding on all creditors or members in that class (including dissenting creditors or members).

Members' schemes will generally involve some restructuring of the company and the rights and obligations of its members. A creditors' scheme will often involve a proposal to defer, compromise or extinguish the company's debts. A typical scenario would involve a moratorium in respect of claims against the company and a compromise of debts owed by it (and/or a modification of the rights of creditors or a class of them in relation to the company). A creditors' scheme needs to be approved by each class of affected creditors (in each case by a voting majority constituting 75% in value and majority in number). Unlike a deed of company arrangement, schemes of arrangement can bind secured creditors, owners and lessors in respect of their property and can release third-party claims.

Schemes are, however, extremely flexible and can be utilized to implement any arrangement relating to the rights and obligations of the company and its creditors. However, a scheme which is contrary to law, or not in the public interest is unlikely to be approved by the Court (even if it has the support of members and/or creditors).

Summary of Limitations on the Validity and Enforceability of Guarantees and Collateral Under Australian Law

General

Under Australian law, the enforceability of the Notes Guarantees and security interests is subject to various limitations, some of which are summarized below.

Breach of Directors' Duties

The decision to provide the Notes Guarantees and/or security interests may be found to have been in breach of the duties owed by the directors of the Australian Guarantors, including the duty to act in good faith in the interests of the Australian guarantors, and for a proper purpose.

If a Court were to find that the directors of the Australian Guarantors breached those duties in connection with providing the Notes Guarantees and/or security interests, they may become voidable.

If any of the Guarantees from an Australian Guarantor is avoided, it is possible that Noteholders would be left with a claim solely against the Company and the other Guarantors.

Risks Relating to Registration

Under the Personal Property Securities Act 2009 (Cth) (the "**PPSA**"), security interests over personal property (as that term is defined in the PPSA) may be susceptible to a loss of priority (or in certain circumstances extinguishment) unless the security interest has attached to the relevant collateral and has been perfected. Perfection will usually occur upon registration of the security interest on the Personal Property Securities Register within the requisite timeframe (but can also be effected by "possession" or "control" of the relevant collateral). If a security interest is not perfected or is extinguished, a secured party will continue to have an unsecured claim against a grantor upon the appointment of a voluntary administrator or a liquidator to the grantor.

The PPSA also sets out detailed rules for priority between security interests over personal property and for the circumstances in which assets may become free from security interests. To the extent to which the security interests granted by the Australian Guarantors are created over personal property, these rules will apply. The general rule is that security interests rank in order of perfection subject to a number of exceptions, which have general application. For example, a security interest perfected by "control" ranks ahead of other security interests and a purchase money security interest can rank ahead of earlier perfected security interests provided it is registered within a certain time.

Risks Arising in a Winding-Up

Voidable transactions

If an Australian guarantor is subject to a winding up, the liquidator may apply to an Australian Court for orders that the entry into the Notes Guarantees and/or security interests or a transaction in connection with the Notes Guarantees and/or security interests constitutes a voidable transaction and should be set aside.

The most commonly brought voidable transactions claims include the following:

- an "unfair preference," (section 588FA of the Australian Corporations Act) being a transaction between the company and a creditor carried out at a time when the company was insolvent (or the company became insolvent as a result of the transaction) that results in the creditor receiving from the company, in respect of an unsecured debt, more than the creditor would receive on a winding up of the company;
- an "uncommercial transaction," (section 588FB of the Australian Corporations Act) being a transaction that a reasonable person in the company's position would not have entered into, having regard to the benefits and detriment to the company of entering into the transaction, the benefits to the other parties to the transaction of entering into it and any relevant matters; or
- an "unreasonable director-related transaction" or an "unfair loan" (sections 588FDA and 588FD, respectively, of the Australian Corporations Act).

"Green" security

A security interest granted by the company in respect of "circulating assets" in the 6 month period leading up to the liquidator's appointment, (or, if the liquidation was preceded by voluntary administration, the commencement of the voluntary administration), will be void except so far as the security interest secures a new advance (in each case) (other than an advance to discharge an unsecured debt owed to the secured party which must be given as consideration for the circulating security interest), interest on such an advance (in each case), the amount of a liability (e.g. under a guarantee) undertaken at or after that time on behalf of, or for the benefit of, the company, an amount payable for property services supplied to the company at or after that time or interest on an amount so payable. The security interest will not be void if the company is proven to have been solvent immediately after the time it granted the security interest.

Impact of the above on entry into the Notes Guarantees and/or security interests

The extent to which the entry into the Notes Guarantees and/or security interests is susceptible to challenge on the bases set out above depends, among other things, on when the relevant transaction was entered into relative to the commencement of the winding up (or, if a voluntary administration precedes the winding up, the commencement of the voluntary administration).

Different time periods apply depending on the circumstances of the relevant transaction and the identity of the parties to it.

Ipso facto reforms

On 18 September 2017, the Treasury Laws Amendment (2017 Enterprise Incentives No.2) Act 2017 (the "TLA Act") was enacted in Australia. The legislation provides for a stay on enforcement of certain rights arising under a contract (such as a right entitling a creditor to terminate the contract or to accelerate payments or providing for automatic acceleration) for a certain period of time (and in some cases indefinitely), if the reason for enforcement of those rights is the contractual counterparty being under voluntary administration, a managing controller appointed over the whole or substantially the whole of its property, or a scheme of arrangement (for the purpose of it avoiding being wound up in insolvency) being sought or applying to it (all of which are discussed above), or its financial position during those proceedings (known as "ipso facto" rights) or a reason in substance contrary to the TLA Act. The specified proceedings do not include a winding up or liquidation.

The operation of the legislation commenced on 1 July 2018. The stay will apply to ipso facto rights arising under contracts, agreements or arrangements entered into at or after the commencement date of the legislation, subject to certain exclusions as set out in the TLA Act, subordinate regulations and a Declaration related to the TLA Act that also came into effect on 1 July 2018. The subordinate regulations prescribe that a right contained in a kind of contract, agreement or arrangement for the underwriting of an issue, or sale, of bonds or that is, or governs, bonds, is not subject to the stay.

Rights exercised with the consent of the relevant administrator, managing controller, scheme administrator (or a liquidator if a liquidation follows the administration or scheme) and the right to appoint a controller (in respect of security over the whole or substantially the whole property) during the decision period following the appointment of administrators are excluded. In addition to the exclusions currently applicable as a result of related subordinate regulations and Declaration that came into effect on 1 July 2018, rights prescribed by regulations or Ministerial declarations following 1 July 2018 may also be excluded. Any such subordinate legislation that may be implemented following 1 July 2018 may also prescribe additional reasons to which the stay on enforcement applies. The legislation also gives the Court the power to impose the stay or lift the stay in certain circumstances and extend the duration of the stay.

In relation to the Australian Guarantor, the effect of the ipso facto reforms means that, in the event of the Australian Guarantor being subject to voluntary administration, a managing controllership over the whole or substantially the whole of its property or a scheme of arrangement (for the purpose of avoiding it being wound up in insolvency) but not winding up, the rights of any counterparty to a contract with the Australian Guarantor that would otherwise be triggered by those events (or triggered by its financial position whilst affected by one of those events) may be unenforceable for a certain period of time (or potentially indefinitely). This may affect the exercise of rights under the Guarantees as against the Australian Guarantor.

Until judicial consideration of the TLA Act, the subordinate regulations and the Declaration and any changes in market practice, the scope of the ipso facto reform and its potential effect on the Notes and Guarantees remains uncertain.

BOOK-ENTRY; DELIVERY AND FORM

General

The Notes sold to non-U.S. persons outside the United States pursuant to Regulation S under the U.S. Securities Act will initially be represented by one or more global notes in registered form without interest coupons attached (the "**Regulation S 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.

The Notes sold within the United States to qualified institutional buyers pursuant to Rule 144A under the U.S. Securities Act will initially be represented by one or more global notes in registered form without interest coupons attached (the "**144A Global Notes**" and, together with the Regulation S Global Notes, the "**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.

Ownership of interests in the 144A Global Notes ("**144A Book-Entry Interests**") and ownership of interests in the Regulation S Global Notes (the "**Regulation S Book-Entry Interest**" and, together with the 144A Book-Entry Interests, the "**Book-Entry Interests**") will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that may hold interests through such participants. Book-Entry Interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and/or Clearstream and their participants. The Book-Entry Interests in Global Notes will be issued only in denominations of €100,000 and in integral multiples of €1,000 in excess thereof.

The Book-Entry Interests will not be held in definitive form. Instead, Euroclear or Clearstream, as applicable, 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 interest 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 "holder" of the Notes under the Indenture for any purpose.

So long as the Notes are held in global form, the common depository for Euroclear or Clearstream, as applicable (or its 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 or Clearstream, as applicable, and indirect participants must rely on the procedures of Euroclear or Clearstream, as applicable, and the participants through which they own Book-Entry Interests in order to exercise any rights of holders under the Indenture.

Neither the Issuer, the Registrar, Paying Agent, Transfer Agent, and their respective agents, 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.

Issuance of Definitive Registered Notes

Under the terms of the Indenture, owners of the Book-Entry Interests will receive Definitive Registered Notes (as defined below):

(a) if Euroclear or Clearstream notifies us 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;

(b) if Euroclear or Clearstream so requests following an Event of Default under the Indenture; or

(c) if the owner of a Book-Entry Interest requests such exchange in writing delivered through Euroclear or Clearstream following an Event of Default under the Indenture.

Euroclear and Clearstream have advised us that upon request by an owner of a Book-Entry Interest described in the immediately preceding clause (3), their current procedure is to request that we issue or cause to be issued Notes in definitive registered form to all owners of Book-Entry Interests.

In such an event, the Issuer will issue Definitive Registered Notes, registered in the name or names of holders and issued in any approved denominations, requested by or on behalf of Euroclear, Clearstream or us, 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 as provided in the Indenture, unless that legend is not required by the Indenture or applicable law.

In the case of the issue of Definitive Registered Notes, the holder of a Definitive Registered Note may transfer such Definitive Registered Note by surrendering it to the Registrar. In the event of a partial transfer or a partial redemption of one Definitive Registered Note, a new Definitive Registered Note will be issued to the transferee in respect of the part transferred, and a new Definitive Registered Note will be issued to the transferor or the holder, as applicable, in respect of the balance of the holding not transferred or redeemed; provided that a Definitive Registered Note will only be issued in denominations of €100,000 or in integral multiples of €1,000 in excess thereof.

If Definitive Registered Notes are issued and a holder thereof claims that such Definitive Registered Notes have been lost, destroyed or wrongfully taken, or if such Definitive Registered Notes are mutilated and are surrendered to the Registrar or at the office of a Transfer Agent, we will issue and the Registrar or an Authenticating Agent appointed by the Trustee will authenticate a replacement Definitive Registered Note if the Registrar's and our requirements are met. We or the Trustee or Registrar may require a holder requesting replacement of a Definitive Registered Note to furnish an indemnity bond sufficient in the judgment of both the Trustee and us to protect us, the Trustee, the Paying Agent, the Transfer Agent or the Registrar appointed pursuant to the Indenture from any loss which any of them may suffer if a Definitive Registered Note is replaced. We and/or the Trustee may charge for expenses in replacing a Definitive Registered Note.

In case any such mutilated, destroyed, lost or stolen Definitive Registered Note has become or is about to become due and payable, or is about to be redeemed or purchased by us pursuant to the provisions of the indenture, we in our discretion may, instead of issuing a new Definitive Registered Note, pay, redeem or purchase such Definitive Registered Note, as the case may be.

Definitive Registered Notes may be transferred and exchanged for Book-Entry Interests only in accordance with the Indenture and, if required, only after the transferor first delivers to the Transfer Agent a written certification (in the form provided in the Indenture) to the effect that such transfer will comply with the transfer restrictions applicable to such Notes. See "*Notice to Investors*."

To the extent permitted by law, we, the Trustee, the Paying Agent, the Transfer Agent, the Registrar and their respective agents shall be entitled to treat the registered holder of any Global Note as the absolute owner thereof and no person will be liable for treating the registered holder as such. Ownership of the Global Notes will be evidenced through registration from time to time at the registered office of the Issuer, and such registration is a means of evidencing title to the Notes.

We will not impose any fees or other charges in respect of the Notes; however, owners of the Book-Entry Interests may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear and Clearstream.

Redemption of the Global Notes

In the event any Global Note, or any portion thereof, is redeemed, Euroclear 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 €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 Paying Agent. The Paying Agent will, in turn, make such payments to the common depository 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, the Trustee, the Paying Agent, Registrar and Transfer Agent will treat the registered holder of the Global Notes (for example, 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, the Trustee, the Transfer Agent, the Registrar nor any Paying Agent 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."

Payments will be subject in all cases to any fiscal or other laws and regulations (including any regulations of the applicable clearing system) applicable thereto. None of the Issuer, the Trustee, Paying Agent, Transfer Agent, Registrar nor the Initial Purchasers nor any of their respective agents will be liable to any holder of a Global Note or any other person for any commissions, costs, losses or expenses in relation to or resulting from any currency conversion or rounding effected in connection with any such payment. Holders may be subject to foreign exchange risks that may have economic and tax consequences to them.

Currency of 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 or Clearstream, as applicable, in euro.

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 the 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 the 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 and Clearstream will be done in accordance with Euroclear and Clearstream rules and will be settled in immediately available funds. If a holder requires physical delivery of Definitive Registered Notes for any reason, including to sell the 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*."

After the expiration of the 40-day distribution period (as defined in Regulation S), 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 Transfer Agent 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*." 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, if required, only if the transferor first delivers to the Transfer Agent or the Registrar (as applicable) 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*."

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. None of the Issuer, the Initial Purchasers, the Trustee, the Paying Agent, the Transfer Agent, the Registrar or any of their respective agents 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 and 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 and Clearstream systems will receive distributions attributable to the 144A Global Notes only through Euroclear and Clearstream participants.

Global Clearance and Settlement Under the Book-Entry System

The Notes represented by the Global Notes are expected to be admitted to trading on the Exchange. 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 Guarantors, the Initial Purchasers, the Trustee, the Transfer Agent, the Registrar or the Paying Agent will have any responsibility for the performance by Euroclear, Clearstream or their participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

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 Eurobonds in registered form. Book-Entry Interests will be credited to the securities custody accounts of Euroclear and 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 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.

Special Timing Considerations

You should be aware that investors will only be able to make and receive deliveries, payments and other communications involving the Notes through Euroclear or Clearstream on days when those systems are open for business.

CERTAIN TAX CONSIDERATIONS

Prospective purchasers of the Notes are advised to consult their own tax advisors as to the tax consequences, under the tax laws of the country in which they are resident, of a purchase of Notes including, without limitation, the consequences of receipt of interest and premium, if any, on and sale or redemption of, the Notes or any interest therein.

United Kingdom

The following is a summary of the United Kingdom withholding taxation treatment and of certain other United Kingdom taxation issues at the date hereof in relation to payments of principal and interest in respect of the Notes. It is based on current law and published practice of HMRC, which may be subject to change, possibly with retrospective effect. The comments relate only to the position of persons who are absolute beneficial owners of the Notes, and some aspects do not apply to some classes of persons, such as dealers in securities. The following is a general guide for information purposes and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser of Notes. Prospective holders of the Notes who are in any doubt as to their tax position should consult their professional advisers. Prospective holders of the Notes who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Notes are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Notes. In particular, holders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

UK Withholding Tax on UK Source Interest

The Notes will constitute "quoted Eurobonds" provided they are and continue to be admitted to trading on a multilateral trading facility operated by an EEA-regulated recognised stock exchange within the meaning of sections 987 (as amended by the Finance Act 2018) and section 1005 of the Income Tax Act 2007 (the "**ITA**"). Whilst the Notes are and continue to be quoted Eurobonds, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

The International Securities Market is a multilateral trading facility operated by an EEA-regulated recognized stock exchange (the London Stock Exchange) for these purposes.

If the Notes cease to constitute quoted Eurobonds, interest will generally be paid by the Issuer under deduction of UK income tax at the basic rate (currently 20%) subject to such relief as may be available following a direction from HMRC pursuant to the provisions of any applicable double taxation treaty (a "**Treaty**"), or to any other exemption which may apply.

Payments by Guarantor

If a Guarantor makes any payments in respect of interest on the Notes (or other amounts due under the Notes other than the repayment of amounts subscribed for the Notes) such payments may be subject to UK withholding tax at the basic rate (currently 20%), subject to such relief as may be available under an applicable Treaty, or to any other exemption which may apply. Such payments by a Guarantor may not be eligible for the "quoted Eurobond" exemption described above.

In certain circumstances and subject to certain exceptions, the Issuer and Guarantors (as applicable) will be obliged to gross-up payments on the Notes to ensure that the holders of the Notes receive and retain a net payment equal to the payment which it would have received had no such deduction or withholding for or on account of United Kingdom income tax been required. See "*Description of the Notes—Additional Amounts*".

Provision of Information

Holders of Notes should note that where any interest on Notes is paid to them (or to any person acting on their behalf) by the Issuer or any person in the United Kingdom acting on behalf of that Issuer (a "**paying agent**"), or is received by any person in the United Kingdom acting on behalf of the relevant holder (save where such person is engaged solely in a passive role in the payment process, for example clearing or arranging the clearing of a check) (a "**collecting agent**"), then the Issuer, the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to HM Revenue & Customs details of the payment and certain details relating to the holder (including the holder's name and address). These provisions will apply whether or not the interest has been paid subject to deduction or withholding for or on account of United Kingdom income tax and whether or not the holder is resident in the United Kingdom for United Kingdom taxation purposes. Where the holder is not so resident, the details provided to HM Revenue & Customs may, in certain cases, be passed by HM Revenue & Customs to the tax authorities of the jurisdiction in which the holder is resident for taxation purposes.

The provisions referred to above may also apply, in certain circumstances, to amounts paid on redemption of the Notes if they constitute "deeply discounted securities" as defined in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 ("**ITTOIA 2005**").

Other Rules Relating to United Kingdom Tax

(1) Where Notes are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest. Payments of interest are subject to United Kingdom withholding tax as described above.

(2) The references in this section ("*Certain UK Taxation Considerations*") to "interest", "premium" and "discount" above are to "interest", "premium" and "discount" as understood in United Kingdom tax law. The statements above do not take any account of any different definitions of "interest", "premium" and "discount" which may prevail under any other law or which may be created by the terms and conditions of the Notes or any related documentation. Holders of the Notes should seek their own professional advice as regards the withholding tax treatment of any payment on the Notes which does not constitute "interest", "premium" and "discount" as those terms are understood in United Kingdom tax law.

(3) The above description of the United Kingdom withholding tax position assumes that there will be no substitution of an issuer and does not consider the tax consequences of any such substitution.

Further United Kingdom Taxation Issues

Interest on the Notes constitutes United Kingdom source income for tax purposes and may be subject to United Kingdom tax by way of direct assessment (including self-assessment) even where paid without withholding or deduction. However, interest with a United Kingdom source received without withholding or deduction for or on account of United Kingdom income tax will not generally be chargeable to United Kingdom tax on income in the hands of a holder of Notes (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless (a) that holder of Notes is a company which carries on a trade in the United Kingdom through a permanent establishment in the United Kingdom or, if not such a company, carries on a trade, profession or vocation in the United Kingdom through a branch or agency, and (b) the interest is received in connection with, or the Notes are attributable to, that permanent establishment, branch or agency. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such holders of the Notes.

United Kingdom Corporation Tax Payers

In general, holders of Notes which are within the charge to United Kingdom corporation tax (including non-resident holders whose Notes are used, held or acquired for the purpose of a trade carried on in the United Kingdom through a permanent establishment) will be charged to tax as income on all returns, profits or gains on, and fluctuations in value of, the Notes (whether attributable to currency fluctuations or otherwise) in accordance with the "loan relationship" rules contained in Part 5 of the Corporation Tax Act 2009 on a basis broadly in accordance with their statutory accounting treatment.

Other United Kingdom Tax Payers

Taxation of Chargeable Gains

If the Notes constitute "deeply discounted securities" for the purposes of Chapter 8 of Part 4 of ITTOIA 2005 (as to which, see "*—Taxation of Discount*" below), the Notes should also constitute "qualifying corporate bonds" within the meaning of Section 117 of the Taxation of Chargeable Gains Act 1992, with the result that on a disposal of the Notes neither chargeable gains nor allowable losses should arise for the purposes of United Kingdom taxation of capital gains. If the Notes are not "deeply discounted securities", they will fall outside the definition of "qualifying corporate bond" mentioned above. Where the Notes do not constitute "qualifying corporate bonds", any disposal of such a Note by an individual holder who is resident for tax purposes in the United Kingdom or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which such a Note is attributable may give rise to a chargeable gain or allowable loss for the purposes of United Kingdom tax on chargeable gains, depending on individual circumstances.

Accrued Income Profits

On a disposal of Notes by a holder of Notes, any interest which has accrued since the last interest payment date or such amount as HMRC deems just and reasonable may be chargeable to tax as income under the rules relating to accrued income profits as set out in Part 12 of the Income Tax Act 2007 if that holder of Notes is resident in the United Kingdom or carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Notes are attributable. These provisions will not apply if the Notes are deemed to be "deeply discounted securities" (as to which, see "*—Taxation of Discount*" below).

Taxation of Discount

Dependent, among other things, on the discount (if any) at which the Notes are issued, or, in certain cases, the premium (if any) payable on redemption, the Notes may be deemed to constitute "deeply discounted securities" for the purposes of Chapter 8 of Part 4 of the ITTOIA 2005. If the Notes are deemed to constitute deeply discounted securities, individual holders of the Notes who are resident for tax purposes in the United Kingdom or who carry on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Notes are attributable generally will be liable to United Kingdom income tax on any gain realized on the sale or other disposal (including redemption) of the Notes; however, such holders will not be able to claim relief from United Kingdom income tax in respect of costs incurred on the acquisition, transfer or redemption of, or losses incurred on the transfer or redemption of, the Notes. Holders of Notes are advised to consult their own professional advisers if they require any advice or further information relating to "deeply discounted securities".

Stamp Duty and Stamp Duty Reserve Tax

No United Kingdom stamp duty or stamp duty reserve tax will be payable on the issue or transfer of the Notes.

Certain U.S. Federal Income Tax Considerations

The following is a discussion of certain U.S. federal income tax considerations related to the purchase, ownership and disposition of the Notes, but does not purport to be a complete analysis of all potential tax effects. This discussion is limited to consequences relevant to a U.S. holder (as defined below) except for the discussion of FATCA (as defined under "*—Foreign Account Tax Compliance Act*"), and does not address the effects of any U.S. federal tax laws other than U.S. federal income tax laws (such as estate and gift tax laws) or any state, local or non-U.S. tax laws. This discussion is based upon the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), Treasury regulations issued thereunder (the "**Treasury Regulations**"), and judicial and administrative interpretations thereof, each as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect. No rulings from the U.S. Internal Revenue Service (the "**IRS**") have been or are expected to be sought with respect to the matters discussed below. There can be no assurance that the IRS will not take a different position concerning the tax consequences of the purchase, ownership or disposition of the Notes or that any such position would not be sustained.

This discussion does not address all of the U.S. federal income tax consequences that may be relevant to a holder in light of such holder's particular circumstances, including the impact of the unearned income Medicare contribution tax, or to holders subject to special rules, such as certain financial institutions, U.S. expatriates, insurance companies, individual retirement accounts, dealers in securities or currencies, traders in securities, U.S. holders whose functional currency is not the U.S. dollar, tax-exempt entities, regulated investment companies, real estate investment trusts, partnerships or other pass through entities and investors in such entities, persons liable for alternative minimum tax, U.S. holders that are resident in or have a permanent establishment in a jurisdiction outside the United States, persons holding the Notes as part of a "straddle", "hedge", "conversion transaction" or other integrated transaction, entities covered by the anti-inversion rules, and persons subject to special tax accounting rules as a result of any item of gross income with respect to the Notes being taken into account in an applicable financial statement. In addition, this discussion is limited to persons who purchase the Notes for cash at original issue and at their "issue price" (i.e. the first price at which a substantial amount of the Notes is sold to the public for cash, excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) and who hold the Notes as capital assets within the meaning of Section 1221 of the Code (generally for investment).

For purposes of this discussion, a "**U.S. holder**" is a beneficial owner of a Note that is, for U.S. federal income tax purposes, (i) an individual who is a citizen or resident of the United States; (ii) a corporation or any entity taxable as a corporation for U.S. federal income tax purposes created or organized in or under the laws of the United States, any state thereof or the District of Columbia; (iii) any estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) any trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or if a valid election is in place to treat the trust as a U.S. person.

If any entity or arrangement treated as a partnership for U.S. federal income tax purposes holds the Notes, the U.S. tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. A partnership considering an investment in the Notes, and partners in such a partnership, should consult their tax advisors regarding the U.S. federal income tax consequences of the purchase, ownership and disposition of the Notes.

Prospective purchasers of the Notes should consult their tax advisors concerning the tax consequences of holding Notes in light of their particular circumstances, including the application of the U.S. federal income tax considerations discussed below, as well as the application of other federal, state, local, foreign or other tax laws.

Payments of Stated Interest

Payments of stated interest on the Notes (including any additional amounts paid in respect of withholding taxes and without reduction for any amounts withheld) generally will be includible in the gross income of a U.S. holder as ordinary income at the time that such payments are received or accrued, in accordance with such U.S. holder's method of accounting for U.S. federal income tax purposes.

A U.S. holder that uses the cash method of accounting for U.S. federal income tax purposes and that receives a payment of stated interest on the Notes will be required to include in income (as ordinary income) the U.S. dollar value of the euro interest payment (translated at the spot rate of exchange on the date such payment is received) regardless of whether the payment is in fact converted to U.S. dollars at such time. A cash method U.S. holder will not recognize foreign currency exchange gain or loss with respect to the receipt of such interest, but may recognize exchange gain or loss attributable to the actual disposition of the euro so received.

A U.S. holder that uses the accrual method of accounting for U.S. federal income tax purposes (or who otherwise is required to accrue interest prior to receipt) will be required to include in income (as ordinary income) the U.S. dollar value of the amount of stated interest income in euro that has accrued with respect to its Notes during an accrual period. The U.S. dollar value of such euro denominated accrued interest will be determined by translating such amount at the average spot rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average spot rate of exchange for the partial period within each taxable year. An accrual basis U.S. holder may elect, however, to translate such accrued interest income into U.S. dollars at the spot rate of exchange on the last day of the interest accrual period or, with respect to an accrual period that spans two taxable years, at the spot rate of exchange on the last day of the taxable year. Alternatively, if the last day of an accrual period is within five business days of the date of receipt of the accrued interest, a U.S. holder that has made the election described in the prior sentence may translate such interest at the spot rate of exchange on the date of receipt of the interest. The above election will apply to other debt instruments held by an electing U.S. holder and may not be changed without the consent of the IRS. A U.S. holder that uses the accrual method of accounting for U.S. federal income tax purposes will recognize exchange gain or loss with respect to accrued interest income on the date such interest is received. The amount of exchange gain or loss recognized will equal the difference, if any, between the U.S. dollar value of the euro payment received (translated at the spot rate of exchange on the date such interest is received) in respect of such accrual period and the U.S. dollar value of the interest income that has accrued during such accrual period (as determined above), regardless of whether the payment is in fact converted to U.S. dollars at such time. Any such exchange gain or loss generally will constitute ordinary income or loss and be treated, for foreign tax credit purposes, as U.S. source income or loss, and generally not as an adjustment to interest income or expense.

Original Issue Discount

The Notes may be issued with original issue discount ("**OID**") for U.S. federal income tax purposes. Notes will be treated as issued with OID if the stated principal amount of such Notes exceeds its issue price (as defined above) by an amount equal to or greater than a statutorily defined de minimis amount (generally, 0.0025 multiplied by the stated principal amount and the number of complete years to maturity from the issue date).

In the event the Notes are issued with OID, U.S. holders of Notes generally will be required to include such OID in gross income (as ordinary income) for U.S. federal income tax purposes on an annual basis under a constant yield accrual method regardless of their regular method of accounting for U.S. federal income tax purposes. As a result, U.S. holders generally will include any OID in income in advance of the receipt of cash attributable to such income.

The amount of any OID with respect to a Note includible in income by a U.S. holder is the sum of the "daily portions" of OID with respect to the Note for each day during the taxable year or portion thereof in which such U.S. holder holds such Note. A daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID that accrued in such period. The accrual period of a Note may be of any length and may vary in length over the term of the Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs either on the first or last day of an accrual period. The amount of OID that accrues with respect to any accrual period is the excess of (i) the product of the Note's "adjusted issue price" at the beginning of such accrual period and its "yield to maturity," determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of such period, over (ii) the amount of stated interest allocable to such accrual period. The adjusted issue price of a Note at the start of any accrual period generally is equal to its issue price, increased by the accrued OID for each prior accrual period. The yield to maturity of a Note is the discount rate that, when used in computing the present value of all principal and interest payments to be made under the Note, produces an amount equal to the issue price of the Note.

OID, if any, on the Notes will be determined for any accrual period in euro and then translated into U.S. dollars in accordance with either of the two alternative methods described in the third paragraph under "*—Payments of Stated Interest*."

A U.S. holder will recognize foreign currency exchange gain or loss when OID is paid (including, upon the disposition of a Note, the receipt of proceeds that include amounts attributable to OID previously included in income) to the extent of the difference, if any, between the U.S. dollar value of the euro payment received, translated at the spot rate of exchange on the date such payment is received, and the U.S. dollar value of the accrued OID, as determined in the manner described above. For these purposes, all receipts on a Note will be viewed first, as payment of stated interest payable on the Note; second, as receipt of previously accrued OID (to the extent thereof), with payments considered made for the earliest accrual periods first; and third, as receipt of principal. The rules governing OID instruments are complex and prospective purchasers should consult their tax advisors concerning the application of such rules to the Notes as well as the interplay between the application of the OID rules and the currency exchange gain or loss rules.

Foreign currency exchange gain or loss generally will constitute ordinary income or loss and be treated, for foreign tax credit purposes, as U.S. source income or loss, and generally not as an adjustment to interest income or expense.

Foreign Tax Credit

Stated interest income (and OID, if any) on a Note generally will constitute foreign source income and generally will be considered "passive category income" in computing the foreign tax credit allowable to U.S. holders under U.S. federal income tax laws. Any non-U.S. withholding tax paid by or on behalf of a U.S. holder at the rate applicable to such holder may be eligible for foreign tax credits (or deduction in lieu of such credits) for U.S. federal income tax purposes, subject to applicable limitations (including holding period and at risk rules). 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 taxes.

Sale, Exchange, Retirement, Redemption or Other Taxable Disposition of Notes

Upon the sale, exchange, retirement, redemption or other taxable disposition of a Note, a U.S. holder generally will recognize gain or loss equal to the difference, if any, between the amount realized upon such disposition (less any amount equal to any accrued but unpaid stated interest, which will be taxable as interest income as discussed above to the extent not previously included in income by the U.S. holder) and such U.S. holder's adjusted tax basis in the Note.

A U.S. holder's adjusted tax basis in a Note will, in general, be the cost of such Note to such U.S. holder, increased by any OID previously accrued by such U.S. holder with respect to the Note. The cost of a Note purchased with foreign currency will generally be the U.S. dollar value of the foreign currency purchase price translated at the spot rate on the date of purchase. If the applicable Note is treated as traded on an established securities market and the relevant U.S. holder is either a cash basis taxpayer or an accrual basis taxpayer who has made the special election described below, such U.S. holder will determine the U.S. dollar value of the cost of such Note by translating the amount paid at the spot rate of exchange on the settlement date of the purchase.

If a U.S. holder receives foreign currency on such a sale, exchange, retirement, redemption or other taxable disposition of a Note, the amount realized generally will be based on the U.S. dollar value of such foreign currency translated at the spot rate of exchange on the date of disposition. In the case of a Note that is considered to be traded on an established securities market, a cash basis U.S. holder and, if it so elects, an accrual basis U.S. holder, will determine the U.S. dollar value of such foreign currency by translating such amount at the spot rate of exchange on the settlement date of the disposition. The special election available to accrual basis U.S. holders in regard to the purchase or disposition of Notes traded on an established securities market must be applied consistently to all debt instruments held by the U.S. holder and cannot be changed without the consent of the IRS. An accrual basis U.S. holder that does not make the special election will recognize foreign currency exchange gain or loss to the extent that there are exchange rate fluctuations between the disposition date and the settlement date, and such gain or loss generally will constitute U.S. source ordinary income or loss.

Gain or loss recognized upon the sale, exchange, retirement, redemption or other taxable disposition of a Note that is attributable to fluctuations in currency exchange rates with respect to the principal amount of such Note generally will be U.S. source ordinary income or loss and generally will not be treated as interest income or expense. Such gain or loss generally will equal the difference, if any, between the U.S. dollar value of the U.S. holder's foreign currency purchase price for the Note, translated at the spot rate of exchange on the date principal is received from the Issuer or the U.S. holder disposes of the Note, and the U.S. dollar value of the U.S. holder's foreign currency purchase price for the Note, translated at the spot rate of exchange on the date the U.S. holder purchased such Note. In addition, upon the sale, exchange, retirement, redemption or other taxable disposition of a Note, a U.S. holder may recognize foreign currency exchange gain or loss attributable to amounts received with respect to accrued and unpaid stated interest and OID, if any, which will be treated as discussed above under "*—Payments of Stated Interest*" or "*—Original Issue Discount*," as applicable. However, upon a sale, exchange, retirement, redemption or other taxable disposition of a Note, a U.S. holder will recognize any foreign currency exchange gain or loss (including with respect to accrued stated interest and accrued OID, if any) only to the extent of total gain or loss realized by such U.S. holder on such disposition.

Any gain or loss recognized upon the sale, exchange, retirement, redemption or other taxable disposition of a Note in excess of foreign currency exchange gain or loss attributable to such disposition generally will be U.S. source gain or loss and generally will be capital gain or loss. Capital gains of non-corporate U.S. holders (including individuals) derived in respect of capital assets held for more than one year are generally eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

U.S. holders should consult their tax advisors regarding how to account for payments made in a foreign currency with respect to the acquisition, sale, exchange, retirement or other taxable disposition of a Note and the foreign currency received upon a sale, exchange, retirement or other taxable disposition of a Note.

Information Reporting and Backup Withholding

In general, information reporting requirements will apply to payments of stated interest (and the accrual of OID, if any) on the Notes and to the proceeds of the sale or other disposition (including a retirement or redemption) of a Note paid to a U.S. holder unless such U.S. holder is an exempt recipient, and, when required, provides evidence of such exemption. Backup withholding may apply to such payments if the U.S. holder fails to provide a correct taxpayer identification number or a certification that it is not subject to backup withholding, or otherwise fails to comply with the applicable requirements of the backup withholding rules.

Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a U.S. holder's U.S. federal income tax liability provided the required information is timely furnished to the IRS.

Tax Return Disclosure Requirements

Treasury Regulations require the reporting to the IRS of certain foreign currency transactions giving rise to losses in excess of a certain minimum amount, such as the receipt or accrual of interest on or a sale, exchange, retirement, redemption or other taxable disposition of a foreign currency note or foreign currency received in respect of a foreign currency note. U.S. holders should consult their tax advisors to determine the tax return disclosure obligations, if any, with respect to an investment in the Notes, including any requirement to file IRS Form 8886 (Reportable Transaction Disclosure Statement).

U.S. holders who are individuals and who own "specified foreign financial assets" with an aggregate value in excess of certain minimum thresholds at any time during the tax year generally are required to file an information report (IRS Form 8938) with respect to such assets with their tax returns. If a U.S. holder does not file a required IRS Form 8938, such holder may be subject to substantial penalties and the statute of limitations on the assessment and collection of all U.S. federal income taxes of such holder for the related tax year may not close before the date which is three years after the date on which such report is filed. The Notes generally will constitute specified foreign financial assets subject to these reporting requirements, unless the Notes are held in an account at certain financial institutions. Under certain circumstances, an entity may be treated as an individual for purposes of these rules.

U.S. holders are urged to consult their tax advisors regarding the application of the foregoing disclosure requirements to their ownership of the Notes, including the significant penalties for non-compliance.

Foreign Account Tax Compliance Act

Pursuant to Sections 1471 through 1474 of the Code (provisions commonly known as "**FATCA**"), a "foreign financial institution" may be required to withhold U.S. tax on certain "foreign passthru payments" made after December 31, 2018 to the extent such payments are treated as attributable to certain U.S. source payments. Obligations issued on or prior to the date that is six months after applicable final regulations defining foreign passthru payments are filed generally would be "grandfathered" unless materially modified after such date. Accordingly, if the Issuer is treated as a foreign financial institution, FATCA would apply to payments on the Notes only if there is a significant modification of the Notes for U.S. federal income tax purposes after the expiration of this grandfathering period. Non-U.S. governments have entered into agreements with the United States (and additional non-U.S. governments are expected to enter into such agreements) to implement FATCA in a manner that alters the rules described herein. Holders should consult their own tax advisors on how these rules may apply to their investment in the Notes. In the event any withholding under FATCA is imposed with respect to any payments on the Notes, there will be no additional amounts payable to compensate for the withheld amount.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE OF IMPORTANCE TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES TO IT OF AN INVESTMENT IN THE NOTES IN LIGHT OF THE INVESTOR'S OWN CIRCUMSTANCES.

Certain Other Tax Considerations

Payment by a Guarantor

If a guarantor of the Notes makes any payments in respect of interest on the Notes it is possible that such payments may be subject to withholding tax at applicable rates subject to such relief as may be available under the provisions of any applicable double taxation treaty or to any other exemption which may apply. It is not certain that such payments by a guarantor of the Notes will be eligible for all exemptions described above.

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 applicable state securities laws. Accordingly, the Notes offered hereby are being offered and sold only to qualified institutional buyers (as defined in Rule 144A under the U.S. Securities Act) in reliance on Rule 144A under the U.S. Securities Act and persons that are not U.S. persons in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

We have not registered and will not register the Notes or the Guarantees under the U.S. Securities Act and, therefore, 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 pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. Accordingly, we are offering and selling the Notes to the Initial Purchasers for re-offer and resale only:

- in the United States to "qualified institutional buyers," commonly referred to as "QIBs," as defined in Rule 144A in compliance with Rule 144A; and
- non-U.S. persons outside the United States in an offshore transaction in accordance with Regulation S.

We use the terms "offshore transaction," "U.S. person" and "United States" 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 us 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 our "affiliate" (as defined in Rule 144 under the U.S. Securities Act) or acting on our behalf and you are either:

    (a) 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) you are a non-U.S. person that is purchasing the Notes in an offshore transaction in accordance with Regulation S under the U.S. Securities Act.

(3) You acknowledge that none of us, the Guarantors, or the Initial Purchasers, nor any person representing any of them, has made any representation to you with respect to us 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 in making your investment decision with respect to the Notes. You acknowledge that neither the Initial Purchasers nor any person representing the Initial Purchasers make 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 us 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, us 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 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 your or their control and subject to your or their ability to resell such Notes pursuant to Rule 144A, Regulation S or any other exemption from registration available under the U.S. Securities Act.

(5) You agree on your own behalf and on behalf of any investor account or accounts for which you are purchasing the Rule 144A Notes, and each subsequent holder of the Rule 144A 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 after the later of the date of the original issue and the last date on which we or any of our affiliates were the owner of such Notes (or any predecessor thereto) only (i) to us, (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 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 your property or the property of such investor account or accounts be at all times within your or their control and to compliance with any applicable state securities laws, and any applicable local laws and regulations, and further subject to our 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 in the Indenture is completed and delivered by the transferor to the Registrar or Transfer Agent (as applicable). 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 "**U.S. 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 ("**RULE 144A**")) OR (B) IT IS NOT A U.S. PERSON, IS NOT ACQUIRING THIS NOTE FOR THE ACCOUNT OR BENEFIT OF A U.S. PERSON AND IS ACQUIRING THIS NOTE IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH 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][IN THE CASE OF REGULATION S NOTES: 40 DAYS] 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), ONLY (A) TO THE ISSUER, (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 UNDER THE U.S. SECURITIES ACT, 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 AN OFFER OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION 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 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 (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 IN THE INDENTURE IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRANSFER AGENT OR REGISTRAR (AS APPLICABLE) 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.

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 until 40 days after the commencement of the Offering, any offer or sale of the Notes within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the U.S. Securities Act.

(8) 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 us and the Registrar that the restrictions set forth therein have been complied with.

(9) You acknowledge that we, the Initial Purchasers and others will rely upon the truth and accuracy of your acknowledgements, representations, warranties and agreements and agrees that if any of the acknowledgements, representations, warranties and agreements deemed to have been made by your purchase of the Notes is no longer accurate, it 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.

(10) You understand that no action has been taken in any jurisdiction (including the United States) by us 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*."

ERISA Considerations

Any purchaser, including, without limitation, any fiduciary purchasing on behalf of (i) an employee benefit plan (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**")) subject to the provisions of Part 4 of Subtitle B of Title I of ERISA or a plan, individual retirement account or other arrangement to which Section 4975 of the Code applies (each, a "**Plan**"), (ii) an entity whose underlying assets include "plan assets" (within the meaning of 29 C.F.R. Section 2510.3-101 as modified by Section 3(42) of ERISA or any applicable Similar Laws (as defined below)) with respect to a Plan by reason of a Plan's investment in such entity or otherwise (each, a "**Benefit Plan Investor**") or (iii) a governmental (as defined in Section 3(32) of ERISA), church (as defined in Section 3(33) of ERISA or Section 4975(g)(3) of the Code) or non-U.S. plan (as described in Section 4(b)(4) of ERISA) or other arrangement that is subject to any Federal, state, local, non-U.S. or other laws or regulations that are substantially similar to the fiduciary responsibility or prohibited transaction provisions of ERISA or the provisions of Section 4975 of the Code ("**Similar Laws**"), transferee or holder of the Notes will be deemed to have represented, agreed and acknowledged (as applicable) in its corporate and fiduciary capacity, that:

(a) With respect to the acquisition, holding and disposition of the Notes, or any interest therein, (1) either (A) it is not, and it is not acting directly or indirectly on behalf of (and for so long as it holds such

Notes or any interest therein will not be, and will not be acting directly or indirectly on behalf of), a Plan, a Benefit Plan Investor or a governmental, church or non-U.S. plan or other arrangement that is subject to Similar Laws, and no part of the assets used or to be used by it to acquire or hold such Notes or any interest therein constitutes the assets of any such Plan, Benefit Plan Investor or governmental, church or non-U.S. plan or other arrangement that is subject to Similar Laws, or (B) (i) its acquisition, holding and disposition of such Notes or any interest therein does not and will not constitute or otherwise result in a non-exempt prohibited transaction under Part 4 of Subtitle B of Title I of ERISA and/or Section 4975 of the Code (or, in the case of a governmental, church or non-U.S. plan or other arrangement, a violation of any applicable Similar Laws); and (ii) if it is or is acting directly on behalf of a Plan or Benefit Plan Investor subject to Title I of ERISA or Section 4975 of the Code, then it will be required or deemed to represent, warrant and agree that (a) none of the Issuer, the Guarantors, the Initial Purchasers or the Trustee (the "**Transaction Parties**"), nor any of their affiliates, has provided or undertaken to provide any impartial investment recommendation or investment advice on which the Plan, or Benefit Plan Investor, or any fiduciary or other person investing the assets of the Plan, or Benefit Plan Investor ("**Plan Fiduciary**"), has relied in connection with its decision to invest in the Notes, and they are not otherwise acting as a fiduciary, as defined in Section 3(21) of ERISA or Section 4975(e)(3) of the Code, in connection with the Plan, or Benefit Plan Investor's acquisition of the Notes and (b) the Plan Fiduciary is exercising its own independent judgment in evaluating the transaction; and (2) it will not sell or otherwise transfer such Notes or any interest therein other than to a purchaser or transferee that is deemed (or if required by the applicable Indenture, certified) to make these same representations, warranties and agreements with respect to its acquisition, holding and disposition of such Notes or any interest therein.

(b) The acquirer and any fiduciary or representative acting in a fiduciary capacity causing it to acquire an interest in any Notes agrees to indemnify and hold harmless the Issuer, the guarantors, the Initial Purchasers, the Trustee and/or their respective affiliates, from and against any cost, damage or loss incurred by the Issuer, the Guarantors, the Initial Purchasers, the Trustee and/or any of their respective affiliates, as applicable, as a result of any of the foregoing representations and agreements being or becoming false.

(c) Any purported acquisition or transfer of any Note or beneficial interest therein to a purchaser or transferee that does not comply with the requirements of the above provisions shall be void *ab initio*.

PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in the purchase agreement dated as of , 2018, among the Issuer, the Guarantors and the Initial Purchasers (the "**Purchase Agreement**"), we have agreed to sell to each Initial Purchaser, and each Initial Purchaser has agreed, severally and not jointly, to purchase from us, together with all other Initial Purchasers, Notes in the aggregate principal amount of €450.0 million as follows:

Initial Purchasers	Principal Amount of the Notes
Barclays Bank PLC	€
HSBC Bank plc	€
NatWest Markets Plc	€
Total	**€**

General

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 Initial Purchasers propose to offer the Notes initially at the price indicated on the cover page hereof. After the initial offering of the Notes, the offering prices and other selling terms of the Notes may from time to time be varied by the Initial Purchasers without notice. Sales in the United States may be made through certain affiliates of the Initial Purchasers.

Persons who purchase Notes from the Initial Purchasers may be required to pay stamp duty, taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the offering price set forth on the cover page hereof.

No Sale of Similar Securities

The Purchase Agreement provides that we will indemnify and hold harmless 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. We have agreed, subject to certain limited exceptions, that during the period from the date hereof through and including the date that is 60 days after the date hereof, we will not, and the Guarantors will not, without the prior written consent provided for in the Purchase Agreement, offer, sell, contract to sell or otherwise dispose of any debt securities issued or guaranteed by the Issuer or any of the Guarantors that are substantially similar to the Notes.

Securities Not Being Registered Under the U.S. Securities Act

The Notes and the Guarantees have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United States except to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act and outside the United States to persons that are not 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 Regulation S under the U.S. Securities Act. Resales of the Notes are restricted as described under "*Notice to Investors*."

United Kingdom

Each Initial Purchaser represents warrants and agrees that it:

- has 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 it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to us or the Guarantors; and
- has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

EEA

Each of the Initial Purchasers has represented and agreed that it has not offered, sold, distributed or otherwise made available and will not offer, sell, distribute or otherwise make available any Notes to any retail investor in the EEA. For the purposes of this provision:

(1) the expression "retail investor" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of MiFID II; or

(ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(2) the expression "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe to the Notes.

Other Jurisdictions

No action has been taken in any jurisdiction, including the United States and the United Kingdom, by us or the Initial Purchaser that would permit 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 this purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any other offering material or advertisements in connection with the Notes may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction. This Offering Memorandum does not constitute an offer to sell or a solicitation of an offer to purchase Notes in any jurisdiction where such offer or solicitation would be unlawful. 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 Investors*."

Resale Restriction

We and the Guarantors have also agreed that we will not at any time offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any securities under circumstances in which such offer, sale, pledge, contract or disposition would cause the exemption afforded by Section 4(a)(2) of the U.S. Securities Act or the safe harbor of Rule 144A and Regulation S under the U.S. Securities Act to cease to be applicable to the offer and sale of the Notes.

New Issue of Securities

The Notes are a new issue of securities for which there currently is no market. We have applied to list the Notes on the International Securities Market of the London Stock Exchange, however, we cannot assure you that the Notes will be approved for listing or that such listing will be maintained.

The Initial Purchasers have advised us that they intend to make a market in the Notes as permitted by applicable law. The Initial Purchasers are not obligated, however, to make a market in the Notes, and any market-making activity may be discontinued at any time at the sole discretion of the Initial Purchaser without notice. In addition, any such market-making activity will be subject to the limits imposed by the Exchange Act. Accordingly, we cannot assure you that any market for the Notes will develop, that it will be liquid if it does develop, or that you will be able to sell any Notes at a particular time or at a price which will be favorable to you. See "*Risk Factors—Risks Related to the Notes and Our Structure—There may not be an active trading market for the Notes, in which case your ability to sell the Notes may be limited*."

Settlement

We expect 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 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 + "). 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 following business days 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.

Stabilization

In connection with the Offering, HSBC Bank plc (the "**Stabilizing Manager**"), or persons acting on its behalf, may engage in transactions that stabilize, maintain or otherwise affect the price of the Notes. Specifically, the Stabilizing Manager, or persons acting on its behalf, may bid for and purchase Notes in the open markets to stabilize the price of the Notes. The Stabilizing Manager, or persons acting on its behalf, may also over allot the Offering, creating a syndicate short position, and may bid for and purchase Notes in the open market to cover the syndicate short position. In addition, the Stabilizing Manager, or persons acting on its behalf, may bid for and purchase Notes in market making transactions as permitted by applicable laws and regulations and impose penalty bids. These activities may stabilize or maintain the respective market price of the Notes above market levels that may otherwise prevail. The Stabilizing Manager is not required to engage in these activities, and may end these activities at any time. Accordingly, no assurances can be given as to the liquidity of, or trading markets for, the Notes. "*Risk Factors—Risks Related to the Notes and Our Structure—There may not be an active trading market for the Notes, in which case your ability to sell the Notes may be limited*."

The Initial Purchasers may engage in over-allotment, stabilizing transactions, covering transactions and penalty bids in accordance with applicable laws and regulations. Over-allotment involves sales in excess of the Offering size, which creates a short position for the relevant Initial Purchaser. Stabilizing transactions permit bidders to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Covering transactions involve purchase of the Notes in the open market after the distribution has been completed to cover short positions. Penalty bids permit the Initial Purchaser to reclaim a selling concession from a broker or dealer when the Notes originally sold by that broker or dealer are purchased in a stabilizing or covering transaction to cover short positions.

These stabilizing transactions, covering transactions and penalty bids may cause the price of the Notes to be higher than it would otherwise be in the absence of these transactions. These transactions may begin on or after the date on which adequate public disclosure of the terms of the Offering is made and, if commenced, may be discontinued at any time.

Other Relationships

The Initial Purchasers and their respective affiliates are full-service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Certain of the Initial Purchasers and their respective affiliates have, from time to time, performed, and may currently and/or in the future perform, various financial advisory, investment and corporate banking, commercial lending and banking, consulting and other commercial services in the ordinary course of business for us and our affiliates, and may have from time to time in the past held, and may in the future hold, positions in our or any of our affiliates' securities or enter into hedging or general derivative transactions with us or our affiliates in the ordinary course of business, for which they received or will receive customary fees and commissions and reimbursement of expenses.

In the ordinary course of their various business activities, the Initial Purchasers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and U.S. securities activities may involve our or our affiliates' securities and/or instruments (directly, as collateral securing other obligations or otherwise). The Initial Purchasers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and at any time may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

If any of the Initial Purchasers or their affiliates has a lending relationship with us or our affiliates, certain of those Initial Purchasers or their affiliates may routinely hedge their credit exposure to our or our affiliates in a manner consistent with their customary risk management policies. Typically, the Initial Purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our or our affiliates' securities, including potentially the Notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes offered hereby.

Certain of the Initial Purchasers or their respective affiliates are arrangers and lenders under the Amended and Restated Revolving Credit Facility Agreement that we have entered into as borrowers and under the Bridge Facility that we used to provide financing for a portion of the Saloni Acquisition and repay certain outstanding indebtedness and have received and will receive customary fees in such capacities. The proceeds of the Offering will be used to repay the Bridge Facility on the Issue Date and, together with cash on hand, pay the fees and expenses in connection with the Offering. See *"Use of Proceeds*."

LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon for us by Latham & Watkins (London) LLP, as to matters of U.S. federal and New York state law and English law, by Linklaters S.L.P. as to matters of Spanish law and by Clayton Utz as to matters of Australian law. Certain legal matters in connection with the Offering will be passed upon for the Initial Purchasers by Milbank, Tweed, Hadley & McCloy LLP as to matters of U.S. federal, New York state and English law, by Uría Menéndez Abogados, S.L.P. as to matters of Spanish law and by King & Wood Mallesons as to matters of Australian law.

INDEPENDENT AUDITORS

The Consolidated Group Financial Statements, included elsewhere in this Offering Memorandum, have been audited by Grant Thornton UK LLP as stated in their auditor's report appearing herein. The audit reports of Grant Thornton UK LLP, included elsewhere in this Offering Memorandum, did not contain any adverse opinion or a disclaimer of opinion, nor were they qualified as to uncertainty, audit scope or accounting principles. Our current independent auditors are Grant Thornton UK LLP.

The Keraben Financial Statements, included elsewhere in this Offering Memorandum, have been audited by Deloitte, S.L. as stated in their auditor's report appearing herein. The audit reports of Deloitte, S.L., included elsewhere in this Offering Memorandum, did not contain any adverse opinion or a disclaimer of opinion, nor were they qualified as to uncertainty, audit scope or accounting principles. Keraben's current independent auditors are Grant Thornton Corporación S.L.P.

The consolidated financial statements of Cerámica Saloni, S.A. and its subsidiaries as of December 31, 2017 and for the year then ended, have been included herein in reliance upon the report of KPMG Auditores, S.L., independent auditors.

With respect to the interim consolidated financial statements of Cerámica Saloni, S.A. as of June 30, 2018 and for the six month period then ended, included elsewhere in this Offering Memorandum, KPMG Auditores, S.L. has reported that they applied limited procedures in accordance with professional standards for a review of such information. Their separate report, included herein, states that they did not audit and they do not express an opinion on that interim consolidated financial statements. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. Saloni's current independent auditors are KPMG Auditores, S.L.

WHERE YOU CAN FIND MORE INFORMATION

We are not currently subject to the periodic reporting and other information requirements of the Exchange Act.

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 us for such purpose, 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 any of the Initial Purchasers or any person affiliated with any Initial Purchaser in connection with its investigation of the accuracy of such information or its investment decision; 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 or the Guarantees offered hereby other than those contained herein and, if given or made, such other information or representation should not be relied upon as having been authorized by us or any Initial Purchaser. We have agreed in the Indenture governing these Notes that, for so long as the Notes remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act, we will, during any period in which we are neither subject to Section 13 or 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) of the Exchange Act, upon written request of a holder or beneficial owner of the Notes, furnish to such holder or beneficial owner or to the Trustee or any relevant paying agent for delivery to such holder or beneficial owner or prospective purchaser of the Notes, as the case may be, the information required to be delivered pursuant to Rule 144A(d)(4) under the U.S. Securities Act, to permit compliance with Rule 144A thereunder in connection with resales of the Notes. Any such request should be directed to the Issuer at Worcester Road, Kidderminster, Worcestershire DY10 1JR.

So long as the Notes are admitted to the Exchange, and the rules and regulations of the Exchange so require, copies of such information will also be available for review during the normal business hours on any business day at the specified office of the Issuer.

SERVICE OF PROCESS AND ENFORCEMENT OF JUDGMENTS

The Issuer and many of the Guarantors are companies incorporated in England and Wales. Other Guarantors are organized under the laws of Spain and Australia, and future Guarantors may also be organized under the laws of non-U.S. jurisdictions. Most of our directors and executive officers and many of the directors and officers of the Guarantors are non-residents of the United States. Although we and each of the Guarantors have submitted to the jurisdiction of certain New York courts in connection with any action under U.S. securities laws, you may be unable to effect service of process within the United States on our directors and executive officers and the directors and executive officers of the Guarantors or security providers. In addition, as many of our and the Guarantors' assets and the assets of our and their directors and executive officers are located outside of the United States, you may be unable to enforce against them or us judgments obtained in the U.S. courts predicated on civil liability provisions of the Federal securities laws of the United States.

If a judgment is obtained in a U.S. court against us or a Guarantor, 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 our Guarantors are 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.

England and Wales

The United States and England currently do not have a treaty providing for the reciprocal recognition and enforcement of judgments (as opposed to arbitration awards) in civil and commercial matters. Consequently, a final judgment for payment rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. federal securities laws, would not automatically be recognized or enforceable in England. In order to enforce any such U.S. judgment in England, proceedings must first be initiated before a court of competent jurisdiction in England. In such an action, the English court would not generally reinvestigate the merits of the original matter decided by the U.S. court (subject to what is described below) and it would usually be possible to obtain summary judgment on such a claim (assuming that there is no good defense to it). Recognition and enforcement of a U.S. judgment by an English court in such an action is conditional upon (among other things) the following:

- the U.S. court having had jurisdiction over the original proceedings according to English conflicts of laws principles;
- the U.S. judgment being final and conclusive on the merits in the sense of being final and unalterable in the court which pronounced it and being for a definite sum of money;
- the U.S. judgment not being for a sum payable in respect of taxes, or other charges of a like nature or in respect of a penalty or fine;
- the U.S. judgment not contravening English public policy;
- the U.S. judgment not having been arrived at by doubling, trebling or otherwise multiplying a sum assessed as compensation for the loss or damages sustained and is not being otherwise in breach of Section 5 of the Protection of Trading Interests Act 1980;
- the U.S. judgment not having been obtained by fraud or in breach of English principles of natural justice;
- the U.S. judgment is not a judgment on a matter previously determined by an English court or another court whose judgment is entitled to recognition in England or conflicts with an earlier judgment of such court; or
- the English enforcement proceedings being commenced within the relevant limitation period).

Subject to the foregoing, investors may be able to enforce in England judgments that have been obtained from U.S. federal or state courts. Notwithstanding the preceding, we cannot assure you that those judgments will be recognized or enforceable in England. In addition, we cannot assure you whether an English court would accept jurisdiction and impose civil liability if the original action was commenced in England, instead of the United States, and predicated solely upon U.S. federal securities laws.

Spain

Any final and conclusive judgment rendered outside Spain, in a country not bound by the provisions of EU Regulation number 1215/2012 of the European Parliament and of the Council on jurisdiction and recognition and enforcement of judgments in civil and commercial matters (and, in particular, in the United States), would be recognized and enforced by the courts of Spain pursuant to the following regimes:

- In accordance with the provisions of any applicable treaty (there being none currently in existence between Spain and the United States for these purposes);
- In the absence of any such treaty, the judgment would be enforced in Spain subject to Article 523 of the Spanish Civil Procedure Act (*Ley 1/2000, de 7 de enero de Enjuiciamiento Civil*) if none of the following grounds for refusal in compliance with the Spanish International Legal Cooperation in Civil Matters Act (*Ley 29/2015, de 30 de julio de cooperación jurídica internacional en materia civil,* the "**Spanish International Cooperation in Civil Matters Act**") concur:

  (i) the judgment is contrary to Spanish public policy (*orden público*);

  (ii) the judgement is not final (*i.e.*, subject to further appeal) and therefore is not an enforceable nature (*fuerza ejecutiva*) in the foreign jurisdiction;

  (iii) the judgment is rendered due to a clear breach of the rights to defense of either party (if a judgement has been rendered by default ("*en rebeldía*") against the defendant it is deemed to breach his rights of defense if he not been regularly and timely notified in a manner enabling him to defend himself properly);

  (vi) the judgment is on a matter over which the Spanish courts have exclusive jurisdiction, or with respect to other matters if the foreign court's jurisdiction does not have reasonable connection with the dispute;

  (v) the judgment is incompatible with another judgment rendered in Spain;

  (vi) the judgment is incompatible with a previous judgment rendered in another country which satisfies the conditions to be enforceable in Spain;

  (vi) existence of an action pending in Spain between the same parties and on the same subject-matter, commenced before the foreign proceeding; or

  (vii) the Guarantors are subject to an insolvency proceeding in Spain and the foreign judgment does not meet the requirements provided for in the Spanish Insolvency Act.

  (viii)the copy of the judgment presented before the Spanish Court is not duly apostilled or the documentation prepared for the purposes of requesting the enforcement is not accompanied by a Spanish translation in accordance with Article 144 of the Spanish Civil Procedure Act (*Ley 1/2000, de 7 de enero de Enjuiciamiento Civil*).

  In addition, should the Guarantors be subject to an insolvency proceeding in Spain the Provisions contained in the Spanish Insolvency Act should be taken into account.

According to Article 3.2 of the Spanish International Cooperation in Civil Matters Act, the Spanish Government may establish that the Spanish authorities will not cooperate with another country's authorities where there has been a refusal of cooperation or a legal prohibition of providing cooperation by such other country's authorities.

Additionally, article 47 of the Spanish International Cooperation in Civil Matters Act provides for a special provision and a special rule concerning the recognition of foreign judgments rendered in proceedings resulting from collective action, which may be recognized and enforced in Spain insofar as they satisfy the conditions set forth therein.

The United States and Spain are not party to any treaty providing for reciprocal recognition and enforcement of judgments, other than arbitral awards rendered in civil and commercial matters. Accordingly, any party wishing to have a U.S. ruling recognized or enforced in Spain, which would not directly be recognized or enforced in Spain, must file an application seeking declaration of enforceability of the U.S. resolution (exequatur) with the relevant Spanish Judge of First Instance (*Juzgado de Primera Instancia*) or Commercial Court (Juzgado de lo Mercantil) for which the foregoing requirements must be met.

The Spanish courts may express any such order in a currency other than euro in respect of the amount due and payable by the Issuer or a Guarantor, but in case of enforcement in Spain, the court costs and interest will be paid in euros.

A final and conclusive judgment obtained against the Issuer or any of the Guarantors in any country bound by the provisions of EU Regulation number 1215/2012 of the European Parliament and of the Council on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters would be recognized and enforceable by the Spanish courts, without review of its merits.

The enforcement of any judgments in Spain entails, among others, the following actions and costs: (a) documents in a language other than Spanish must be accompanied by a sworn translation into Spanish (translator's fees will be payable); (b) foreign documents may be required to be legalized and apostilled; (c) certain court fees must be paid, and (d) the procedural acts of a party litigating in Spain must be directed by an attorney at law and the party must be represented by a court agent (*procurador)*; and (e) the content and validity of foreign law, if needed, must be evidenced to the Spanish courts (which could, again, entail certain costs). In addition, Spanish civil proceedings rules cannot be amended by agreement of the parties and will therefore prevail notwithstanding any provision to the contrary in the Notes.

Australia

While the Australian *Foreign Judgments Act 1991* (Cth) makes provision for the enforcement of certain overseas judgments in Australia by registration, that Act does not apply to United States judgments. In order to enforce a United States judgment in Australia:

- the judgment creditor must rely on common law principles in Australia by commencing fresh proceedings in an Australian court to sue for the judgment amount as a debt; and
- each of the following conditions must be satisfied:
  - (i) the U.S. judgment must be final and conclusive, in that it must end the proceeding and the dispute to which the proceeding relates and the matter was not the subject of an earlier final and conclusive judgment by another court having jurisdiction;
  - (ii) the parties to the U.S. judgment must be identical to the parties to the Australian enforcement proceeding;
  - (iii) the U.S. judgment must be for a fixed, or readily calculable, sum and not in the nature of a tax, fine or penalty;
  - (iv) the U.S. Court giving the judgment did not lack jurisdiction to give the judgment;
  - (v) the U.S. Court must have exercised jurisdiction which is recognized by Australia—this requirement will usually be satisfied where the judgment debtor was ordinarily resident or present in the U.S. at the time the proceeding was served, or otherwise voluntarily submitted to the jurisdiction of the U.S. Court;
  - (vi) the U.S. judgment must not be wholly satisfied (and enforcement must only be sought to the extent the judgment is not satisfied); and
  - (vii) the enforcement proceeding must have been commenced within any applicable limitation periods.

Under common law principles in Australia, a defense will be available against the enforcement of a U.S. judgment in Australia if:

- the U.S. judgment was obtained by fraud or duress;
- enforcement of the U.S. judgment would contravene public policy; or
- enforcement of the U.S. judgment would offend notions of natural justice or fairness.

The Australian Attorney-General may also make a declaration under the *Foreign Proceedings (Excess of Jurisdiction) Act 1984* in respect of a U.S. judgment in relation to anti-trust proceedings, resulting in the judgment not being enforceable in Australia.

LISTING AND GENERAL INFORMATION

General

We accept responsibility for the information contained in this Offering Memorandum. To the best of our knowledge, except as otherwise noted, the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of this Offering Memorandum.

Admission to listing

Application has been made for the Notes to be listed on the International Securities Market of the London Stock Exchange.

Listing information

So long as the Notes are listed on the International Securities Market of the London Stock Exchange, copies of the Issuer's Articles of Association and those of the Guarantors, the Indenture (including the Guarantees granted thereunder) and the Intercreditor Agreement will be available free of charge during normal business hours on any weekday at the offices of the Issuer.

The Trustee for the Notes is HSBC Corporate Trustee Company (UK) Limited and its address is 8 Canada Square, London E14 5HQ, United Kingdom. The Trustee will be acting in its capacity as trustee for the holders of the Notes and will provide such services to the holders of the Notes as described in the Indenture.

We have appointed HSBC Bank plc, as our Principal Paying Agent, Registrar and Transfer Agent and Barclays Bank PLC, as Security Agent.

Clearing information

The Global Notes sold pursuant to Regulation S and Rule 144A under the U.S. Securities Act have been accepted for clearance through the facilities of Clearstream and Euroclear under common codes and , respectively. The ISIN number for the Notes sold pursuant to Regulation S is and the ISIN number for the Notes sold pursuant to Rule 144A is .

The Issuer

Victoria PLC, the issuer, is a public limited company incorporated under the laws of England and Wales, with company number 00282204. The registered office of Victoria PLC is Worcester Road, Kidderminster, Worcestershire DY10 1JR, United Kingdom.

The Notes as well as the issuance of the Notes were authorized by resolutions of the Issuer's board of directors passed at a meeting held on October 27, 2018.

The Guarantors

Below is a summary of the main information regarding the Guarantors:

Victoria Midco Holdings Limited

Victoria Midco Holdings Limited is a private limited company, which is a direct wholly-owned subsidiary of Victoria PLC, incorporated under the laws of England and Wales with company number 09966342. Its registered address is Worcester Road, Kidderminster, Worcestershire, DY10 1JR, United Kingdom.

Victoria Carpets Limited

Victoria Carpets Limited is a private limited company, which is an indirect wholly-owned subsidiary of Victoria PLC, incorporated under the laws of England and Wales with company number 1178145. Its registered address is Worcester Road, Kidderminster, Worcestershire, DY10 1JR, United Kingdom.

Westex (Carpets) Limited

Westex (Carpets) Limited is a private limited company, which is an indirect wholly-owned subsidiary of Victoria PLC, incorporated under the laws of England and Wales with company number 1480813. Its registered address is Castle Mills, Moorend, Cleckheaton, West Yorkshire, DB19 3PS, United Kingdom.

Abingdon Flooring Limited

Abingdon Flooring Limited is a private limited company, which is an indirect wholly-owned subsidiary of Victoria PLC, incorporated under the laws of England and Wales with company number 4923718. Its registered address is Parkway, Pen Y Fan Industrial Estate, Croespenmaen Crumlin, Newport, NP11 4XG, United Kingdom.

Interfloor Limited

Interfloor Limited is a private limited company, which is an indirect wholly-owned subsidiary of Victoria PLC, incorporated under the laws of England and Wales with company number 00162988. Its registered address is Broadway, Haslingden, Rossendale, Lancashire, BB4 4LS, United Kingdom.

View Logistics Limited

View Logistics Limited is a private limited company, which is an indirect wholly-owned subsidiary of Victoria PLC, incorporated under the laws of England and Wales with company number 6387995. Its registered address is Park View Road East, Hartlepool, Cleveland, TS25 1HT, United Kingdom.

The Victoria Carpet Company Proprietary Limited

The Victoria Carpet Company Proprietary Limited is a proprietary limited company, which is an indirect wholly-owned subsidiary of Victoria PLC, incorporated under the laws of Australia with company number A.C.N. 004304956. Its registered address is 7-29 Gladstone Road, Dandenong, Victoria, 3175, Australia.

Quest Flooring Pty Ltd

Quest Flooring Pty Ltd is a proprietary limited company, which is an indirect wholly-owned subsidiary of Victoria PLC, incorporated under the laws of Australia with company number A.C.N. 606397273. Its registered address is 43-55 Mark Anthony Drive, Dandenong South, Victoria, 3175, Australia.

Primary Flooring Pty Ltd

Primary Flooring Pty Ltd is a proprietary limited company, which is an indirect wholly-owned subsidiary of Victoria PLC, incorporated under the laws of Australia with company number A.C.N. 615172097. Its registered address is 7-29 Gladstone Road, Dandenong, Victoria, 3175, Australia.

Keraben Grupo, S.A.U.

Keraben Grupo, S.A.U. is a joint stock company, which is an indirect wholly-owned subsidiary of Victoria PLC, incorporated under the laws of Spain with company number A12017372. Its registered address is Ctra. Valencia—Barcelona, Km 44,3, 12520 Nules, Castellón, Spain.

Cerámica Saloni, S.A.U.

Cerámica Saloni, S.A.U. is a joint stock company, which is an indirect wholly-owned subsidiary of Victoria PLC, incorporated under the laws of Spain with company number A12014577. Its registered address is Ctra. de Alcora, Km 17, 12130 Sant Joan de Moró, Castellón, Spain.

GLOSSARY

"Artificial grass"	Imitation grass product composed of synthetic fiber yarns, a backing sheet, infill and shock absorption pads;
"Carpet tile"	Carpeting manufactured in smaller tile format and adhered to floors using adhesives or staples;
"Flooring accessories"	Products such as carpet gripper rods and carpet adhesives, which prevent carpet movement and slippage;
"Hard flooring"	Flooring products consisting of resilient or non-resilient components;
"I&R end-market"	Improvement and repair end-market, meaning the refurbishment market within the construction industry;
"Luxury Vinyl Tile (LVT)"	A premium vinyl tile product often produced to imitate stone, ceramic and other natural materials;
"Non-resilient flooring"	Includes ceramic tiles, laminate, wood flooring as well as flooring manufactured from miscellaneous materials (e.g. bamboo, glass, plastic, grating);
"OEM"	Original equipment manufacturer;
"Polyurethane foam"	An artificial foam material composed of polyurethane, a polymer using crude oil as its source material;
"Resilient flooring"	Includes vinyl flooring products, but also including flooring products manufactured using asphalt, cork, linoleum and rubber;
"SKU"	Stock keeping unit;
"Soft-flooring"	Flooring products manufactured using textiles; and
"Underlay"	A layer of insulation placed under flooring products used to reduce noise, provide thermal insulation and increased comfort.

ANNEX A: SUMMARY OF CERTAIN DIFFERENCES BETWEEN SPANISH GAAP AND IFRS

The Consolidated Group Financial Statements included herein have been prepared in accordance with IFRS. The Keraben Financial Statements and the Saloni Financial Statements included herein have been prepared in accordance with Spanish GAAP.

Spanish GAAP differs from IFRS in certain material respects. The matters described below cannot necessarily be expected to reveal all differences between Spanish GAAP and IFRS that are relevant to us. Consequently, there can be no assurance that these are the only differences in the accounting principles that could have a significant impact on the financial information included herein. In making an investment decision, you must rely upon your own examination of our business, the terms of the Offering and the financial information herein. You should consult with your own professional advisors for an understanding of the differences between Spanish GAAP and IFRS, and how those differences might affect the financial information set out herein. Certain key differences between Spanish GAAP and IFRS include, among others, the following:

Research costs

- Under Spanish GAAP, research expenditure may be capitalized if it meets the same requirements as those for the capitalization of development expenditure, and if it is amortized over its useful life (up to a maximum of five years). Development costs are capitalized if the related requirements are met and if they are amortized over their useful life (presumed up to the maximum of five years if there is no evidence to the contrary).
- Under IFRS, capitalization is only permitted for development costs. Research costs are charged as an expense when incurred.

Plant, Property and Equipment

- Under Spanish GAAP, elements of property, plant and equipment are recognized at the cost of acquisition or production less accumulated depreciation and accumulated impairment, except for land, that is presented at cost less accumulated impairment.
- Under IFRS, an entity can choose either the cost model or the revaluation model as its accounting policy and must apply that policy to the entire class of property, plant and equipment. Under the cost model, property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment, except for land, that is presented at cost less any accumulated impairment. Under the revaluation model, property, plant and equipment are presented at their fair value based on periodic valuations by independent evaluators, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Investment Properties

- Under Spanish GAAP, property (land and/or buildings) held for rental income and/or for capital appreciation is accounted for on a historical-cost basis. The carrying amount of the buildings is depreciated. Land and buildings are presented net of accumulated impairment.
- Under IFRS, investment property (land and/or buildings) held for rental income and/or for capital appreciation, as well as development property (properties under construction or development for future use as investment properties), may be accounted for: (i) on a historical-cost basis, less accumulated depreciation (in the case of buildings) and any accumulated impairment; or (ii) on a fair value basis with gains and losses arising from a change in the fair value recognized in the income statement. If the fair value model is used, the carrying amount is not depreciated.

Finance Lease—Initial Recognition

- Under Spanish GAAP, finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. For discounting the present value of the minimum lease payments, the interest rate implicit in the lease is used, or, if such interest rate is impracticable to determine, the interest rate of similar transactions of the group/entity is used.

- Under IFRS, finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. For discounting the present value of the minimum lease payments, the interest rate implicit in the lease is used, or, if such interest rate is impracticable to determine, the lessee's incremental borrowing rate shall be used.

Grants, donations and bequests received:

- Under Spanish GAAP, grants, donations and bequests received from third parties other than the owners are accounted under the following criteria: (i) non-repayable capital-based grants are measured at the fair value of the amount or the asset granted, and they are added to income in proportion to the depreciation in the period corresponding to the assets for which the grants were received; (ii) repayable subsidies are entered as liabilities while they remain repayable; and (iii) operating subsidies are entered in the results at the time at which they are awarded, unless they are used to finance operational deficits in future years, in which case they are entered in the relevant financial year. If they are awarded in order to finance specific costs, they are entered as the costs being financed accrued. Subsidies, donations and bequests received from shareholders or owners do not constitute income and are recorded directly in equity.
- Under IFRS, government grants, including non-monetary grants at fair value, are recognised only when there is reasonable assurance that: (i) the entity complies with the conditions associated with them and; (ii) the relevant grants are actually received. Government grants are recognised as income over the period necessary to match them with related costs for which they are intended to compensate on a systematic basis. Non-monetary grants, such as land or other resources, are usually accounted for at fair value, although recording both the asset and the grant at a nominal amount is also permitted. Even if there are no conditions attached to the grants specifically relating to the operating activities of the entity, such grants should not be credited to equity. A grant receivable as compensation for costs already incurred or for immediate financial support, with no future related costs, should be recognised as income in the period in which it is receivable. A grant relating to assets may be presented in one of two ways: (i) as deferred income or; (ii) by deducting the grant from the asset's carrying amount. If a grant becomes repayable, it should be treated as a change in estimate.

Statement of Cash Flows

- Spanish GAAP provides a presentation of the statement of cash flows in a standard format using the indirect method, whereby profit and loss is adjusted for: (i) the effects of transactions of non-cash nature; (ii) any deferrals or accruals of past or future operating cash receipts or payments; and (iii) items of income or expense associated with investing or financing cash flows.
- IFRS permits the presentation of the statement of cash flows using one of the following two methods: (i) the direct method, being the method recommended by the IASB; or (ii) the indirect method, being the method most commonly used and most similar to Spanish GAAP.

Statement of Cash Flows—Presentation of Cash Flows related to Interest and Taxes

- Under Spanish GAAP, interest paid/received is presented under cash flow from operating activities in the statement of cash flows. Additionally, cash flows arising from taxes on income are classified as cash flows from operating activities. In both cases, Spanish GAAP does not provide alternative presentation or classification.
- Under IFRS, interest paid and interest received are usually classified under cash flow from operating activities in the statement of cash flows. However, alternatively, interest paid and interest received may be classified as financing cash flows and investing cash flows, respectively. In addition, under IFRS, when it is practicable to identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activity, the tax cash flow is accordingly classified as investing or financing activity.

Business Combinations involving Entities under Common Control

- Under Spanish GAAP, assets recognized in transfers of equity shares of other companies (so long as they conform to the definition of a business) involving the parent of the group or the parent of a subgroup and its directly or indirectly owned subsidiary, are recorded in the consolidated accounts of the ultimate Spanish parent company at book value, calculated in accordance with Spanish GAAP. If consolidated accounts are not available, the separate standalone accounts of the parent are used.

- Under IFRS, notwithstanding the fact that business combinations involving entities under common control are excluded from the scope of IFRS 3, an entity or a group must develop an accounting policy to account for transactions involving entities under common control in accordance with IAS 8. Two methods are widely observed in practice: (i) the application of IFRS 3 by analogy (i.e. purchase accounting); and (ii) the predecessor method (i.e. carry-forwards of historical cost book values).

INDEX TO FINANCIAL STATEMENTS

Unaudited Financial Statements of Cerámica Saloni, S.A.U. for the six months ended June 30, 2018

Audited Financial Statements of Cerámica Saloni, S.A.U. for the year ended December 31, 2017

VICTORIA PLC

Interim Financial Statements as of and for the 13 weeks ended June 30, 2018

Condensed Consolidated Income Statement

For the 13 weeks ended June 30, 2018 (unaudited)

		13 weeks ended June 30, 2018			13 weeks ended July 1, 2017			52 weeks ended March 31, 2018 (audited)		
	Notes	**Underlying performance £m**	**Non-underlying items £m**	**Reported numbers £m**	**Underlying performance £m**	**Non-underlying items £m**	**Reported numbers £m**	**Underlying performance £m**	**Non-underlying items £m**	**Reported numbers £m**
Continuing Operations										
Revenue	3	**135.6**	**—**	**135.6**	95.0	—	95.0	424.8	—	424.8
Cost of Sales		**(88.3)**	**—**	**(88.3)**	(65.0)	—	(65.0)	(279.4)	—	(279.4)
Gross profit		**47.3**	**—**	**47.3**	30.0	—	30.0	145.4	—	145.4
Distribution costs		**(15.9)**	**—**	**(15.9)**	(13.8)	—	(13.8)	(59.4)	—	(59.4)
Administrative expenses (including intangible amortisation)		**(13.9)**	**(7.4)**	**(21.3)**	(7.4)	(2.0)	(9.4)	(38.6)	(22.4)	(61.0)
Other operating income		**0.7**	**—**	**0.7**	—	—	—	1.4	—	1.4
Operating profit/(loss)		**18.2**	**(7.4)**	**10.8**	8.8	(2.0)	6.8	48.8	(22.4)	26.4
Comprising:										
Operating profit before non-underlying and exceptional items		**18.2**	**—**	**18.2**	8.8	—	8.8	48.8	—	48.8
Amortisation of acquired intangibles		**—**	**(4.9)**	**(4.9)**	—	(1.7)	(1.7)	—	(11.2)	(11.2)
Exceptional and non-underlying items	4	**—**	**(2.5)**	**(2.5)**	—	(0.3)	(0.3)	—	(11.2)	(11.2)
Finance Costs	5	**(3.2)**	**1.0**	**(2.2)**	(1.3)	(0.6)	(1.9)	(8.0)	(5.0)	(13.0)
Comprising:							—			
Interest payable on loans	5	**(2.7)**		**(2.7)**	(1.2)	—	(1.2)	(6.6)	—	(6.6)
Amortisation of prepaid finance costs	5	**(0.4)**		**(0.4)**	—	—	—	(1.0)	(0.2)	(1.2)
Interest accrued on BGF loan	5	**—**	**(0.1)**	**(0.1)**	—	(0.1)	(0.1)	(0.1)	(0.3)	(0.4)
Net interest expense on defined benefit pensions	5	**(0.1)**	**—**	**(0.1)**	(0.1)	—	(0.1)	(0.3)	—	(0.3)
Other non-underlying finance costs	5	**—**	**1.1**	**1.1**	—	(0.5)	(0.5)	—	(4.5)	(4.5)
Profit/(loss) before tax		**15.0**	**(6.4)**	**8.6**	7.5	(2.6)	4.9	40.8	(27.4)	13.4
Taxation	6	**(3.8)**	**1.0**	**(2.8)**	(2.0)	0.3	(1.7)	(9.2)	4.4	(4.8)
Profit/(loss) for the period		**11.2**	**(5.4)**	**5.8**	5.5	(2.3)	3.2	31.6	(23.0)	8.6
Earnings per share—pence										
basic	7	**9.51**		**4.93**	6.05		3.52	31.38		8.58
diluted	7	**9.49**		**4.91**	5.84		3.39	30.61		8.37

Condensed Consolidated Statement of Comprehensive Income

For the 13 weeks ended June 30, 2018 (unaudited)

	13 weeks ended June 30, 2018 £m	13 weeks ended July 1, 2017 £m	52 weeks ended March 31, 2018 (Audited) £m
Profit for the period	**5.8**	3.2	8.6
Other comprehensive income / (expense):			
Items that will not be reclassified to profit or loss:			
Actuarial gains on defined benefit pension scheme	**0.1**	0.1	2.0
Increase in deferred tax asset relating to pension scheme liability	**—**	—	(0.4)
Items that will not be reclassified to profit or loss	**0.1**	0.1	1.6
Items that may be reclassified subsequently to profit or loss:			
Retranslation of overseas subsidiaries	**0.5**	(0.6)	(2.1)
Items that may be reclassified subsequently to profit or loss	**0.5**	(0.6)	(2.1)
Other comprehensive income / (expense)	**0.6**	(0.5)	(0.5)
Total comprehensive income for the period attributable to the owners of the parent	**6.4**	2.7	8.1

Condensed Consolidated Balance Sheets

As at June 30, 2018 (unaudited)

	June 30, 2018 £m	July 1, 2017 £m	March 31, 2018 (audited) £m
Non-current assets			
Goodwill	**189.5**	59.6	188.1
Intangible assets other than goodwill	**207.2**	64.4	210.3
Property, plant and equipment	**148.5**	42.2	142.9
Investment property	**0.8**	0.2	0.8
Investments in associates	**1.0**	—	1.0
Deferred tax assets	**5.0**	4.7	4.6
Total non-current assets	**552.0**	171.1	547.7
Current assets			
Inventories	**104.8**	75.5	100.3
Trade and other receivables	**100.6**	54.2	88.2
Cash at bank and in hand	**39.5**	25.7	54.0
Total current assets	**244.9**	155.4	242.5
Total assets	**796.9**	326.5	790.2
Current liabilities			
Trade and other current payables	**115.1**	78.0	121.5
Current tax liabilities	**0.9**	4.6	1.0
Other financial liabilities	**2.0**	0.6	3.0
Total current liabilities	**118.0**	83.2	125.5
Non-current liabilities			
Trade and other non-current payables	**38.1**	19.1	29.2
Other non-current financial liabilities	**304.3**	116.8	306.1
Deferred tax liabilities	**54.9**	14.4	54.7
Retirement benefit obligations	**9.1**	10.9	9.1
Total non-current liabilities	**406.4**	161.2	399.1
Total Liabilities	**524.4**	244.4	524.6
Net Assets	**272.5**	82.1	265.6
Equity			
Share capital	**5.9**	4.5	5.9
Share premium	**229.8**	52.5	229.8
Retained earnings	**32.9**	19.8	26.7
Foreign exchange reserve	**3.4**	4.4	2.9
Other reserves	**0.5**	0.9	0.3
Total Equity	**272.5**	82.1	265.6

Condensed Consolidated Statement of Changes in Equity

For the 13 weeks ended June 30, 2018 (unaudited)

	Share capital £m	Share premium £m	Retained earnings £m	Foreign exchange reserve £m	Other reserves £m	Total equity £m
At April 1, 2017	4.5	52.5	16.5	5.0	0.8	79.3
Profit for the period to March 31, 2018	—	—	8.6	—	—	8.6
Other comprehensive profit for the period	—	—	1.6	—	—	1.6
Retranslation of overseas subsidiaries	—	—	—	(2.1)	—	(2.1)
Total comprehensive profit/ (loss)	—	—	10.2	(2.1)	—	8.1
Issue of Share capital	1.4	176.6	—	—	—	178.0
BGF equity transfer	—	0.7	—	—	(0.7)	—
Share-based payment charge	—	—	—	—	0.2	0.2
Transactions with owners	1.4	177.3	—	—	(0.5)	178.2
At March 31, 2018	5.9	229.8	26.7	2.9	0.3	265.6
Profit for the period to June 30, 2018	—	—	5.8	—	—	5.8
Other comprehensive profit for the period	—	—	0.1	—	—	0.1
Retranslation of overseas subsidiaries	—	—	—	0.5	—	0.5
Total comprehensive profit	—	—	5.9	0.5	—	6.4
Issue of Share capital	—	—	—	—	—	—
Equity transfer on exercise of B growth shares	—	—	0.3	—	(0.3)	—
Share-based payment charge	—	—	—	—	0.5	0.5
Transactions with owners	—	—	0.3	—	0.2	0.5
At June 30, 2018	**5.9**	**229.8**	**32.9**	**3.4**	**0.5**	**272.5**
At April 1, 2017	4.5	52.5	16.5	5.0	0.8	79.3
Profit for the period to July 1, 2017	—	—	3.2	—	—	3.2
Other comprehensive profit for the period	—	—	0.1	—	—	0.1
Retranslation of overseas subsidiaries	—	—	—	(0.6)	—	(0.6)
Total comprehensive profit / (loss)	—	—	3.3	(0.6)	—	2.7
Movement in other reserves	—	—	—	—	0.1	0.1
Transactions with owners	—	—	—	—	0.1	0.1
At July 1, 2017	4.5	52.5	19.8	4.4	0.9	82.1

Condensed Consolidated Statements of Cash Flows

For the 13 weeks ended June 30, 2018 (unaudited)

	13 weeks ended June 30, 2018 £m	13 weeks ended July 1, 2017 £m	52 weeks ended March 31, 2018 (Audited) £m
Cash flows from operating activities			
Operating profit from continuing operations	**10.8**	6.8	26.4
Adjustments For:			
Depreciation charges	**5.3**	3.1	15.8
Amortisation of intangible assets	**4.9**	1.7	11.3
Amortisation of government grants	**(0.1)**	(0.1)	(0.3)
Loss on disposal of property, plant and equipment	**—**	—	0.1
Share-based employee remuneration	**0.5**	0.1	0.2
Defined benefit pension	**—**	(0.2)	(0.2)
Net cash flow from operating activities before movements in working capital	**21.4**	11.4	53.3
Change in inventories	**(3.9)**	(2.9)	(8.0)
Change in trade and other receivables	**(11.0)**	0.5	2.6
Change in trade and other payables	**3.1**	(2.7)	6.4
Cash generated by continuing operations	**9.6**	6.3	54.3
Interest paid	**(2.7)**	(1.2)	(6.7)
Income taxes paid	**(3.6)**	(1.8)	(10.6)
Net cash inflow from operating activities	**3.3**	3.3	37.0
Investing activities			
Purchases of property, plant and equipment	**(10.9)**	(4.1)	(25.9)
Purchases of intangible assets	**—**	—	(0.7)
Proceeds on disposal of property, plant and equipment	**0.3**	—	2.1
Deferred and contingent consideration payments	**(2.2)**	(2.6)	(15.3)
Acquisition of subsidiaries net of cash acquired	**—**	—	(276.5)
Net cash used in investing activities	**(12.8)**	(6.7)	(316.3)
Financing activities			
(Decrease)/increase in long-terms loans	**(5.8)**	1.5	128.8
Issue of share capital	**—**	—	178.1
Repayment of obligations under finance leases / hire purchase	**(0.3)**	0.1	(0.3)
Net cash (used)/generated in financing activities	**(6.1)**	1.6	306.6
Net (decrease)/increase in cash and cash equivalents	**(15.6)**	(1.8)	27.3
Cash and cash equivalents at beginning of period	**53.1**	28.0	28.0
Effect of foreign exchange rate changes	**2.0**	(0.5)	(2.2)
Cash and cash equivalents at end of period	**39.5**	25.7	53.1
Comprising:			
Cash at bank and in hand	**39.5**	25.7	54.0
Bank overdrafts	**—**	—	(0.9)
	39.5	25.7	53.1

1. General Information

These condensed consolidated financial statements for the 13 weeks ended June 30, 2018 have not been audited by the Auditor.

The information for the 52 weeks ended March 31, 2018 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The Auditor's report on those accounts was unqualified and did not include a reference to any matter to which the Auditor drew attention by way of emphasis without qualifying the report and did not contain statements under Section 498(2) or 498(3) of the Companies Act 2006.

2. Basis of preparation and accounting policies

These condensed consolidated financial statements should be read in conjunction with the Group's financial statements for the 52 weeks ended March 31, 2018, which were prepared in accordance with IFRSs as adopted by the European Union.

With the exception of the adoption of IFRS 15 on April 1, 2018, these interim financial statements have been prepared on a consistent basis and in accordance with the accounting policies set out in the group's Annual Report and Financial Statements for the year ended March 31, 2018. There was no material impact on the group's results as a consequence of the transition to IFRS 15 as the group's activities are primarily the sale of flooring products, the revenue for which was previously recognised at a point in time when the transfer of risks and rewards occurs which is consistent with IFRS 15. The comparative figures in these interim financial statements have not been restated as a consequence of adopting IFRS 15 for the first time this period.

Having reviewed the Group's projections, and taking account of reasonably possible changes in trading performance, the Directors believe they have reasonable grounds for stating that the Group has adequate resources to continue in operational existence for the foreseeable future.

Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements of the Group.

3. Segmental information

The Group is organised into two operating divisions, the sale of floorcovering products in the UK & Europe and Australia.

Geographical segment information for revenue, operating profit and a reconciliation to entity net profit is presented below.

Income statement

	13 weeks ended June 30, 2018				**13 weeks ended July 1, 2017**			
	UK & Europe £m	**Australia £m**	**Unallocated central expenses £m**	**Total £m**	**UK & Europe £m**	**Australia £m**	**Unallocated central expenses £m**	**Total £m**
Income statement								
Revenue from continuing operations	**109.7**	**25.9**	**—**	**135.6**	65.8	29.2	—	95.0
Underlying operating profit	**16.9**	**2.0**	**(0.7)**	**18.2**	6.0	3.1	(0.3)	8.8
Non-underlying operating items	**(4.4)**	**(0.5)**	**—**	**(4.9)**	(1.2)	(0.5)	—	(1.7)
Exceptional operating items	**(2.1)**	**—**	**(0.4)**	**(2.5)**	(0.2)	—	(0.1)	(0.3)
Operating profit from continuing operations	**10.4**	**1.5**	**(1.1)**	**10.8**	4.6	2.6	(0.4)	6.8
Underlying finance charge				**(3.2)**				(1.3)
Non-underlying finance income/(charge)				**1.0**				(0.6)
Profit before tax				**8.6**				4.9
Tax				**(2.8)**				(1.7)
Profit for the period				**5.8**				3.2

3. Segmental information (Continued)

Management information is reviewed on a segmental basis to operating profit.

During the period, no single customer accounted for 10% or more of the Group's revenue. Inter-segment sales between the UK & Europe and Australia were immaterial in the respective current and prior year periods under review.

Balance sheet

	13 weeks ended June 30, 2018			13 weeks ended July 1, 2017		
	UK & Europe £m	Australia £m	Total £m	UK & Europe £m	Australia £m	Total £m
Balance sheet						
Total Assets	**748.9**	**48.0**	**796.9**	278.4	48.1	326.5
Total Liabilities	**(497.5)**	**(26.9)**	**(524.4)**	(216.1)	(28.3)	(244.4)
Net Assets	**251.4**	**21.1**	**272.5**	62.3	19.8	82.1

Other segmental information

	13 weeks ended June 30, 2018				13 weeks ended July 1, 2017			
	UK & Europe £m	Australia £m	Unallocated central expenditure £m	Total £m	UK & Europe £m	Australia £m	Unallocated central expenditure £m	Total £m
Other segmental information								
Depreciation	**4.6**	**0.7**	**—**	**5.3**	2.3	0.8	—	3.1
Amortisation of acquisition intangibles	**4.5**	**0.4**	**—**	**4.9**	1.2	0.5	—	1.7
	9.1	**1.1**	**—**	**10.2**	3.5	1.3	—	4.8

	13 weeks ended June 30, 2018				13 weeks ended July 1, 2017			
	UK & Europe £m	Australia £m	Unallocated central expenditure £m	Total £m	UK & Europe £m	Australia £m	Unallocated central expenditure £m	Total £m
Other segmental information								
Capital expenditure	**10.1**	**0.8**	**—**	**10.9**	3.5	0.6	—	4.1

4. Exceptional and non-underlying items from continuing operations

	13 weeks ended June 30, 2018 £m	13 weeks ended July 1, 2017 £m
Exceptional items		
(a) Acquisition and disposal related costs	**(0.1)**	(0.1)
(b) Reorganisation costs	**(1.5)**	(0.2)
Non underlying items		
(c) Acquisition-related performance plan charge	**(0.9)**	—
	(2.5)	(0.3)

All of the items in the table above are classified within administrative expenses.

(a) Professional fees in connection with prospecting and completing acquisitions during the period.

(b) Reorganisation costs comprise various fees incurred to date in relation to reviewing the Group's manufacturing and logistics operations, as well as other corporate restructuring.

(c) Charge relating to the accrual of expected liability under the acquisition-linked performance plan with the Keraben senior management team. As part of the Keraben acquisition terms, the senior

4. Exceptional and non-underlying items from continuing operations (Continued)

management team were required to invest €8.3 million into a performance plan linked to the financial results of the target business over a five year period. The value of this plan can go up or down from the original €8.3 million subscription, depending on performance. Customary good and bad leaver provisions apply during the five year period. This investment by management was rolled over from their exit value under a scheme with the previous private equity owners.

5. Finance costs

	13 weeks ended June 30, 2018 £m	13 weeks ended July 1, 2017 £m
Interest payable on bank loans and overdrafts	**2.6**	1.0
Cash interest payable on BGF loan	**0.1**	0.2
Total interest payable on loans	**2.7**	1.2
Amortisation of prepaid finance costs	**0.4**	—
Net interest expense on defined benefit pensions	**0.1**	0.1
Underlying interest costs	**3.2**	1.3
(a) BGF loan and option, redemption premium charge	**—**	0.1
(b) Unwinding of present value of contingent earn-out liabilities	**0.7**	0.4
(b) Unwinding of present value of deferred consideration liabilities	**0.1**	0.1
(c) Mark to market adjustment on foreign exchange forward contracts	**(0.5)**	(0.1)
(d) Retranslation of foreign currency loans	**(1.3)**	0.1
	2.2	1.9

(a) Non-cash annual cost of the redemption premium in relation to the BGF loan and option.

(b) Non-cash costs relating to the revaluation of deferred consideration and contingent earn-outs. Deferred consideration is measured at amortised cost, while contingent consideration is measured under IFRS 3 at fair value. Both are discounted for the time value of money. The present value is then remeasured at each half-year and year-end in relation to the appropriateness of the discount factor and the unwind of this discount. In addition, any changes to contingent earn-outs arising from actual and forecast business performance are reflected as other adjustments to present value of contingent earn-out liabilities.

(c) Non-cash fair value adjustment on foreign exchange forward contracts.

(d) Net impact of exchange rate movements on third party and intercompany loans.

6. Tax from continuing operations

	13 weeks ended June 30, 2018 £m	13 weeks ended July 1, 2017 £m
Current tax		
—Current year UK	**0.7**	0.7
—Current year overseas	**2.3**	1.4
—Adjustments in respect of prior years	**—**	—
	3.0	2.1
Deferred Tax		
—Credit recognised in the current year	**(0.2)**	(0.4)
—Adjustments in respect of prior years	**—**	—
—Effect of rate change	**—**	—
	(0.2)	(0.4)
Total tax	**2.8**	1.7

6. Tax from continuing operations (Continued)

Corporation tax is calculated at the applicable percentage of the estimated assessable profit for the year in each respective geography. This is 19% in the UK; 25% in the Netherlands and Spain; 27.9% in Italy; 30% in Australia; and 34% in Belgium.

7. Earnings per share

The calculation of the basic, adjusted and diluted earnings per share is based on the following data:

	Basic 13 weeks ended June 30, 2018 £m	Adjusted 13 weeks ended June 30, 2018 £m	Basic 13 weeks ended July 1, 2017 £m	Adjusted 13 weeks ended July 1, 2017 £m
Profit attributable to ordinary equity holders of the parent entity from continuing operations	**5.8**	**5.8**	3.2	3.2
Exceptional and non-underlying items:				
Amortisation of acquired intangibles	**—**	**4.9**	—	1.7
Acquisition and disposal related cost	**—**	**0.1**	—	0.1
Acquisition-related performance plan charge	**—**	**0.9**	—	—
Reorganisation costs	**—**	**1.5**	—	0.2
BGF loan and option, redemption premium charge	**—**	**—**	—	0.1
Unwinding of present value of deferred and contingent consideration	**—**	**0.8**	—	0.5
Mark to market adjustment on foreign exchange forward contracts	**—**	**(0.5)**	—	(0.1)
Retranslation of foreign currency loans		**(1.3)**		0.1
Tax effect on adjusted items where applicable	**—**	**(1.0)**	—	(0.3)
Earnings for the purpose of basic and adjusted earnings per share	**5.8**	**11.2**	3.2	5.5

Weighted average number of shares

	13 weeks ended June 30, 2018 Number of shares (000's)	13 weeks ended July 1, 2017 Number of shares (000's)
Weighted average number of shares for the purpose of basic and adjusted earnings per share	**117,763**	90,969
Effect of dilutive potential ordinary shares:		
BGF share options and growth shares	**265**	3,289
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**118,028**	94,258

The potential dilutive effect of the share options has been calculated in accordance with IAS 33 using the average share price in the period.

7. Earnings per share (Continued)

The Group's earnings per share are as follows:

	13 weeks ended June 30, 2018 Pence	13 weeks ended July 1, 2017 Pence
Earnings per share		
Basic adjusted	**9.51**	6.05
Diluted adjusted	**9.49**	5.84
Basic	**4.93**	3.52
Diluted	**4.91**	3.39

8. Rates of exchange

	13 weeks ended June 30, 2018	13 weeks ended July 1, 2017	52 weeks ended March 31, 2018
Australia (A$)—average rate	**1.7974**	1.6956	1.7206
Australia (A$)—period end	**1.7837**	1.6925	1.8246
Euro (€)—average rate	**1.1360**	1.1620	1.1373
Euro (€)—period end	**1.1284**	1.1386	1.1370

9. Post balance sheet events

Acquisition of Ceramica Saloni

On August 7, 2018 the Group acquired 100% of the equity of Ceramica Saloni, SAU and Sanicova, S.L.U (together "Saloni"). Saloni operates from near Castellon and the Group's Keraben business, in the heart of the Spanish ceramics industry, manufacturing mid to high-end ceramic and porcelain tiles, which are sold domestically and exported internationally. Its main markets are Spain and France, where it sells its products predominantly to direct markets.

Cash consideration of €96.7m (£86.2m[1]) was paid on completion. This was satisfied in part through a placing of 7,314,626 new Ordinary Shares at a price of 827 pence per Ordinary Share, raising gross proceeds of approximately £60.5 million, and new bank facilities with Barclays and HSBC. There is no deferred or contingent consideration.

[1] Applying the GBP to € exchange rate at the date of acquisition of 1.122.

VICTORIA PLC

Annual Report and Accounts
for the 52 weeks ended March 31, 2018

Independent auditor's report
to the members of Victoria PLC

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Victoria PLC (the 'parent company') and its subsidiaries (the 'group') for the period ended March 31, 2018 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Statements of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at March 31, 2018 and of the group's profit for the period then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

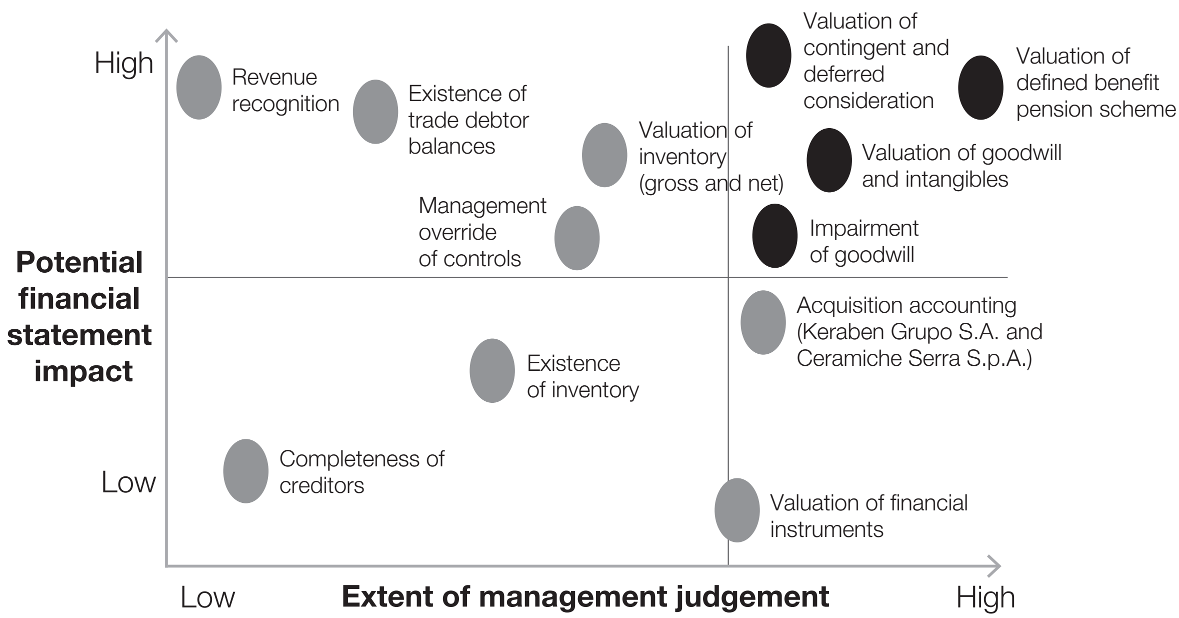
- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

- Overall materiality: £1,600,000, which represents 4% of the group's profit before tax after exceptional items, amortisation of acquired intangibles and other non-underlying finance costs have been excluded;
- Key audit matters were identified as valuation of goodwill and intangibles, valuation of contingent and deferred consideration, impairment of goodwill, and valuation of defined benefit pension scheme for the group;
- We performed full scope audit procedures on significant components in the United Kingdom, Spain, the Netherlands, Italy and Australia. We performed analytical procedures over non-significant components in the Netherlands and Belgium, and the United Kingdom; and
- We issued group instructions to component auditors in respect of their full scope audit of the significant components

Key audit matters

The graph below depicts the audit risks identified and their relative significance based on the extent of the financial statement impact and the extent of management judgement.



Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter—Group	How the matter was addressed in the audit—Group
Risk 1—Valuation of goodwill and intangibles During the year the group acquired the entire share capital of Keraben Grupo S.A. (Keraben) and Ceramiche Serra S.p.A. (Serra). These acquisitions have had a material impact on the financial statements, resulting in the recognition of goodwill and intangible assets upon consolidation of these entities. The group measures goodwill at the acquisition date as being the fair value of consideration transferred less the net recognised amount of identifiable assets acquired and liabilities assumed. Goodwill of £113.3 million and £14.9 million was recognised as a result of the acquisitions of Keraben and Serra respectively. Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date, which is regarded as their cost. Intangible assets of £131.4 million and £29.0 million were recognised as a result of the acquisitions of Keraben and Serra respectively. These intangibles were valued, using input from a third party valuation expert, based on discounted cash flow forecasts, which require judgement by the Directors around key assumptions such as revenue growth, discount rates, brand royalty rates, customer attrition and long term growth rates. We therefore identified valuation of goodwill and intangibles recognised in respect of current year acquisitions as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • documenting our understanding of management's process for evaluating the valuation of goodwill and intangibles and assessing the design effectiveness of related key controls; • reperforming management's calculation of the fair value of the consideration transferred less the net recognised amount of identifiable assets acquired and liabilities assumed; • using our internal valuation specialist to evaluate and challenge the assumptions used, including discount rates, growth rates and forecast future trading performance, in the calculation of the fair value of the intangibles recognised; and • testing the completeness and accuracy of the data used in the intangibles valuation by agreeing data to pertinent supporting documentation such as long-term growth forecasts. The group's accounting policy on intangibles is shown on pages 42 and 43 and related disclosures are included in notes 9 and 10. **Key observations** Based on our audit work, we found that the assumptions and judgements used in management's estimation of the valuation of goodwill and intangibles recognised in respect of current year acquisitions were reasonable. We found no errors in the underlying calculations.

Key Audit Matter—Group	How the matter was addressed in the audit—Group
Risk 2—Valuation of contingent and deferred consideration At March 31, 2018 amounts owing in respect of deferred and contingent consideration were £31.3 million, with additional amounts recognised on the acquisition in the period of Serra of £12.4 million. Deferred and contingent consideration in respect of acquisitions is measured in accordance with International Financial Reporting Standard (IFRS) 3 'Business Combinations'. Contingent consideration is recognised initially at fair value with subsequent changes to the fair value of the contingent consideration recognised in the Consolidated Income Statement. Deferred consideration is initially recognised at fair value and subsequently at amortised cost. The valuation of contingent consideration upon both acquisition and at each reporting date requires management to make judgements and estimates around the future performance of the relevant businesses and the discount rates to be applied. Estimated payments are calculated using such financial projections for the next 12 months and applying growth assumptions for future years where relevant. Given the high level of estimation uncertainty in these judgements, we therefore identified valuation of contingent and deferred consideration as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • documenting our understanding of management's process for evaluating the valuation of contingent and deferred consideration and assessing the design effectiveness of related key controls; • confirming that the deferred and contingent consideration conditions as defined in the respective share purchase agreements have been appropriately reflected in management's calculations; • challenging the appropriateness of the assumptions used, including discount rates, growth rates and forecast future trading performance, in the calculation of the fair value of the deferred and contingent consideration; and • testing the appropriateness of management's accounting policy through the above procedures and confirming it was correctly applied during the period. The group's accounting policies in respect of deferred and contingent consideration are shown on pages 45 and 46, and related disclosures are included in note 17. **Key observations** Based on our audit work, we found that the assumptions and estimates used by management's evaluation of the valuation of deferred and consideration were reasonable. Note 17 also appropriately discloses the assumptions used in determining the estimate. We found no significant errors in the underlying calculations.

Key Audit Matter—Group	How the matter was addressed in the audit—Group
Risk 3—Impairment of goodwill The process for assessing whether an impairment exists under International Accounting Standard (IAS) 36 'Impairment of assets' is complex. When carrying out the goodwill impairment review, determining the recoverable amount for each cash-generating unit ("CGU") requires the management to make judgements over certain key inputs in the value in use discounted cash flow models. These include revenue growth, discount rates and long term growth rates. We therefore identified impairment of goodwill as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • documenting our understanding of management's process for evaluating the impairment of intangible assets and assessing the design effectiveness of related key controls; • testing the methodology applied in the value in use calculation complies with the requirements of IAS 36; • testing the mathematical accuracy of management's model; • testing the key underlying assumptions for the financial year 2019 budget (FY19); • challenging management on its cash flow forecast and the implied growth rates for FY19 and corroborating to relevant evidence such as external market data to support these assumptions; • assessing the discount rates and long term growth rates used in the forecast including comparison to economic and industry forecasts where appropriate; and • testing the sensitivity analysis performed by management in respect of the key assumptions, such as discount and growth rates, to ensure there was sufficient headroom in their calculation. The group's accounting policy on goodwill is shown on Pages 39 and 40 and related disclosures are included in note 9. **Key observations** Based on our audit work, we found that the assumptions made and estimates used in management's assessment of goodwill impairment were balanced. Note 9 also appropriately discloses the assumptions used in determining the estimate. We found no errors in the underlying calculations.

Key Audit Matter—Group	How the matter was addressed in the audit—Group
Risk 4—Valuation of defined benefit pension scheme The group operates a defined benefit pension scheme that provides benefits to a number of current and former employees. At March 31, 2018 the defined benefit pension schemes net liability was £9.1 million (2017: £11.1 million). The gross value of pension scheme assets and liabilities which form the net liability amount to £24.2 million and £33.4 million, respectively. The valuation of the pension liabilities and assets in accordance with IAS 19 'Employee benefits' involves significant judgement and is subject to complex actuarial assumptions. Small variations in those actuarial assumptions can lead to a materially different defined benefit pension scheme asset or liability being recognised within the group financial statements. We therefore identified valuation of defined benefit pension scheme as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • documenting our understanding of management's process for evaluating the defined benefit pension scheme and assessing the design effectiveness of related key controls; • using an internal actuarial specialist to challenge the assumptions used, including discount rates, growth rates, mortality rates and the calculation methods employed in the calculation of the pension liability; • testing the accuracy of underlying membership data used by the group's actuary for the purpose of calculating the scheme liabilities by selecting a sample of employees and agreeing key member data to source records and by testing a sample of movements in the pension scheme membership; and • directly confirming the existence of pension scheme assets with the entity pension scheme's external asset managers. The group's accounting policy on the defined benefit pension scheme is shown on page 41 and related disclosures are included in note 20. **Key observations** Based on our audit work, we found the valuation methodologies and the actuarial assumptions applied by management to be reasonable and consistent with the expectation of our actuarial specialists. We consider that the group's disclosures in note 20 appropriately describe the significant degree of inherent imprecision in the assumptions and estimates and the potential impact on future periods of revisions to these estimates. We found no errors in the underlying calculations.

We did not identify any Key Audit Matters relating to the audit of the financial statements of the parent company.

Our application of materiality

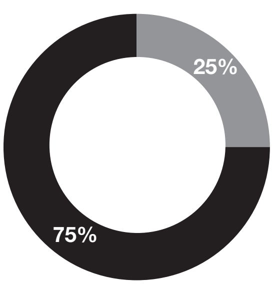
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

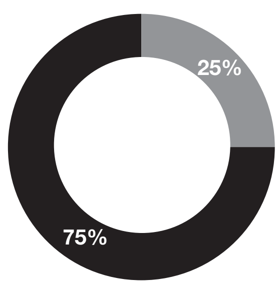
Materiality measure	Group	Parent
Financial statements as a whole	£1,600,000, which represents approximately 4% of the group's profit before tax after exceptional items, amortisation of acquired intangibles, and other non-underlying finance costs have been excluded. This benchmark is considered the most appropriate because this is a key performance measure used by the Board of Directors to report to investors on the financial performance of the group. Underlying profit before tax is also a consistent basis for determining materiality compared with the previous periods. Materiality for the current year is higher than the level that we determined for the period ended April 1, 2017 as a result of the increased underlying group profit before tax in the current period.	£1,200,000, which represents approximately 2% of the parent company total assets, capped at 75% of group materiality. The benchmark is considered the most appropriate as it most accurately reflects the parent company's status as a non-trading holding company. Materiality for the current year is higher than the level that we determined for the period ended April 1, 2017 to reflect the parent company's increased total assets in the current period.
Performance materiality used to drive the extent of our testing	Based on our risk assessment, including the group's overall control environment, we determined a performance materiality of 75% of the financial statement materiality.	Based on our risk assessment, including the company's overall control environment, we determined a performance materiality of 75% of the financial statement materiality.
Specific materiality	We determined a lower level of materiality for directors' remuneration and related party transactions.	We determined a lower level of materiality for directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	£80,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£60,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality – group



Overall materiality – parent



■ Tolerance for potential uncorrected misstatements
■ Performance materiality

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile. The components of the group were identified by the group audit team based on a measure of materiality, considering each as a percentage of the group's total assets, revenues and profit before taxation, to assess the significance of the component and determine the planned audit response.

A full scope audit approach for all significant components was determined based on their relative materiality to the group and our assessment of the audit risk. For significant components requiring a full scope approach we evaluated the processes and controls over the financial reporting system identified as part of our risk assessment, reviewed the financial statement production process and addressed critical accounting matters such as those related to the key audit matters as identified above. We then undertook substantive testing on significant transactions and material account balances.

In order to respond to the audit risks identified in our risk assessment, we performed a full scope audit of the financial statements of the parent company, Victoria PLC (in the United Kingdom), and of other significant component entities in the United Kingdom, the Netherlands, Spain, Italy and Australia. The significant components represented 91.7 percent of consolidated revenues and 92.4 percent of underlying profit before taxation. Statutory audits of subsidiaries, where required by local legislation, were performed to a lower materiality where applicable.

The non-significant group components were subject to analytical procedures with a focus on the key audit matters as identified above and the significance to the group's balances.

Detailed audit instructions were issued to the auditors of all the significant components. The instructions highlighted the significant risks to be addressed through their procedures and detailed the information to be reported to the group audit team. The group audit team conducted a remote review of the work performed by the component auditors, and communicated with all component auditors throughout the planning, fieldwork and concluding stages of the local audits.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report set out on pages 1 to 23, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

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

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

Responsibilities of directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

David White
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham

July 24, 2018

Consolidated income statement

For the 52 weeks ended March 31, 2018

	Notes	52 weeks ended March 31, 2018 Underlying performance £m	52 weeks ended March 31, 2018 Non-underlying items £m	52 weeks ended March 31, 2018 Reported numbers £m	52 weeks ended April 1, 2017 Underlying performance £m	52 weeks ended April 1, 2017 Non-underlying items £m	52 weeks ended April 1, 2017 Reported numbers £m
Continuing operations							
Revenue	1	**424.8**	**—**	**424.8**	330.4	—	330.4
Cost of sales		**(279.4)**	**—**	**(279.4)**	(220.8)	—	(220.8)
Gross profit		**145.4**	**—**	**145.4**	109.6	—	109.6
Distribution costs		**(59.4)**	**—**	**(59.4)**	(54.9)	—	(54.9)
Administrative expenses		**(38.6)**	**(22.4)**	**(61.0)**	(21.5)	(7.0)	(28.5)
Other operating income		**1.4**	**—**	**1.4**	0.5	—	0.5
Operating profit/(loss)		**48.8**	**(22.4)**	**26.4**	33.7	(7.0)	26.7
Comprising:							
Operating profit before non-underlying and exceptional items	1	**48.8**	**—**	**48.8**	33.7	—	33.7
Amortisation of acquired intangibles		**—**	**(11.2)**	**(11.2)**	—	(4.4)	(4.4)
Exceptional items	1, 2	**—**	**(11.2)**	**(11.2)**	—	(2.6)	(2.6)
Finance costs	3	**(8.0)**	**(5.0)**	**(13.0)**	(4.3)	(3.6)	(7.9)
Comprising:							
Interest payable on loans	3	**(6.6)**	**—**	**(6.6)**	(3.6)	—	(3.6)
Amortisation of prepaid finance costs	3	**(1.0)**	**(0.2)**	**(1.2)**	(0.4)	—	(0.4)
Interest accrued on BGF loan	3	**(0.1)**	**(0.3)**	**(0.4)**	(0.2)	(0.2)	(0.4)
Net interest expense on defined benefit pensions	3	**(0.3)**	**—**	**(0.3)**	(0.1)	—	(0.1)
Other non-underlying finance costs	3	**—**	**(4.5)**	**(4.5)**	—	(3.4)	(3.4)
Profit / (loss) before tax	4	**40.8**	**(27.4)**	**13.4**	29.4	(10.6)	18.8
Taxation	6	**(9.2)**	**4.4**	**(4.8)**	(6.4)	0.2	(6.2)
Profit / (loss) for the period		**31.6**	**(23.0)**	**8.6**	23.0	(10.4)	12.6
Earnings per share—pence							
basic	7	**31.38**		**8.58**	25.25		13.84
diluted	7	**30.61**		**8.37**	24.43		13.60

Consolidated statement of comprehensive income

For the 52 weeks ended March 31, 2018

	Note	52 weeks ended March 31, 2018 £m	52 weeks ended April 1, 2017 £m
Profit for the period		**8.6**	12.6
Other comprehensive income / (expense):			
Items that will not be reclassified to profit or loss:			
Actuarial gains / (losses) on defined benefit pension scheme	20	**2.0**	(7.8)
(Decrease) / increase in deferred tax asset relating to pension scheme liability		**(0.4)**	1.4
Items that will not be reclassified to profit or loss		**1.6**	(6.4)
Items that may be reclassified subsequently to profit or loss:			
Retranslation of overseas subsidiaries		**(2.1)**	1.9
Items that may be reclassified subsequently to profit or loss		**(2.1)**	1.9
Other comprehensive expense		**(0.5)**	(4.5)
Total comprehensive income for the year attributable to the owners of the parent		**8.1**	8.1

Consolidated and Company balance sheets

As at March 31, 2018

		Group		Company	
	Notes	March 31, 2018 £m	April 1, 2017 £m	March 31, 2018 £m	April 1, 2017 £m
Non-current assets					
Goodwill	9	**188.1**	59.8	**—**	—
Intangible assets other than goodwill	10	**210.3**	66.3	**0.2**	—
Property, plant and equipment	11	**142.9**	41.8	**—**	—
Investment property	12	**0.8**	0.2	**0.2**	0.2
Investments in subsidiaries	12	**—**	—	**49.3**	49.3
Investments in associates	12	**1.0**	—	**—**	—
Trade and other non-current receivables	14	**—**	—	**14.8**	14.1
Deferred tax assets	19	**4.6**	5.0	**0.2**	0.3
Total non-current assets		**547.7**	173.1	**64.7**	63.9
Current assets					
Inventories	13	**100.3**	73.1	**—**	—
Trade and other receivables	14	**88.2**	55.1	**484.0**	132.9
Cash and cash equivalents	17	**54.0**	28.0	**6.2**	0.3
Total current assets		**242.5**	156.2	**490.2**	133.2
Total assets		**790.2**	329.3	**554.9**	197.1
Current liabilities					
Trade and other current payables	15	**121.5**	82.8	**3.1**	6.6
Current tax liabilities	17	**1.0**	4.3	**—**	—
Other financial liabilities	16, 17	**3.0**	0.6	**12.9**	10.4
Total current liabilities		**125.5**	87.7	**16.0**	17.0
Non-current liabilities					
Trade and other non-current payables	15	**29.2**	19.9	**0.4**	—
Other non-current financial liabilities	16	**306.1**	116.1	**300.7**	115.1
Deferred tax liabilities	19	**54.7**	15.2	**—**	—
Retirement benefit obligations	20	**9.1**	11.1	**—**	—
Total non-current liabilities		**399.1**	162.3	**301.1**	115.1
Total liabilities		**524.6**	250.0	**317.1**	132.1
Net assets		**265.6**	79.3	**237.8**	65.0
Equity					
Share capital	21	**5.9**	4.5	**5.9**	4.5
Share premium		**229.8**	52.5	**229.8**	52.5
Retained earnings	22	**26.7**	16.5	**1.8**	7.2
Foreign exchange reserve	22	**2.9**	5.0	**—**	—
Other reserves	22	**0.3**	0.8	**0.3**	0.8
Total equity		**265.6**	79.3	**237.8**	65.0

The loss of the Company for the year determined in accordance with the Companies Act 2006 was £5,430,000 (2017: profit of £2,733,000). Company Registered Number (England & Wales) 282204

The financial statements on pages 34 to 84 were approved by the Board of Directors and authorised for issue on July 24, 2018.

They were signed on its behalf by:

Michael Scott
Group Finance Director

Consolidated statement of changes in equity

For the 52 weeks ended March 31, 2018

	Share capital £m	Share premium £m	Retained earnings £m	Foreign exchange reserve £m	Other reserves £m	Total equity £m
At April 3, 2016	4.5	52.5	10.3	3.1	0.7	71.1
Profit for the period to April 1, 2017	—	—	12.6	—	—	12.6
Other comprehensive loss for the period	—	—	(6.4)	—	—	(6.4)
Retranslation of overseas subsidiaries	—	—	—	1.9	—	1.9
Total comprehensive profit	—	—	6.2	1.9	—	8.1
Issue of share capital	—	—	—	—	—	—
Share-based payment charge	—	—	—	—	0.1	0.1
Transactions with owners	—	—	—	—	0.1	0.1
At April 1, 2017	4.5	52.5	16.5	5.0	0.8	79.3
Profit for the period to March 31, 2018	—	—	8.6	—	—	8.6
Other comprehensive profit for the period	—	—	1.6	—	—	1.6
Retranslation of overseas subsidiaries	—	—	—	(2.1)	—	(2.1)
Total comprehensive profit / (loss)	—	—	10.2	(2.1)	—	8.1
Issue of share capital	1.4	176.6	—	—	—	178.0
BGF equity transfer	—	0.7	—	—	(0.7)	—
Share-based payment charge	—	—	—	—	0.2	0.2
Transactions with owners	1.4	177.3	—	—	(0.5)	178.2
At March 31, 2018	**5.9**	**229.8**	**26.7**	**2.9**	**0.3**	**265.6**

Company statement of changes in equity

For the 52 weeks ended March 31, 2018

	Share capital £m	Share premium £m	Retained earnings £m	Other reserves £m	Total equity £m
At April 3, 2016	4.5	52.5	4.5	0.7	62.2
Profit for the period to April 1, 2017	—	—	2.7	—	2.7
Total comprehensive profit	—	—	2.7	—	2.7
Issue of share capital	—	—	—	—	—
Share-based payment charge	—	—	—	0.1	0.1
Transactions with owners	—	—	—	0.1	0.1
At April 1, 2017	4.5	52.5	7.2	0.8	65.0
Loss for the period to March 31, 2018	—	—	(5.4)	—	(5.4)
Total comprehensive loss	—	—	(5.4)	—	(5.4)
Issue of share capital	1.4	176.6	—	—	178.0
BGF equity transfer	—	0.7	—	(0.7)	—
Share-based payment charge	—	—	—	0.2	0.2
Transactions with owners	1.4	177.3	—	(0.5)	178.2
At March 31, 2018	**5.9**	**229.8**	**1.8**	**0.3**	**237.8**

Consolidated and Company statements of cash flows

For the 52 weeks ended March 31, 2018

	Note	Group		Company	
		52 weeks ended March 31, 2018 £m	52 weeks ended April 1, 2017 £m	52 weeks ended March 31, 2018 £m	52 weeks ended April 1, 2017 £m
Cash flows from operating activities					
Operating profit / (loss)		**26.4**	26.7	**(4.0)**	(2.1)
Adjustments for:					
Depreciation charges		**15.8**	12.0	**—**	—
Amortisation of intangible assets		**11.3**	4.4	**0.1**	—
Amortisation of government grants		**(0.3)**	(0.2)	**—**	—
Loss on disposal of property, plant and equipment		**0.1**	—	**—**	—
Share-based employee remuneration		**0.2**	0.1	**0.2**	0.1
Defined benefit pension		**(0.2)**	(0.2)	**—**	—
Net cash flow from operating activities before movements in working capital		**53.3**	42.8	**(3.7)**	(2.0)
Change in inventories		**(8.0)**	(0.5)	**—**	—
Change in trade and other receivables		**2.6**	(5.9)	**0.1**	—
Change in trade and other payables		**6.4**	4.7	**1.2**	0.4
Cash generated / (used) by operations		**54.3**	41.1	**(2.4)**	(1.6)
Interest paid		**(6.7)**	(3.6)	**(6.5)**	(3.4)
Income taxes paid		**(10.6)**	(5.8)	**(0.2)**	(0.1)
Net cash inflow / (outflow) from operating activities		**37.0**	31.7	**(9.1)**	(5.1)
Investing activities					
Purchases of property, plant and equipment		**(25.9)**	(9.4)	**—**	—
Proceeds on disposal of property, plant and equipment		**2.1**	0.2	**—**	—
Purchases of intangible assets		**(0.7)**	—	**(0.3)**	—
Loan to subsidiary companies		**—**	—	**(288.5)**	(28.5)
Deferred and contingent consideration payments		**(15.3)**	(10.3)	**(5.8)**	(5.8)
Acquisition of subsidiaries net of cash acquired		**(276.5)**	(37.8)	**—**	—
Net cash used in investing activities		**(316.3)**	(57.3)	**(294.6)**	(34.3)
Financing activities					
Increase in long-terms loans		**128.8**	34.3	**129.2**	34.9
Issue of share capital		**178.1**	—	**178.1**	—
Repayment of obligations under finance leases / hire purchase		**(0.3)**	(0.9)	**—**	—
Net cash generated in financing activities		**306.6**	33.4	**307.3**	34.9
Increase / (decrease) in net cash and cash equivalents		**27.3**	7.8	**3.6**	(4.5)
Net cash and cash equivalents at beginning of period		**28.0**	19.1	**(10.1)**	(5.6)
Effect of foreign exchange rate changes		**(2.2)**	1.1	**(0.2)**	—
Net cash and cash equivalents at end of period		**53.1**	28.0	**(6.7)**	(10.1)
Comprising:					
Cash and cash equivalents	17	**54.0**	28.0	**6.2**	0.3
Bank overdrafts	17	**(0.9)**	—	**(12.9)**	(10.4)
		53.1	28.0	**(6.7)**	(10.1)

Notes to the accounts

1. Segmental information

The Group is organised into two operating divisions, the sale of floorcovering products in the UK & Europe and in Australia. The CGUs that comprise the UK & Europe division are combined into one reporting segment on the basis that they share economic characteristics.

Geographical segment information for revenue, operating profit and a reconciliation to entity net profit is presented below.

Income statement

	52 weeks ended March 31, 2018				52 weeks ended April 1, 2017			
	UK & Europe £m	Australia £m	Unallocated central expenses £m	Total £m	UK & Europe £m	Australia £m	Unallocated central expenses £m	Total £m
Revenue	**312.0**	**112.8**	**—**	**424.8**	241.7	88.7	—	330.4
Underlying operating profit	**38.5**	**11.6**	**(1.3)**	**48.8**	26.2	8.3	(0.8)	33.7
Non-underlying operating items	**(9.3)**	**(1.9)**	**—**	**(11.2)**	(3.6)	(0.8)	—	(4.4)
Exceptional operating items	**(6.7)**	**(0.3)**	**(4.2)**	**(11.2)**	(0.8)	(0.5)	(1.3)	(2.6)
Operating profit	**22.5**	**9.4**	**(5.5)**	**26.4**	21.8	7.0	(2.1)	26.7
Underlying finance costs				**(8.0)**				(4.3)
Non-underlying finance costs				**(5.0)**				(3.6)
Profit before tax				**13.4**				18.8
Tax				**(4.8)**				(6.2)
Profit for the period				**8.6**				12.6

Management information is reviewed on a segmental basis to operating profit.

During the year, no single customer accounted for 10% or more of the Group's revenue. Inter-segment sales in the year and in the prior year between the UK & Europe and Australia were immaterial.

The Group's revenue for the period was split geographically as follows:

	52 weeks ended March 31, 2018 £m	52 weeks ended April 1, 2017 £m
Revenue		
UK & other European countries	**265.0**	241.7
Spain	**41.3**	—
Italy	**5.7**	—
Australia	**112.8**	88.7
	424.8	330.4

Materially all revenue within 'UK & other European countries' relate to the UK.

Balance sheet

	As at March 31, 2018			As at April 1, 2017		
	UK & Europe £m	Australia £m	Total £m	UK & Europe £m	Australia £m	Total £m
Total Assets	**712.7**	**77.5**	**790.2**	277.0	52.3	329.3
Total Liabilities	**(467.0)**	**(57.6)**	**(524.6)**	(216.3)	(33.7)	(250.0)
Net Assets	**245.7**	**19.9**	**265.6**	60.7	18.6	79.3

1. Segmental information (Continued)

The Group's non-current assets as at March 31, 2018 were split geographically as follows:

	As at March 31, 2018 £m	As at April 1, 2017 £m
Non-current assets		
UK & other European countries	**130.5**	130.4
Spain	**332.2**	—
Italy	**49.1**	—
Australia	**35.9**	42.7
	547.7	173.1

Materially all non-current assets within 'UK & other European countries' relate to the UK.

Other segmental information

	52 weeks ended March 31, 2018				52 weeks ended April 1, 2017			
	UK & Europe £m	Australia £m	Unallocated central liabilities £m	Total £m	UK & Europe £m	Australia £m	Unallocated central liabilities £m	Total £m
Depreciation and amortisation								
Depreciation	**12.8**	**3.0**	**—**	**15.8**	9.3	2.7	—	12.0
Amortisation of acquisition intangibles	**9.4**	**1.8**	**—**	**11.2**	3.6	0.8	—	4.4
Amortisation of other intangibles	**0.1**	**—**	**—**	**0.1**	—	—	—	—
	22.3	**4.8**	**—**	**27.1**	12.9	3.5	—	16.4

	52 weeks ended March 31, 2018				52 weeks ended April 1, 2017			
	UK & Europe £m	Australia £m	Unallocated central expenditure £m	Total £m	UK & Europe £m	Australia £m	Unallocated central expenditure £m	Total £m
Investments in fixed assets								
Purchases of property, plant and equipment	**26.1**	**2.5**	**—**	**28.6**	9.4	1.8	—	11.2
Disposals of property, plant and equipment	**(0.9)**	**(0.3)**	**—**	**(1.2)**	(0.2)	—	—	(0.2)
Purchases of intangible assets	**0.4**	**—**	**0.3**	**0.7**	—	—	—	—
Total capital expenditure	**25.6**	**2.2**	**0.3**	**28.1**	9.2	1.8	—	11.0

2. Exceptional items

	2018 £m	2017 £m
(a) Acquisition and disposal related costs	**(5.8)**	(2.1)
(b) Reorganisation costs	**(5.4)**	(0.3)
(c) Prior year preference payment claim	**—**	(0.2)
	(11.2)	(2.6)

All exceptional items are classified within administrative expenses.

(a) One-off professional fees in connection with prospecting and completing acquisitions during the year.

(b) One-off reorganisation costs, including redundancy costs, in relation to the Group's manufacturing and logistics operations, as well as other corporate restructuring.

2. Exceptional items (Continued)

(c) Potential preference payment claim in respect of an Australian customer that went into administration during the prior year.

3. Finance costs

	2018 £m	2017 £m
Interest payable on bank loans and overdrafts	**5.7**	2.5
Cash interest payable on BGF loan	**0.8**	1.0
Interest payable on Hire Purchase and Finance Leases	**0.1**	0.1
Total interest payable on loans	**6.6**	3.6
Amortisation of prepaid finance costs	**1.0**	0.4
Interest rolled up into BGF loan	**0.1**	0.2
Net interest expense on defined benefit pensions	**0.3**	0.1
Underlying interest costs	**8.0**	4.3
Non-underlying finance costs:		
(a) BGF loan, one-off non-cash adjustments arising on modification	**0.9**	—
(b) BGF loan and option, redemption premium charge	**0.3**	0.2
(c) Unwinding of present value of contingent earn-out liabilities	**2.6**	1.8
(c) Unwinding of present value of deferred consideration liabilities	**0.4**	0.4
(c) Other adjustments to present value of contingent earn-out liabilities	**(2.9)**	1.6
(d) Mark to market adjustment on corporate bonds held	**0.1**	—
(e) Mark to market adjustment on foreign exchange forward contracts	**0.1**	—
(f) Retranslation of foreign currency loans	**3.5**	(0.4)
	13.0	7.9

(a) Non-cash charge relating to a significant modification to the terms of the BGF loan, on which the coupon was reduced from 10% to 6% in September 2017. The charge comprises an extinguishment charge of £705,000 and a release of prepaid costs of £210,000.

(b) Non-cash annual cost of the redemption premium in relation to the BGF loan and option.

(c) Non-cash costs relating to the revaluation of deferred consideration and contingent earn-outs. Deferred consideration is measured at amortised cost, while contingent consideration is measured under IFRS 3 at fair value. Both are discounted for the time value of money. The present value is then remeasured at each half-year and year-end in relation to the appropriateness of the discount factor and the unwind of this discount. In addition, any changes to contingent earn-outs arising from actual and forecast business performance are reflected as other adjustments to present value of contingent earn-out liabilities.

(d) Fair value adjustments on corporate bonds held.

(e) Non-cash fair value adjustment on foreign exchange forward contracts.

(f) Net impact of exchange rate movements on third party and intercompany loans.

4. Profit/(loss) on ordinary activities before taxation

	2018 £m	2017 £m
After charging / (crediting):		
Net foreign exchange losses / (gains)	**0.2**	(1.9)
Depreciation of property, plant and equipment (see Note 11)	**15.8**	12.0
Amortisation of intangible assets (see Note 10)	**11.3**	4.4
Staff costs (see Note 5)	**76.7**	59.8
Cost of inventories recognised as an expense	**230.2**	183.9
Profit on sale of fixed assets	**(0.1)**	—
Government grants (see Note 24)	**(0.3)**	(0.2)
Operating lease rentals	**6.5**	5.4

Auditor's remuneration	2018 £m	2017 £m
Fees payable to the Company's Auditor in respect of audit services:		
The audit of the Group consolidated accounts	**0.08**	0.05
The audit of the Company's subsidiaries pursuant to legislation	**0.30**	0.25
Total audit fees	**0.38**	0.30
Tax compliance services	**0.05**	0.04
Taxation advisory services	**0.07**	0.02
Services relating to corporate finance transactions (etiher proposed or entered into) by or on behalf of the Company or any of its associates	**0.01**	0.09
Pension scheme advisory services	**—**	0.02
Total non-audit fees	**0.13**	0.17

5. Staff costs

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Wages and salaries	**65.7**	52.0	**0.6**	0.4
Social security costs	**7.1**	4.4	**0.1**	—
Share-based employee remuneration	**0.2**	0.1	**0.2**	0.1
Other pension costs	**3.7**	3.3	**—**	—
	76.7	59.8	**0.9**	0.5

Directors' remuneration is included as part of the staff costs above. Directors' remuneration is disclosed separately on page 21 of the Directors' Report and forms part of these financial statements.

Average number employed (including executive directors of subsidiaries):

	Group		Company	
	2018	2017	2018	2017
Directors	**50**	38	**6**	6
Sales and marketing	**381**	242	**—**	—
Production, logistics and maintenance	**1,893**	1,397	**—**	—
Finance, IT and administration	**176**	125	**2**	1
	2,500	1,802	**8**	7

5. Staff costs (Continued)

Share based payment schemes

On April 29, 2016, the Group Finance Director, Michael Scott, was awarded 5,000 B ordinary shares (the "B Shares") in a new intermediate holding company, Victoria Midco Holdings Limited, in connection with a share-based incentive plan as recommended by the Remuneration Committee. Between the second and third anniversary of his joining the Company, Mr Scott is able to exchange the B Shares into ordinary shares in Victoria PLC ("Ordinary Shares") of equivalent value. The monetary value of the award represents approximately 0.611% of the growth in value of the Ordinary Shares above a share price of £3.00. Since the year end, Mr Scott has exercised his option, exchanging the B Shares for 395,476 Ordinary Shares.

On June 8, 2017, Mr Scott was awarded 5,350 C ordinary shares and certain other employees 1,070 C ordinary shares (collectively the "C Shares") in connection with the share-based incentive plan. Between the July 1, 2019 and June 30, 2020 participants will be able to exchange the C Shares into Ordinary Shares of equivalent value. The monetary value of the award represents approximately 0.733% of the growth in value of the Ordinary Shares above a share price of £6.75. The Plan is subject to good leaver and bad leaver provisions.

The B and C Shares have been valued for the purposes of IFRS 2 (Share-based Payments) using a Black Scholes model. The key inputs and assumptions applied in this model for the B and C Shares are set out in the table below:

Inputs and Assumptions	B Shares	C Shares
Grant date	April 29, 2016	June 8, 2017
Victoria Plc share price at grant	£2.81	£5.53
Exercise price	£3.00	£6.75
Expected term	2.18 years	2.56 years
Risk free rate (continuously compounded)	0.50%	0.13%
Expected dividend yield	0%	0%
Expected volatility	32.76%	31.30%

Based on this model, the aggregate fair value of the B Shares was assessed to be £263,150 and for the C Shares £322,733. The fair value of the respective B and C Shares are charged to the income statement over the expected terms.

The expected volatility assumption has been determined based on historical share price volatility over a period commensurate with the expected maximum term of the respective B and C Shares issued.

6. Taxation

	2018 £m	2017 £m
Current tax		
—Current year UK	**2.0**	4.6
—Current year overseas	**5.3**	2.5
—Adjustments in respect of prior years	**0.2**	(0.2)
	7.5	6.9
Deferred tax (Note 19)		
—Credit recognised in the current year	**(2.7)**	(1.3)
—Charge in respect of non-qualifying sampling assets	**—**	0.7
—Adjustments in respect of prior years	**—**	(0.1)
—Effect of rate change	**—**	—
	(2.7)	(0.7)
Total tax	**4.8**	6.2

6. Taxation (Continued)

Corporation tax is calculated at the applicable percentage of the estimated assessable profit for the year in each respective geography. This is 19% in the UK; 25% in the Netherlands and Spain; 27.9% in Italy; 30% in Australia; and 29% in Belgium.

The charge in respect of non-qualifying sampling assets incurred in the prior year of £682,000 is a non-recurring timing difference resulting from the change in accounting policy in the year ended April 2, 2016.

The tax charge for the year can be reconciled to the profit per the income statement as follows:

	2018		2017	
	£m	%	£m	%
Profit before tax from continuing operations	**13.4**		18.8	
Tax charge at the UK corporation tax rate of 19% (2017: 20%)	**2.5**	**19.0**	3.8	20.0
Tax effect of items that are not deductible/non-taxable in determining taxable profit	**1.1**	**7.8**	1.5	7.9
Effect of different tax rates of subsidiaries operating in other jurisdictions	**1.0**	**7.8**	0.6	3.3
Deferred consideration fair value remeasurement non-taxable	**—**	**—**	0.8	4.3
Effect of change in rate	**—**	**—**	—	—
Effect of change in future tax rate enacted on deferred tax recognised on intangible assets	**(0.1)**	**(1.0)**	(0.1)	(0.7)
Movement in deferred tax on revalued land no longer required	**—**	**—**	—	—
Tax losses not recognised as a deferred tax asset	**0.1**	**0.7**	—	—
Adjustments to prior periods	**0.2**	**1.3**	(0.4)	(1.9)
Tax charge and effective tax rate	**4.8**	**35.6**	6.2	32.9

7. Earnings per share

The calculation of the basic, adjusted and diluted earnings per share is based on the following data:

	Basic 2018 £m	Adjusted 2018 £m	Basic 2017 £m	Adjusted 2017 £m
Profit attributable to ordinary equity holders of the parent entity	**8.6**	**8.6**	12.6	12.6
Exceptional and non-underlying items:				
Amortisation of acquired intangibles	**—**	**11.2**	—	4.4
Acquisition and disposal-related cost	**—**	**5.8**	—	2.1
Reorganisation costs	**—**	**5.4**	—	0.3
Other exceptional items	**—**	**—**	—	0.2
BGF loan and option, non-underlying charges	**—**	**1.2**	—	0.2
Unwinding of present value of deferred and contingent consideration	**—**	**3.0**	—	2.2
Other adjustments to present value of contingent earn-out liabilities	**—**	**(2.9)**	—	1.6
Mark to market adjustment on corporate bonds held	**—**	**0.1**	—	—
Mark to market adjustment on foreign exchange forward contracts	**—**	**0.1**	—	—
Retranslation of foreign currency loans	**—**	**3.5**	—	(0.4)
Tax effect on adjusted items where applicable	**—**	**(4.4)**	—	(0.9)
Deferred tax charge in respect of non-qualifying sampling assets	**—**	**—**	—	0.7
Earnings for the purpose of basic and adjusted earnings per share	**8.6**	**31.6**	12.6	23.0

7. Earnings per share (Continued)

Weighted average number of shares

	2018 Number of shares (000's)	2017 Number of shares (000's)
Weighted average number of shares for the purpose of basic and adjusted earnings per share	**100,701**	90,968
Effect of dilutive potential ordinary shares:		
BGF share options and growth shares	**2,533**	3,080
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**103,234**	94,048

The potential dilutive effect of the share options has been calculated in accordance with IAS 33 using the average share price in the period.

The Group's earnings per share are as follows:

	2018 Pence	2017 Pence
Earnings per share		
Basic adjusted earnings per share	**31.38**	25.25
Diluted adjusted earnings per share	**30.61**	24.43
Basic earnings per share	**8.58**	13.84
Diluted earnings per share	**8.37**	13.60

8. Rates of exchange

	2018		2017	
	Average	Year end	Average	Year end
Australia—A$	**1.7206**	**1.8246**	1.7435	1.6448
Europe—€	**1.1373**	**1.1370**	1.1785	1.1777

9. Goodwill

	Goodwill £m
At April 3, 2016	37.2
Arising on acquisition	21.7
Exchange movements	0.9
At April 1, 2017	59.8
At April 2, 2017	59.8
Arising on acquisition	130.7
Exchange movements	(2.4)
At March 31, 2018	**188.1**

Goodwill is attributed to the businesses identified below for the purpose of testing impairment. These businesses are the lowest level at which goodwill is monitored and represent cash generating units ("CGUs"). The CGUs within a reported segment share similar characteristics to each other and to the other businesses within that segment.

9. Goodwill (Continued)

The aggregate carrying amounts of goodwill allocated to each CGU are as follows:

	Reporting segment	2018 £m	2017 £m
Westex (Carpets) Limited	UK & Europe	**2.7**	2.7
Whitestone Weavers Group	UK & Europe	**1.4**	1.4
Interfloor Limited	UK & Europe	**25.2**	25.2
Quest Flooring Pty Limited	Australia	**8.0**	8.8
Ezi Floor Limited	UK & Europe	**7.1**	7.1
Primary Flooring Pty Limited	Australia	**6.3**	7.1
GrassInc. B.V. and Avalon B.V.	UK & Europe	**7.8**	7.5
Keraben Grupo S.A.	UK & Europe	**114.7**	—
Ceramiche Serra S.p.A.	UK & Europe	**14.9**	—
		188.1	59.8

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the goodwill have been determined based on value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. The discount rates used of 10.4% for CGUs within the UK; 9.1% for CGUs within Holland; 10.4% for CGUs within Spain; 12.7% for CGUs within Italy; and 11% for CGUs within Australia are estimated using weighted-average costs of capital that reflect current market assessments of the time value of money and the risks specific to the markets in which the businesses operate. The primary reasons for the difference in the rates between the UK, Europe and Australia are the differences in underlying risk-free rates and cost of debt. The calculation uses cash flow projections extrapolated for five years from the budget for the year ending March 30, 2019. Mid-term growth rates in EBITDA are estimated at 4% for CGUs within the UK; 4% for CGUs within Australia; and 7% for CGUs within Continental Europe. At the end of the discrete forecast period, a terminal value is calculated based on a terminal growth rate assumption of 2.0%.

The Group does not consider it probable that any reasonable changes to the key assumptions would result in impairment to any of the Goodwill balances. As at March 31, 2018 no impairment provision was therefore considered necessary.

Goodwill comprises intangible assets that do not qualify for separate recognition, in particular the existing workforce.

None of the goodwill is expected to be tax deductible.

10. Intangible assets

Group		Customer relationships £m	Brand names £m	Other acquired intangibles £m	IT software £m	Group total £m
Cost	At April 3, 2016	37.1	9.3	—	—	46.4
	Business combinations	24.2	2.4	—	—	26.6
	Exchange difference	0.7	0.1	—	—	0.8
	At April 1, 2017	62.0	11.8	—	—	73.8
	At April 2, 2017	**62.0**	**11.8**	**—**	**—**	**73.8**
	Additions	**—**	**—**	**—**	**0.7**	**0.7**
	Business combinations	**119.4**	**32.9**	**4.8**	**0.3**	**157.4**
	Exchange difference	**(2.5)**	**(0.5)**	**—**	**—**	**(3.0)**
	At March 31, 2018	**178.9**	**44.2**	**4.8**	**1.0**	**228.9**
Amortisation	At April 3, 2016	2.4	0.6	—	—	3.0
	Charge for the period	4.0	0.4	—	—	4.4
	Exchange difference	0.1	—	—	—	0.1
	At April 1, 2017	6.5	1.0	—	—	7.5
	At April 2, 2017	**6.5**	**1.0**	**—**	**—**	**7.5**
	Charge for the period	**9.4**	**1.4**	**0.4**	**0.1**	**11.3**
	Disposals	**—**	**—**	**—**	**—**	**—**
	Exchange difference	**(0.2)**	**—**	**—**	**—**	**(0.2)**
	At March 31, 2018	**15.7**	**2.4**	**0.4**	**0.1**	**18.6**
Net book value	At March 31, 2018	**163.2**	**41.8**	**4.4**	**0.9**	**210.3**
	At April 1, 2017	55.5	10.8	—	—	66.3
	At April 2, 2016	34.7	8.7	—	—	43.4

Company		Customer relationships £m	Brand names £m	Other acquired intangibles £m	IT software £m	Total £m
Cost	At April 2, 2017	**—**	**—**	**—**	**—**	**—**
	Additions	**—**	**—**	**—**	**0.3**	**0.3**
	At March 31, 2018	**—**	**—**	**—**	**0.3**	**0.3**
Amortisation	At April 2, 2017	**—**	**—**	**—**	**—**	**—**
	Charge for the period	**—**	**—**	**—**	**0.1**	**0.1**
	At March 31, 2018	**—**	**—**	**—**	**0.1**	**0.1**
Net book value	At March 31, 2018	**—**	**—**	**—**	**0.2**	**0.2**

11. Property, Plant and equipment

	Freehold land and buildings £m	Plant and machinery £m	Fixtures, vehicles and equipment £m	Total £m
Cost				
At April 3, 2016	13.8	43.0	13.9	70.7
Additions	0.1	3.6	7.5	11.2
Disposals	—	(1.4)	(6.8)	(8.2)
Business combinations	0.1	3.1	0.2	3.4
Exchange differences	—	2.9	0.5	3.4
At April 1, 2017	14.0	51.2	15.3	80.5
At April 2, 2017	**14.0**	**51.2**	**15.3**	**80.5**
Additions	**0.7**	**16.5**	**11.4**	**28.6**
Disposals	**—**	**(2.8)**	**(6.4)**	**(9.2)**
Business combinations	**61.6**	**28.0**	**1.4**	**91.0**
Exchange differences	**(0.7)**	**(3.2)**	**(0.5)**	**(4.4)**
At March 31, 2018	**75.6**	**89.7**	**21.2**	**186.5**
Accumulated depreciation				
At April 3, 2016	0.3	26.7	4.9	31.9
Charge for the period	0.4	4.1	7.5	12.0
Disposals	—	(1.4)	(6.6)	(8.0)
Exchange differences	0.1	2.4	0.3	2.8
At April 1, 2017	0.8	31.8	6.1	38.7
At April 2, 2017	**0.8**	**31.8**	**6.1**	**38.7**
Charge for the period	**0.7**	**6.3**	**8.8**	**15.8**
Disposals	—	(1.9)	(6.1)	(8.0)
Exchange differences	**(0.1)**	**(2.5)**	**(0.3)**	**(2.9)**
At March 31, 2018	**1.4**	**33.7**	**8.5**	**43.6**
Net book value				
At March 31, 2018	**74.2**	**56.0**	**12.7**	**142.9**
At April 1, 2017	13.2	19.4	9.2	41.8
At April 2, 2016	13.5	16.3	9.0	38.8

The Company holds no property, plant and equipment.

11. Property, Plant and equipment (Continued)

Included within fixed assets are the following:

	Plant and machinery hire purchase £m	Fixtures, vehicles and equipment hire purchase £m	Plant and machinery finance lease £m	Fixtures, vehicles and equipment finance lease £m	Group total £m
Held under hire purchase / finance leases:					
Cost at March 31, 2018	**1.2**	**1.4**	**4.1**	**0.8**	**7.5**
Accumulated depreciation at March 31, 2018	**0.1**	**0.5**	**3.3**	**0.3**	**4.2**
Depreciation charged in year	**0.1**	**0.2**	**0.3**	**0.1**	**0.7**
Held under hire purchase / finance leases:					
Cost at April 1, 2017	0.6	1.0	4.2	0.5	6.3
Accumulated depreciation at April 1, 2017	0.1	0.4	3.1	0.2	3.8
Depreciation charged in year	0.1	0.2	0.3	0.1	0.7

Capital expenditure authorised and committed at the period end:

	2018 £m	2017 £m
Contracts placed	**6.1**	0.3

The Company held no assets under finance lease or hire purchase agreements and had no capital commitments at either year-end.

12. Fixed asset investments

		Group		Company	
	Note	2018 £m	2017 £m	2018 £m	2017 £m
Investment property	(a)	**0.8**	0.2	**0.2**	0.2
Investment in subsidiaries	(b)	**—**	—	**49.3**	49.3
Investment in associates	(c)	**1.0**	—	**—**	—

(a) Investment property held in the opening balance sheet relates to the legacy ownership of a small area of land in Kidderminster, which is held at cost. The fair value of this land is dependent on future use and therefore cannot be accurately estimated.

The increase in investment property during the year relates to properties obtained as part of the acquisition of Keraben. These are held at cost, according to the opening balance sheet of Keraben, which is equal to their total fair value at the date of acquisition. The fair value at March 31, 2018 is deemed to be materially unchanged.

12. Fixed asset investments (Continued)

(b) Victoria PLC owns directly or indirectly the whole of the allotted ordinary share capital of the following subsidiary companies.

As at March 31, 2018	Country of incorporation and operation	Nature of business	Ownership
Victoria Midco Holdings Limited	England	Holding company	Direct
Victoria Carpets Limited	England	Carpet manufacturer	Indirect
Whitestone Carpets Holdings Limited	England	Holding company	Indirect
View Logistics Limited	England	Logistic services	Indirect
A&A Carpets Limited	England	Carpet distributor	Indirect
Abingdon Flooring Limited	England	Carpet manufacturer	Indirect
Alliance Flooring Distribution Limited	England	Logistic services	Indirect
Distinctive Flooring Limited	England	Flooring distributor	Indirect
Globesign Limited	England	Holding company	Indirect
Westex (Carpets) Limited	England	Carpet manufacturer	Indirect
Interfloor Limited	England	Carpet underlay manufacturer	Indirect
Ezi Floor Limited	England	Carpet underlay manufacturer	Indirect
The Victoria Carpet Company Pty Limited	Australia	Carpet manufacturer	Indirect
Primary Flooring Pty Limited	Australia	Carpet underlay manufacturer	Indirect
Quest Flooring Pty Ltd	Australia	Carpet manufacturer	Indirect
Victoria Bidco BV	The Netherlands	Holding company	Indirect
Avalon BV	The Netherlands	Artificial grass distributor	Indirect
GrassInc BV	The Netherlands	Artificial grass distributor	Indirect
Serra Holdings S.p.A	Italy	Holding company	Indirect
Ceramiche Serra S.p.A	Italy	Ceramics manufacturer	Indirect
Kinsan Trade, S.L.	Spain	Holding company	Indirect
Keraben Grupo S.A.U	Spain	Ceramics manufacturer	Indirect
Victoria Belgium N.V	Belgium	Carpet distributor	Indirect
The Victoria Carpet Company Limited	England	Non-trading	Indirect
Munster Carpets Limited	Ireland	Non-trading	Indirect
V-Line Carpets Limited	England	Non-trading	Indirect
Carpet Line Direct Limited	England	Non-trading	Indirect
Whitestone Weavers Limited	England	Non-trading	Indirect
Thomas Witter Carpets Limited	England	Non-trading	Indirect
Gaskell Mackay Carpets Limited	England	Non-trading	Indirect
Interfloor Group Limited	England	Non-trading	Indirect
Interfloor Operations Limited	England	Non-trading	Indirect
Tacktrim Limited	England	Non-trading	Indirect
Stikatak Limited	England	Non-trading	Indirect
Flooring at Home Limited	England	Non-trading	Direct
Keraben Guatemala	Guatamala	Ceramics manufacturing services	Indirect
Kerainvest S.L.	Spain	Non-trading	Indirect

(c) Victoria PLC indirectly holds investments in the following associate companies.

As at March 31, 2018	Percentage ownership
Ceramica Navagres S.A.	40%
Keraben Bolivia, S.R.L.	50%
Cong Ty Tnhh Taicera Keraben (Vietnam)	49%

The agregate result for the associated undertakings during the period was immaterial.

Due to the immaterial nature of these investments, further detailed disclosures have been omitted.

13. Inventories

Inventories held at year-end	2018 £m	2017 £m
Raw materials	**22.2**	18.8
Work-in-progress	**3.6**	3.4
Finished goods	**74.5**	50.9
	100.3	73.1

During the year to March 31, 2018, the total movement in stock provisions resulted in a credit to the income statement of £477,000 (2017: £189,000).

The Company held no inventories at either year-end. There is no material difference between the balance sheet value of inventories and their replacement cost.

14. Trade and other receivables

Amounts falling due within one year:

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Trade debtors	**79.1**	51.5	**—**	—
Amounts owed by subsidiaries	**—**	—	**484.0**	132.7
Other debtors	**4.1**	0.2	**—**	—
Prepayments and accrued income	**5.0**	3.4	**—**	0.2
	88.2	55.1	**484.0**	132.9

Amounts falling due after one year:

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Amounts owed by subsidiaries	**—**	—	**14.8**	14.1
	—	—	**14.8**	14.1

Where intercompany loans have been formally documented, interest is charged on amounts owed by subsidiaries to the Company at market rates. There are no repayment terms attached to those loans classified as being due within one year.

Amounts owed by subsidiaries to the Company are not considered to be impaired.

The above amounts are stated net of an allowance (net of VAT) of £2,014,000 (2017: £777,000) made for estimated irrecoverable amounts from sale of goods. The movement of this allowance account during the year is summarised below:

	2018 £m	2017 £m
Opening balance at April 2, 2017	**0.8**	1.0
Acquisition opening balances	**3.1**	0.2
(Decrease)/Increase in provisions	**(0.1)**	0.5
(Recovered)/written off against provisions	**(1.7)**	(0.9)
Exchange differences	**(0.1)**	—
Closing balance at March 31, 2018	**2.0**	0.8

14. Trade and other receivables (Continued)

An analysis of the age of trade receivables that are past due at the reporting date but not impaired can be seen in the table below:

	2018 £m	2017 £m
1–30 days overdue	**12.2**	8.9
31–60 days overdue	**2.6**	0.9
> 60 days overdue	**2.2**	1.0
Total	**17.0**	10.8

An analysis of the age of impaired trade receivables is as follows:

	2018 £m	2017 £m
Current	**0.3**	—
1–30 days overdue	**0.1**	—
31–60 days overdue	**0.1**	—
> 60 days overdue	**1.8**	0.9
Total	**2.3**	0.9

The main factors in assessing the impairment of trade receivables are the age of the balance and the circumstances of the individual customer. The Directors consider that the carrying amount of all receivables, including those impaired, approximates to their fair value.

15. Trade and other payables

Amounts falling due within one year:

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Trade creditors	**77.1**	46.4	**—**	—
Amounts due to subsidiaries	**—**	—	**1.1**	—
Deferred and contingent earn-out liabilities	**6.1**	14.7	**—**	5.8
Other creditors	**20.5**	12.0	**—**	—
Accruals	**10.5**	9.5	**2.0**	0.8
Employee incentive plan liability	**7.2**	—	**—**	—
Deferred income	**0.1**	0.2	**—**	—
	121.5	82.8	**3.1**	6.6

Amounts falling due after one year:

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Deferred and contingent earn-out liabilities	**25.2**	19.3	**0.4**	—
Deferred income	**0.9**	0.2	**—**	—
Other creditors	**3.1**	0.4	**—**	—
	29.2	19.9	**0.4**	—

Deferred and contingent earn-out liabilities (Group and Company) are in connection with the acquisitions of Globesign Limited, Quest Carpet Manufacturers Pty Limited, Ezi Floor Limited, Avalon B.V., Grass Inc B.V., and Ceramiche Serra S.p.A. Under IFRS 13 Fair Value Measurement this is classified under the

15. Trade and other payables (Continued)

fair value hierarchy as Level 3. The deferred and contingent earn-out liabilities falling due after one year of £25.25m is split as follows: between one to two years is £11.20m and between two to five years is £14.05m.

Deferred income relates to government grants as shown in Note 24.

Employee incentive plan liability relates to an incentive plan put in place for the senior management of Keraben Grupo S.A.U. which involved an initial investment by participants. The fair value of the scheme is linked to the performance of Keraben over a five year period, and the difference between the expected future fair value and the initial investment is being spread over this term. See accounting policies for further details.

16. Other financial liabilities

Amounts falling due within one year:

	Group		Company	
	2018 £m	**2017 £m**	**2018 £m**	**2017 £m**
Bank overdraft	**0.9**	—	**12.9**	10.4
Bank loans	**1.2**	—	**—**	—
Finance leases & hire purchase agreements	**0.9**	0.6	**—**	—
	3.0	0.6	**12.9**	10.4

Amounts falling due after one year:

	Group		Company	
	2018 £m	**2017 £m**	**2018 £m**	**2017 £m**
Bank loans:				
—due between one and two years	**—**	—	**—**	—
—due between two and five years	**293.7**	105.2	**289.4**	105.2
—due over five years	**—**	—	**—**	—
Subordinated loans:	**—**	—	**—**	—
—due between one and two years	**2.1**	2.9	**2.1**	2.9
—due between two and five years	**9.2**	5.4	**9.2**	5.4
—due over five years	**—**	1.6	**—**	1.6
Finance leases & hire purchase agreements:	**—**	—	**—**	—
—due between one and two years	**0.7**	0.6	**—**	—
—due between two and five years	**0.4**	0.4	**—**	—
—due over five years	**—**	—	**—**	—
	306.1	116.1	**300.7**	115.1

Bank loans as at March 31, 2018 relate to a Group multi-currency Revolving Credit Facility and Euro Term Loan, each provided by a number of banks. Both facilities mature on October 15, 2020, and are secured by way of debenture over the assets of the Group.

The Subordinated loans relate to the debt component of the BGF loan and option instruments. During the year there was a significant modification to the terms of the loan, on which the coupon was reduced from 10% to 6% in September 2017. A corresponding extinguishment charge of £705,000 and release of prepaid costs of £210,000 have been charged to finance costs within the income statement (see Note 3).

The Group's net debt position as at March 31, 2018 was £258.7m (2017: £89.6m), before netting off prepaid finance costs. The contractual maturities of financial liabilities and average effective interest rates are set out in Note 25.

17. Financial assets and liabilities

The financial assets of the Group comprised:

	At March 31, 2018				At April 1, 2017			
	Loans and receivables £m	Financial assets held at fair value through profit and loss £m	Assets not within the scope of IAS 39 £m	Total £m	Loans and receivables £m	Financial assets held at fair value through profit and loss £m	Assets not within the scope of IAS 39 £m	Total £m
Cash and cash equivalents								
Sterling	**6.7**	**—**	**—**	**6.7**	10.9	—	—	10.9
US Dollars	**2.7**	**—**	**—**	**2.7**	1.5	—	—	1.5
Euros	**27.7**	**—**	**—**	**27.7**	1.4	—	—	1.4
Australian Dollars	**11.2**	**—**	**—**	**11.2**	14.1	—	—	14.1
New Zealand Dollars	**0.3**	**—**	**—**	**0.3**	0.1	—	—	0.1
Investments in listed corporate bonds	**—**	**5.4**	**—**	**5.4**	—	—	—	—
	48.6	**5.4**	**—**	**54.0**	28.0	—	—	28.0
Current assets								
Trade and other receivables	**83.1**	**—**	**5.0**	**88.1**	51.7	—	3.4	55.1
Current inventories	**—**	**—**	**100.3**	**100.3**	—	—	73.1	73.1
Forward foreign exchange contracts	**—**	**0.1**	**—**	**0.1**	—	—	—	—
Current assets	**131.7**	**5.5**	**105.3**	**242.5**	79.7	—	76.5	156.2

Investments in listed corporate bonds are held for short-term trading and are highly liquid, and are therefore treated as cash equivalents and designated at fair value through profit and loss.

17. Financial assets and liabilities (Continued)

The financial liabilities of the Group comprised:

	At March 31, 2018				At April 1, 2017			
	Other financial liabilities at amortised cost £m	Financial liabilities held at fair value through profit and loss £m	Liabilities not within the scope of IAS 39 £m	Total £m	Other financial liabilities at amortised cost £m	Financial liabilities held at fair value through profit and loss £m	Liabilities not within the scope of IAS 39 £m	Total £m
Overdraft								
Sterling	**0.9**	**—**	**—**	**0.9**	—	—	—	—
	0.9	**—**	**—**	**0.9**	—	—	—	—
Current liabilities								
Trade and other payables	**106.4**	**1.6**	**5.9**	**113.9**	70.1	7.7	4.9	82.7
Employee incentive plan liability	**7.2**	**—**	**—**	**7.2**	—	—	—	—
Current tax liabilities	**—**	**—**	**1.0**	**1.0**	—	—	4.3	4.3
Forward foreign exchange contracts	**—**	**0.4**	**—**	**0.4**	—	0.1	—	0.1
Finance leases and hire purchase	**0.9**	**—**	**—**	**0.9**	0.6	—	—	0.6
Bank loans	**1.2**	**—**	**—**	**1.2**	—	—	—	—
Current liabilities	**116.6**	**2.0**	**6.9**	**125.5**	70.7	7.8	9.2	87.7
Non-current liabilities								
Trade and other payables	**7.4**	**20.9**	**0.9**	**29.2**	10.2	9.5	0.2	19.9
Deferred tax liabilities	**—**	**—**	**54.7**	**54.7**	—	—	15.2	15.2
Retirement benefit obligations	**—**	**—**	**9.1**	**9.1**	—	—	11.1	11.1
Finance leases & hire purchase	**1.1**	**—**	**—**	**1.1**	1.0	—	—	1.0
Bank loans	**293.7**	**—**	**—**	**293.7**	105.2	—	—	105.2
BGF loan	**11.3**	**—**	**—**	**11.3**	9.9	—	—	9.9
Non-current liabilities	**313.5**	**20.9**	**64.7**	**399.1**	126.3	9.5	26.5	162.3
Total liabilities	**430.1**	**22.9**	**71.6**	**524.6**	197.0	17.3	35.7	250.0

17. Financial assets and liabilities (Continued)

The financial assets of the Company comprised:

	At March 31, 2018				At April 1, 2017			
	Loans and receivables £m	Financial assets held at fair value through profit and loss £m	Assets not within the scope of IAS 39 £m	Total £m	Loans and receivables £m	Financial assets held at fair value through profit and loss £m	Assets not within the scope of IAS 39 £m	Total £m
Cash and cash equivalents								
US Dollars	**0.9**	**—**	**—**	**0.9**	—	—	—	—
Euros	**2.8**	**—**	**—**	**2.8**	—	—	—	—
Australian Dollars	**2.5**	**—**	**—**	**2.5**	0.3	—	—	0.3
	6.2	**—**	**—**	**6.2**	0.3	—	—	0.3
Current assets								
Trade and other receivables	**484.0**	**—**	**—**	**484.0**	132.7	—	0.2	132.9
Current assets	**490.2**	**—**	**—**	**490.2**	133.0	—	0.2	133.2
Non-current assets								
Amounts owed by subsidiaries	**14.8**	**—**	**—**	**14.8**	14.2	—	—	14.2
Deferred tax assets	**—**	**—**	**0.2**	**0.2**	—	—	0.3	0.3
Non-current assets	**14.8**	**—**	**0.2**	**15.0**	14.2	—	0.3	14.5
Total financial assets	**505.0**	**—**	**0.2**	**505.2**	147.2	—	0.5	147.7

The financial liabilities of the Company comprised:

	At March 31, 2018				At April 1, 2017			
	Other financial liabilities at amortised cost £m	Financial liabilities held at fair value through profit and loss £m	Liabilities not within the scope of IAS 39 £m	Total £m	Other financial liabilities at amortised cost £m	Financial liabilities held at fair value through profit and loss £m	Liabilities not within the scope of IAS 39 £m	Total £m
Overdraft								
Sterling	**12.9**	**—**	**—**	**12.9**	10.4	—	—	10.4
	12.9	**—**	**—**	**12.9**	10.4	—	—	10.4
Current liabilities								
Trade and other payables	**3.1**	**—**	**—**	**3.1**	0.8	5.8	—	6.6
Current tax liabilities	**—**	**—**	**—**	**—**	—	—	—	—
Current liabilities	**16.0**	**—**	**—**	**16.0**	11.2	5.8	—	17.0
Non-current liabilities								
Trade and other payables	**—**	**0.4**	**—**	**0.4**	—	—	—	—
Bank loans	**289.4**	**—**	**—**	**289.4**	105.2	—	—	105.2
BGF loan	**11.3**	**—**	**—**	**11.3**	9.9	—	—	9.9
Non-current liabilities	**300.7**	**0.4**	**—**	**301.1**	115.1	—	—	115.1
Total liabilities	**316.7**	**0.4**	**—**	**317.1**	126.3	5.8	—	132.1

17. Financial assets and liabilities (Continued)

Fair value measurement of financial instruments

Financial assets and financial liabilities measured at fair value in the balance sheet are grouped into three levels of fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement as follows:

- Level one: quoted prices in active markets for identical assets or liabilities
- Level two: inputs other than quoted prices included within Level one that are observable for the asset or liability, either directly or indirectly
- Level three: unobservable inputs for the assets or liabilities

All financial assets and liabilities have been identified as Level one with the exception of:

- Forward foreign exchange contracts, which are Level two financial assets/liabilities and all expire within 12 months from March 31, 2018.
- The Group's interest rate swap contract, which is a Level two financial asset and expired in May 2018.

The Group has relied upon valuations performed by third party valuations specialists for complex valuations of the forward exchange contracts and interest rate swap contract. Valuation techniques have utilised observable forward exchange rates and interest rates corresponding to the maturity of the contract. The effects of non-observable inputs are not significant for forward exchange contracts and the interest rate swap contract.

- Contingent earn-out liabilities, which are Level three liabilities.

The fair value of the contingent earn-out liabilities arising from acquisitions is determined considering the value of estimated future payments, discounted to present value. Payments are determined by mechanisms set out in each acquisition agreement, and are generally based on EBITDA performance over a three to four year period. Estimated future payments are calculated using financial projections based on operational budgets for the next 12 months and then applying growth assumptions for future years as appropriate. Discount rates are reviewed annually for each acquisition, and range between 11.5% and 18.5%.

The most significant inputs, all of which are unobservable, are the estimated growth rates in future profits and the discount rates applied. The estimated fair value increases if the estimated growth rates increase or the discount rates decrease. The overall valuations are sensitive to both assumptions. The Board considers that changing the above unobservable inputs to reflect other reasonably possible alternative assumptions would not result in a significant change in the estimated fair value.

There were no transfers between Level one, Level two and Level three in 2018 or 2017.

17. Financial assets and liabilities (Continued)

Analysis of net debt

Reconciliation of movements in the Group's net debt position:

	At April 1, 2017 £m	Cash flow £m	Capital expenditure under finance leases / HP £m	Acquisitions £m	Other non-cash changes £m	Exchange movement £m	At March 31, 2018 £m
Cash and cash equivalents	28.0	10.4	—	17.8	—	(2.2)	**54.0**
Bank overdraft	—	(0.9)	—	—	—	—	**(0.9)**
Net cash and cash equivalents	28.0	9.5	—	17.8	—	(2.2)	**53.1**
Finance leases and hire purchase agreements:							
—due in less than one year	(0.6)	0.3	0.2	—	(0.8)	—	**(0.9)**
—due in more than one year	(1.0)	—	(0.9)	—	0.8	—	**(1.1)**
Bank loans:							
—due in less than one year	—	—	—	(1.2)	—	—	**(1.2)**
—due in more than one year	(105.8)	(128.8)	—	(64.8)	—	2.1	**(297.3)**
Subordinated loans:							
—due in less than one year	—	—	—	—	—	—	**—**
—due in more than one year	(10.2)	—	—	—	(1.1)	—	**(11.3)**
Net debt	(89.6)	(119.0)	(0.7)	(48.2)	(1.1)	(0.1)	**(258.7)**
Prepaid finance costs	0.9	3.9	—	—	(1.2)	—	**3.6**
Net debt including prepaid finance costs	(88.7)	(115.1)	(0.7)	(48.2)	(2.3)	(0.1)	**(255.1)**

The bank loans and subordinated loans are disclosed in the table excluding prepaid finance costs.

The Group's policy on Derivatives and Other Financial Instruments is set out in Note 25.

Reconciliation of movements in the Company's net debt position:

	At April 1, 2017 £m	Cash flow £m	Capital expenditure under finance leases / HP £m	Acquisitions £m	Other non-cash changes £m	Exchange movement £m	At March 31, 2018 £m
Cash and cash equivalents	0.3	5.8	—	—	—	0.1	**6.2**
Bank overdraft	(10.4)	(2.2)	—	—	—	(0.3)	**(12.9)**
Net cash and cash equivalents	(10.1)	3.6	—	—	—	(0.2)	**(6.7)**
Finance leases and hire purchase agreements:							
—due in less than one year	—	—	—	—	—	—	**—**
—due in more than one year	—	—	—	—	—	—	**—**
Bank loans:							
—due in less than one year	—	—	—	—	—	—	**—**
—due in more than one year	(105.8)	(129.2)	—	—	(60.0)	2.0	**(293.0)**
Subordinated loans:							
—due in less than one year	—	—	—	—	—	—	**—**
—due in more than one year	(10.2)	—	—	—	(1.1)	—	**(11.3)**
Net debt	(126.1)	(125.6)	—	—	(61.1)	1.8	**(311.0)**
Prepaid finance costs	0.9	3.9	—	—	(1.2)	—	**3.6**
Net debt including prepaid finance costs	(125.2)	(121.7)	—	—	(62.3)	1.8	**(307.4)**

The bank loans and subordinated loans are disclosed in the table excluding prepaid finance costs.

17. Financial assets and liabilities (Continued)

Amounts falling due within one year:

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Deferred earn-out liabilities	**4.5**	7.0	**—**	—
Contingent earn-out liabilities	**1.6**	7.7	**—**	5.8
	6.1	14.7	**—**	5.8

Amounts falling due after one year:

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Deferred earn-out liabilities:				
—due between one and two years	**4.5**	4.4	**—**	—
—due between two and five years	**1.1**	5.4	**—**	—
Contingent earn-out liabilities:	**—**	—	**—**	—
—due between one and two years	**7.9**	4.4	**0.4**	—
—due between two and five years	**11.7**	5.1	**—**	—
	25.2	19.3	**0.4**	—

Reconciliation of movement in contingent earn-out liabilities	Group £m	Company £m
Contingent earn-out liabilities as at April 2, 2017	17.2	5.8
Additional liabilities from acquisitions in the period	12.4	—
Payments made during the period	(8.2)	(5.9)
Unwinding of present value	2.6	0.3
Other fair value adjustments	(2.9)	0.2
Exchange rate difference	0.1	—
Contingent earn-out liabilities as at March 31, 2018	**21.2**	**0.4**

18. Operating lease arrangements

The Group and Company as lessee

Details of operating lease arrangements for the Group and Company are as follows:

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Payments under operating leases recognised in income statement for the year	**6.5**	5.0	**0.5**	—

At the balance sheet date, the Group and Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Group		Company	
Minimum lease payments	2018 £m	2017 £m	2018 £m	2017 £m
Within one year	**7.3**	6.5	**0.5**	0.5
In the second to fifth years inclusive	**20.8**	15.1	**2.1**	2.1
After five years	**20.2**	12.9	**5.8**	6.3
	48.3	34.5	**8.4**	8.9

18. Operating lease arrangements (Continued)

Operating lease payments represent rentals payable by the Group and Company principally for vehicles and certain of its properties. Leases of vehicles are usually negotiated for a term of 3–5 years and rentals are fixed for the term of the lease. Leases of land and buildings are usually negotiated for 5–20 years.

19. Deferred taxation

	Group £m	Company £m
At April 3, 2016	5.8	(0.3)
Credit to income statement (see Note 6)	(1.4)	—
Charge in respect of non-qualifying sampling assets (see Note 6)	0.7	—
Deferred tax in relation to pension scheme	(1.4)	—
Deferred tax on intangible assets acquired	6.8	—
Adjustment for acquisitions in the year	(0.3)	—
Exchange adjustment	—	—
At April 1, 2017	10.2	(0.3)
At April 2, 2017	**10.2**	**(0.3)**
Credit to income statement (see Note 6)	**(2.7)**	**0.1**
Deferred tax in relation to pension scheme	**0.4**	**—**
Deferred tax on intangible assets acquired	**40.2**	**—**
Adjustment for acquisitions in the year	**2.7**	**—**
Exchange adjustment	**(0.7)**	**—**
At March 31, 2018	**50.1**	**(0.2)**

The provision for deferred taxation is as follows:

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Fixed assets	**(1.3)**	(0.8)	**—**	—
Investment property	**(0.1)**	(0.1)	**(0.1)**	(0.1)
Deferred grant income	**—**	(0.1)	**—**	—
Tax losses	**(2.6)**	(0.5)	**(0.1)**	(0.2)
Deferred tax on intangible assets acquired	**51.3**	14.9	**—**	—
Deferred tax on defined benefit pension	**(1.7)**	(2.1)	**—**	—
Other timing differences	**4.5**	(1.1)	**—**	—
	50.1	10.2	**(0.2)**	(0.3)

The provision is based on taxation rates of 30% in respect of balances relating to the Australian businesses (2017: 30%), 25% in respect of balances relating to the Dutch businesses (2017: 25%), 25% in respect of balances relating to the Spanish business (2017: n/a), 29% in respect of balances relating to the Belgian business (2017: n/a), and 27.9% in respect of balances relating to the Italian business (2017: n/a). The rates applied to UK balances vary dependent on the timing of when the balances are expected to unwind as noted below.

Effect on UK deferred tax balances of proposed changes in the UK corporation tax rate

The UK corporation tax rate reductions, from 20% to 19% on April 1, 2017, and to 17% on April 1, 2020, have been substantively enacted. Accordingly, deferred tax balances at March 31, 2018 have been calculated at the rate at which the relevant balance is expected to be recovered or settled.

19. Deferred taxation (Continued)

Deferred tax assets and liabilities

The deferred tax balances shown on the balance sheet are:

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Deferred tax liabilities	**54.7**	15.2	**—**	—
Deferred tax assets	**(4.6)**	(5.0)	**(0.2)**	(0.3)
	50.1	10.2	**(0.2)**	(0.3)

20. Retirement benefit obligations

Defined contribution schemes

The Group operates a number of defined contribution pension schemes. The companies and the employees contribute towards the schemes.

Contributions are charged to the Income Statement as incurred and amounted to £3,712,000 (2017: £3,265,000), of which £2,126,000 (2017: £2,111,000) relates to the UK schemes. The total contributions outstanding at year-end were £nil (2017: £nil).

Defined benefit schemes

The Group has two defined benefit schemes, both of which relate to Interfloor Limited.

Interfloor Limited sponsors the Final Salary Scheme ("the Main Scheme") and the Interfloor Limited Executive Scheme ("the Executive Scheme") which are both defined benefit arrangements. The defined benefit schemes are administered by a separate fund that is legally separated from the Group. The trustees of the pension fund are required by law to act in the interest of the fund and of all relevant stakeholders in the scheme. The trustees of the pension fund are responsible for the investment policy with regard to the assets of the fund.

The last full actuarial valuations of these schemes were carried out by a qualified independent actuary as at July 31, 2015.

The contributions made by the employer over the financial period were £95,000 (2017: £95,000) in respect of the Main Scheme and £126,000 (2017: £126,000) in respect of the Executive Scheme.

Contributions to the Executive and Main Schemes are made in accordance with the Schedule of Contributions. Future contributions are expected to be an annual premium of £95,000 in respect of the Main Scheme and £126,000 contributions payable to the Executive Scheme. These payments are in line with the certified Schedules of Contributions until they are reviewed on completion of the triennial valuations of the schemes as at August 1, 2018.

As both schemes are closed to future accrual there will be no current service cost in future years.

The defined benefit schemes typically expose the Company to actuarial risks such as: investment risk, interest rate risk and longevity risk.

Investment risk

The present value of the defined benefit schemes' liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the returns on schemes' assets are below this rate, it will create a scheme deficit. Due to the long-term nature of the schemes' liabilities, the trustees of the pension fund consider it appropriate that a reasonable portion of the schemes' assets should be invested in equity securities to leverage the return generated by the funds.

20. Retirement benefit obligations (Continued)

Interest risk

A decrease in the bond interest rate will increase the schemes' liability but this will be partially offset by an increase in the return on the plan's debt investments.

Longevity risk

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the schemes' participants will increase the schemes' liability.

The present value of the defined benefit liabilities was measured using the projected unit credit method.

The expected rates of return on plan assets are determined by reference to relevant indices. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

Principal actuarial assumptions (expressed as weighted averages) at the consolidated balance sheet date were as follows:

	2018	2017
Discount rate	**2.5%**	2.5%
Revaluation rate of deferred pensioners of CPI or 5% p.a. if less	**2.3%**	2.4%
Pension in payment increases of RPI or 5% p.a. if less	**3.1%**	3.2%
Pension in payment increases of CPI or 3% p.a. if less	**2.1%**	2.1%
Inflation (RPI)	**3.3%**	3.4%
Inflation (CPI)	**2.3%**	2.4%

The assumptions relating to longevity underlying the pension liabilities at the Consolidated Statement of Financial Position date are based on 115% of the standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65 year-old to live for a number of years as follows:

(i) Current pensioner aged 65: 20.9 years (male), 22.8 years (female).

(ii) Future retiree (aged 45) upon reaching 65: 22.0 years (male), 24.1 years (female).

Amounts recognised in income in respect of these defined benefit schemes are as follows:

	2018 £m	2017 £m
Net interest expense	**0.3**	0.1
Components of defined benefit costs recognised in profit or loss	**0.3**	0.1

The net interest expense has been included within finance costs. The remeasurement of the net defined benefit liability is included in the statement of comprehensive income.

Amounts recognised in the Consolidated Statement of Comprehensive Income are as follows:

	2018 £m	2017 £m
The return on plan assets (excluding amounts included in net interest expense)	**0.9**	3.0
Actuarial gains arising from changes in demographic assumptions	**0.4**	—
Actuarial gains and (losses) arising from changes in financial assumptions	**0.4**	(11.1)
Actuarial gains arising from experience adjustments	**0.3**	0.3
Remeasurement of the net defined benefit liability	**2.0**	(7.8)

20. Retirement benefit obligations (Continued)

The amount included in the Consolidated Balance Sheet arising from the Group's obligations in respect of its defined benefit retirement benefit schemes is as follows:

	2018 £m	2017 £m
Present value of defined benefit obligations	**(33.4)**	(36.5)
Fair value of plan assets	**24.3**	25.4
Net liability arising from defined benefit obligation	**(9.1)**	(11.1)
Deferred tax applied to net obligation	**1.7**	2.1

Movements in the present value of defined benefit obligations in the period were as follows:

	2018 £m	2017 £m
Opening defined benefit obligation	**36.5**	26.0
Interest cost	**0.9**	0.9
Remeasurement (gains)/losses:		
Actuarial gains arising from changes in demographic assumptions	**(0.4)**	—
Actuarial (gains)/losses arising from changes in financial assumptions	**(0.4)**	11.1
Actuarial gains arising from experience adjustments	**(0.3)**	(0.3)
Benefits paid and expenses	**(2.9)**	(1.2)
Closing defined benefit obligation	**33.4**	36.5

Movements in the fair value of plan assets in the period were as follows:

	2018 £m	2017 £m
Opening fair value of plan assets	**25.4**	22.6
Interest income	**0.6**	0.8
Remeasurement gains:		
The return on plan assets (excluding amounts included in net interest expense)	**1.0**	3.0
Contributions from the employer	**0.2**	0.2
Benefits paid and expenses	**(2.9)**	(1.2)
Closing fair value of plan assets	**24.3**	25.4

The major categories and fair values of plan assets at the end of the reporting period for each category are as follows:

	2018 £m	2017 £m
Cash and cash equivalents	**0.2**	0.7
Government bonds	**1.6**	2.6
Corporate bonds	**8.9**	3.0
LDI	**3.8**	—
UK equities	**0.6**	9.9
Property	**1.8**	1.4
Overseas equities	**7.4**	7.8
Closing fair value of plan assets	**24.3**	25.4

None of the fair values of the assets shown above include any of the employer's own financial instruments or any property occupied by, or other assets used by, the employer. All of the schemes assets have a quoted market price in an active market.

The actual return on plan assets was £1,551,000 (2017: £3,795,000).

20. Retirement benefit obligations (Continued)

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

If the discount rate decreased by 0.25% per annum, the defined benefit obligation would increase by 4.5%.

If the rate of inflation increases by 0.25% per annum, the defined benefit obligation would increase by 3.3%.

If the life expectancy increases by one year for both men and women, the defined benefit obligation would increase by 4.5%.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the Consolidated Balance Sheet.

The Group expects to make a contribution of £221,000 (2017: £221,000) to the defined benefit schemes during the next financial period.

21. Share capital

	2018 £m	2017 £m
Allotted, called up and fully paid		
Ordinary shares	**5.9**	4.5

The Company has one class of Ordinary shares which carries no right to fixed income.

Capital risk management

The Group considers its capital to comprise its Ordinary share capital, share premium, accumulated retained earnings and net debt. In managing its capital, the Group's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through a combination of capital growth and distributions.

In order to achieve this objective, the Group monitors its gearing to balance risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through altering its dividend policy, new share issues, or the reduction of debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

The Group is subjected to a number of financial covenants in connection with its Group bank facilities. These covenants are tested quarterly and were not breached during the year.

22. Reserves

(a) Retained earnings

Retained earnings for the Group as at March 31, 2018 were £26,659,000 (2017: £16,451,000).

The loss of the Company for the year determined in accordance with the Companies Act 2006 was £5,430,000 (2017: profit of £2,733,000). The Company is exempt under Section 408 of the Companies Act 2006 from presenting its own Income statement and Statement of Comprehensive Income.

22. Reserves (Continued)

(b) Foreign exchange reserve

The foreign exchange reserve for the Group as at March 31, 2018 was £2,878,000 (2017: £5,027,000), in respect of foreign exchange differences on consolidation of overseas subsidiaries.

(c) Share premium

The share premium account for the Group as at March 31, 2018 was £229,822,000 (2017: £52,472,000), in respect of premium received on the issuance of equity above the nominal value of the shares issued.

(d) Other reserves

In September 2014, the Company entered into a fully subordinated £10m 2022 unsecured loan note facility provided by the Business Growth Fund ("BGF") at the time of the acquisition of the Abingdon Flooring group and granted BGF an option for 3,730,000* new Victoria PLC ordinary 5p shares at an exercise price of £0.572* (together, the "BGF loan and option"). The BGF loan and option is accounted for as separate debt and equity components. The equity component was determined to have a fair value of £682,000. Following the exercise of the BGF share option, in November 2017, this amount was transferred to Share Premium.

The above decrease in the current year was partially offset by an increase of £222,000 relating to a share-based payment charge (see further details in Note 5).

23. Acquisition of subsidiaries

(a) Keraben Grupo

On November 16, 2017 the Group acquired 100% of the equity of Keraben Grupo S.A.

Keraben is a large ceramic tiles business, based in Castellon, Spain. It designs, manufactures and distributes a range of white body and porcelain tiles for both wall and floor covering. Its products are priced at the medium to high-end of the market and are sold throughout western Europe under three different brands, each with a strong market reputation.

The acquisition is expected to be significantly earnings-accretive, with additional commercial synergy opportunities to drive incremental profits. The enlarged group is substantially diversified in terms of both product and geography, and Keraben is considered an ideal platform for further potential acquisitions within this market segment.

The Group results for the year ended March 31, 2018 include contribution from Keraben of €46.8m (£41.1m[1]) of revenue and €10.8m (£9.5m[1]) of profit before tax (before amortisation of acquired intangibles and acquisition costs). If the acquisition had been completed on the first day of the financial year Group revenue and profit before tax would have been higher by €82.9m (£72.9m[1]) and €21.0m (£18.5m[1]) respectively.

Consideration

Cash consideration of €274.1m (£243.4m[2]) was paid on completion of the acquisition. There is no deferred or contingent consideration.

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* Figures restated for the effect of the five for one share split effective from September 12, 2016.

1 Applying the average exchange rate over the financial year of 1.1373.

2 Applying the GBP to € exchange rate at the date of acquisition of 1.1258.

23. Acquisition of subsidiaries (Continued)

Net assets acquired

	Amounts recognised at acquisition date £m
Property, plant and equipment	89.1
Investments in associates	0.9
IT software	0.3
Trade and other receivables	29.8
Inventories	17.7
Trade and other payables	(28.2)
Other taxes and social security	(21.5)
Deferred tax liabilities	(3.0)
Net cash / (overdraft)	6.4
Loans	(60.0)
Finance leases and hire purchase	—
Book value of net assets acquired	31.5
Fair value adjustments:	
Intangible assets arising on acquisition—Customer Relationships (see Note 10)	97.5
Intangible assets arising on acquisition—Brand Names (see Note 10)	30.6
Deferred tax liability on intangible assets acquired	(32.0)
Fair value of total identifiable net assets	127.6
Goodwill (see Note 9)	115.8
Total consideration	243.4
Satisfied by:	
Cash	243.4
Deferred consideration	—
	243.4

Other than where fair value adjustments have been made, the book value of assets acquired is considered to approximate their fair values. Gross trade receivables acquired are considered to equate to the fair value of contractually collectable cash flows.

The other taxes and social security figure in the acquired balance sheet of £21.5m is a one-off transaction-related tax liability which crystallised on acquisition and was settled following completion. As such, whilst it does not form part of the cost of investment in the Group balance sheet, it has been treated as an investment-related item in the Group cash flow statement and included as part of investments in subsidiaries net of cash acquired.

As a condition of the acquisition, the senior management team of Keraben Grupo S.A.U were required to invest £7.2m in a new incentive structure under Victoria ownership (see Note 15). This cash inflow has been treated as investment related and deducted from the investment in subsidiaries net of cash acquired.

After fair value adjustments, goodwill of £115.8m is created on the consolidation of Keraben, which relates to expected future profits of the business.

Transaction costs amounting to £836,000 relating to the acquisition have been recognised as an expense and included in exceptional administrative expenses in the Group income statement.

(b) Ceramiche Serra

On December 1, 2017 the Group acquired 100% of the equity of Ceramiche Serra S.p.A.

Serra, operating from sites in Serramazzoni, Sassuolo (near Bologna), the heart of the Italian ceramics industry, manufactures ceramic flooring, which is sold domestically and exported internationally. It sells to

23. Acquisition of subsidiaries (Continued)

a combination of wholesalers, retail groups, and independent stores throughout Continental Europe, North America, and the Far East.

The Group results for the year ended March 31, 2018 include contribution from Serra of €6.5m (£5.7m[1]) of revenue and €2.5m (£2.2m[1]) of profit before tax (before amortisation of acquired intangibles and acquisition costs). If the acquisition had been completed on the first day of the financial year Group revenue and profit before tax would have been higher by €12.8m (£11.3m[1]) and €5.6m (£4.9m[1]) respectively.

Consideration

The consideration for the acquisition comprises:

(i) Initial cash consideration of €38.1m (£33.6m[2]);

(ii) Contingent cash consideration of up to €20.0m (£17.6m[2]) dependent on improved EBITDA and other criteria over the next four years.

Net Assets Acquired

	Amounts recognised at acquisition date £m
Property, plant and equipment	2.1
IT software	—
Trade and other receivables	5.8
Inventories	1.2
Trade and other payables	(4.6)
Deferred tax assets	0.2
Net cash / (overdraft)	11.4
Loans	(6.0)
Book value of net assets acquired	10.1
Fair value adjustments:	
Intangible assets arising on acquisition—Customer Relationships (see Note 10)	21.9
Intangible assets arising on acquisition—Brand Names (see Note 10)	2.4
Intangible assets arising on acquisition—Developed Technology (see Note 10)	4.8
Deferred tax liability on intangible assets acquired	(8.1)
Fair value of total identifiable net assets	31.1
Goodwill (see Note 9)	14.9
Total consideration	46.0
Satisfied by:	
Cash	33.6
Deferred consideration	12.4
	46.0

Other than where fair value adjustments have been made, the book value of assets acquired is considered to approximate their fair values. Gross trade receivables acquired are considered to equate to the fair value of contractually collectable cash flows.

Contingent consideration is measured at fair value, so depending on the future performance of Serra, the contingent element of consideration could vary from the present value assessed above. However, based on

1 Applying the average exchange rate over the financial year of 1.1373.

2 Applying the GBP to € exchange rate at the date of acquisition of 1.1341.

23. Acquisition of subsidiaries (Continued)

the overall quantum and sensitivity to changes in assumed future growth rates, the range in potential outcomes of contingent consideration is considered to be immaterial.

After fair value adjustments, goodwill of £14.9m is created on the consolidation of Serra, which relates to expected future profits of the business.

Transaction costs amounting to £1,657,000 relating to the acquisition have been recognised as an expense and included in the administrative expenses in the Group income statement.

(c) Millennium Weavers Europe

On June 1, 2017 the Group acquired the business and assets of Millennium Weavers Europe, a carpet distribution business based in Belgium. The acquisition further enhances the Group's coverage of the UK volume market.

Cash consideration of €3,494,000 (£3,069,000) was paid, with transaction costs of £170,000 recognised within administrative expenses. The fair value of the acquired assets and liabilities was equal to the price paid. No goodwill is recognised on acquisition and no separately identified intangible assets were acquired.

24. Government grants

	2018 £m	2017 £m
Deferred income at April 2, 2017	**0.4**	0.6
Grant income received in the year	**0.2**	—
Amortisation to deferred income by release through cost of production	**(0.3)**	(0.2)
Adjustment for acquisitions in the year	**0.7**	—
Exchange adjustment	**—**	—
Deferred income at March 31, 2018	**1.0**	0.4
Presented in:		
Current liabilities	**0.1**	0.2
Non-current liabilities	**0.9**	0.2
	1.0	0.4

There are no unfulfilled conditions or other contingencies attaching to government assistance.

25. Financial instruments

Background

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout the financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

The "financial instruments" which are affected by these risks comprise borrowings, cash and liquid resources used to provide finance for the Group's operations, together with various items such as trade debtors and trade creditors that arise directly from its operations, inter-company payables and receivables, and any derivatives transactions (such as interest rate swaps and forward foreign currency contracts) used to manage the risks from interest rate and currency rate volatility.

1 Applying the GBP to € exchange rate at the date of acquisition of 1.1386.

25. Financial instruments (Continued)

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives monthly reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables and investments.

The Group's exposure to credit risk is primarily attributable to its trade receivables. Credit risk is managed locally by the management of each business unit. Prior to accepting new customers, credit checks are obtained from reputable external sources. The amounts presented in the balance sheet are net of allowance for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction on the recoverability of the cash flows.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with low credit risk assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The Company has no significant concentration of credit risk, other than with its own subsidiaries, the performances of which are closely monitored. The Directors confirm that the carrying amounts of monies owed by its subsidiaries approximate to their fair value.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due.

To achieve this aim, the cash position is continuously monitored to ensure that cash balances (or agreed facilities) meet expected requirements for a period of at least 90 days.

The Board monitors annual cash budgets and updated forecasts against actual cash position on a monthly basis. At the balance sheet date, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

The maturity of financial liabilities is detailed in Note 16.

Market risk

Market risk arises from the Group's use of interest bearing and foreign currency financial instruments. It is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk), or market pricing (price risk).

a) Interest rate risk

The Group finances its operations through a mixture of retained profits, equity capital and bank facilities, including hire purchase and lease finance. The Group borrows in the desired currency at floating or fixed rates of interest and may then use interest rate swaps to secure the desired interest profile and manage exposure to interest rate fluctuations.

25. Financial instruments (Continued)

Interest rate sensitivity

The annualised effect of a 50 basis point decrease in the interest rate at the balance sheet date on the variable rate debt carried at that date would, all other variables held constant, have resulted in an increase in post-tax profit for the year of £1,209,000 (2017: increase in post-tax profit of £423,000). A 50 basis point increase in the interest rate would, on the same basis, have reduced the profit for the year by the same amount.

Borrowings contractual maturities and effective interest rate analysis

In respect of interest bearing financial liabilities, the following table indicates the undiscounted amounts due for the remaining contractual maturity (including interest payments based on the outstanding liability at the year end) and their effective interest rates. The ageing of these amounts is based on the earliest dates on which the Group can be required to pay.

	As at March 31, 2018						As at April 1, 2017					
	Effective Interest Rate %	Total £m	0–1 Years £m	1–2 Years £m	2–5 Years £m	Over 5 Years £m	Effective Interest Rate %	Total £m	0–1 Years £m	1–2 Years £m	2–5 Years £m	Over 5 Years £m
Group												
Cash and cash equivalents	**0.00%**	**54.0**	**54.0**	**—**	**—**	**—**	0.00%	28.0	28.0	—	—	—
Bank loans & overdraft	**2.92%**	**(320.6)**	**(8.7)**	**(311.9)**	**—**	**—**	2.83%	(110.4)	(3.0)	(107.4)	—	—
BGF loan	**7.91%**	**(13.8)**	**(0.6)**	**(2.1)**	**(11.1)**	**—**	13.30%	(16.1)	(1.0)	(3.1)	(10.3)	(1.7)
Finance lease and HP	**5.25%**	**(2.0)**	**(0.9)**	**(0.7)**	**(0.4)**	**—**	4.10%	(1.6)	(0.6)	(0.6)	(0.4)	—
		(282.4)	**43.8**	**(314.7)**	**(11.5)**	**—**		(100.1)	23.4	(111.1)	(10.7)	(1.7)
Company												
Cash and cash equivalents	**0.00%**	**6.2**	**6.2**	**—**	**—**	**—**	0.00%	—	—	—	—	—
Bank loans & overdraft	**2.96%**	**(315.0)**	**(8.7)**	**(306.3)**	**—**	**—**	2.83%	(120.8)	(13.4)	(107.4)	—	—
BGF loan	**7.91%**	**(13.8)**	**(0.6)**	**(2.1)**	**(11.1)**	**—**	13.30%	(16.1)	(1.0)	(3.1)	(10.3)	(1.7)
		(322.6)	**(3.1)**	**(308.4)**	**(11.1)**	**—**		(136.9)	(14.4)	(110.5)	(10.3)	(1.7)

In addition, the following table summarises the total undiscounted deferred and contingent consideration liabilities in relation to past acquisitions, again aged based on the earliest dates on which the Group can be required to pay.

	As at March 31, 2018					As at April 1, 2017				
Total undiscounted obligations	Total £m	0–1 Years £m	1–2 Years £m	2–5 Years £m	Over 5 Years £m	Total £m	0–1 Years £m	1–2 Years £m	2–5 Years £m	Over 5 Years £m
Group										
Deferred consideration liabilities	**(10.4)**	**(4.5)**	**(4.7)**	**(1.2)**	**—**	(17.6)	(7.0)	(4.8)	(5.8)	—
Contingent earn-out liabilities	**(28.6)**	**(1.6)**	**(8.5)**	**(18.5)**	**—**	(22.3)	(7.7)	(6.2)	(8.4)	—
	(39.0)	**(6.1)**	**(13.2)**	**(19.7)**	**—**	(39.9)	(14.7)	(11.0)	(14.2)	—
Company										
Contingent earn-out liabilities	**(0.7)**	**—**	**(0.7)**	**—**	**—**	(5.8)	(5.8)	—	—	—
	(0.7)	**—**	**(0.7)**	**—**	**—**	(5.8)	(5.8)	—	—	—

25. Financial instruments (Continued)

Non-interest bearing liabilities

Details of trade and other payables falling due within one year are set out in Note 15.

b) Currency risk

The main currency exposure of the Group arises from the ownership of the continental European and Australian subsidiaries, which account for approximately 62.8% and 9.8% of the Group's total assets, respectively.

It is the Board's policy not to hedge against movements in the Sterling/Australian Dollar and Sterling/Euro exchange rate.

Other currency exposure derives from trading operations where goods are exported or raw materials and capital equipment are imported. These exposures may be managed by forward currency contracts, particularly when the amounts or periods to maturities are significant and at times when currencies are particularly volatile.

Currency risk sensitivity

The effect of a 10% strengthening of the Australian Dollar against Sterling over the full year would, all other variables held constant, have resulted in an increase in Group post-tax profit for the year of £705,000 (2017: increased Group post-tax profit by £176,000). A 10% weakening in the exchange rate would, on the same basis, have decreased Group post-tax profit by £577,000 (2017: decreased Group post-tax profit by £144,000).

The effect of a 10% strengthening of the Australia Dollar against Sterling at year-end rates would have resulted in an increase to equity of £2,235,000 (2017: an increase of £2,103,000). A 10% weakening in the exchange rate would, on the same basis, have decreased equity by £1,828,000 (2017: decrease of £1,721,000).

The effect of a 10% strengthening of the Euro against Sterling over the full year would, all other variables held constant, have resulted in a decrease in Group post-tax profit for the year of £309,000 (2017: decrease of £68,000). A 10% weakening in the exchange rate would, on the same basis, have increased Group post-tax profit by £253,000 (2017: increase of £48,000).

The effect of a 10% strengthening of the Euro against Sterling at year-end rates would have resulted in a decrease to equity of £280,000 (2017: decrease of £69,000). A 10% weakening in the exchange rate would, on the same basis, have increased equity by £229,000 (2017: increase of £56,000).

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2018 £m	**2017 £m**	**2018 £m**	**2017 £m**
Australian Dollar	**24.9**	33.7	**77.8**	52.3
Euro	**131.3**	5.8	**502.1**	5.2

c) Price

The group is exposed to price risk in respect of corporate bonds held, which are accounted for within cash and cash equivalents. The volatility of such securities is very low. If the quoted price for these securities increased or decreased by 10%, profit before tax for the period and equity would have changed by £540,000.

d) Trading

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken other than in the corporate bonds held within cash and cash equivalents.

26. Key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised. Information about significant areas of estimation and critical judgements that have the most significant impact on the financial statements are described in the following notes:

Estimates

Measurement of intangible assets

Intangible assets are recognised on acquisitions in relation to customer relationships, brands and developed technology.

The fair value of these assets are determined by discounting estimated future net cash flows generated by the asset where no active market for the assets exists. These are assessed based upon management forecasts for each business in question. Key assumptions are those regarding discount rates, growth rates, expected changes to selling prices and direct costs, brand royalty rates and customer attrition.

Measurement of deferred tax assets

The Group has potential deferred tax assets, principally in the form of tax losses but deferred tax assets are only recognised to the extent it is probable that sufficient future taxable income will be available against which the losses and deductions can be utilised. Recognition therefore involves assessment of the future performance of the particular legal entity in which the deferred tax asset has been recognised. Deferred tax assets in respect of losses recognised at the balance sheet date are based on the assumption that there is a high expectation that the asset will be realised in due course.

Valuation of deferred and contingent earn-out consideration

Liabilities are recognised in respect of acquisitions with outstanding deferred or contingent earn-outs at the end of the period. These are assessed for each relevant business based upon management financial projections for the next 12 months and applying growth assumptions for future years where relevant. Key assumptions are those regarding discount rates, growth rates and expected changes to selling prices and direct costs. Further details are set out in Note 17.

Share based payments

The Group has share based payment incentive arrangements in place for certain employees. The fair value of the growth shares is based on growth in the share price of Victoria PLC above a hurdle and is measured using appropriate valuation model (Black-Scholes or Monte Carlo) at grant date. Key assumptions include expected volatility and the expected exercise period. The growth shares awarded effectively track the market capitalisation of the Company, therefore historical share price volatility has been used as a guide to the expected future volatility of the growth shares. As the fair value of the share based payment charge is spread on a straight line basis to the income statement over the expected term this estimate impacts the annual charge recognised.

Defined benefit obligation

The Group has two defined benefit pension schemes. The obligations under the schemes are recognised in the Consolidated Balance Sheet and represent the present value of the obligation calculated by independent actuaries, with input from the Directors. These actuarial valuations include assumptions such as discount rates, return on assets and mortality rates. These assumptions vary from time to time according to prevailing economic conditions.

Because of changing market and economic conditions, the expenses and liabilities actually arising under the scheme in the future may differ materially from the estimates made on the basis of the actuarial

26. Key sources of estimation uncertainty (Continued)

assumptions. The effects of any change to these assumptions are accounted for in the next financial year as other comprehensive income. The calculation of any charge relating to retirement benefits is clearly dependent on the assumptions used, which reflects the exercise of judgement. Further details are set out in Note 20.

Judgements

Impairment of goodwill, investments or intercompany balances

Determining whether goodwill, investments or intercompany balances are impaired requires an estimation of the value in use of the cash-generating units to which value has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and to apply a suitable discount rate in order to calculate present value. On an annual basis the Group is required to perform an impairment review to assess whether the carrying value of goodwill, investments or intercompany balances are less than its recoverable amount. Recoverable amount is based on a calculation of expected future cash flows, which include estimates of future performance. Details of assumptions used in this review are detailed in Note 9.

27. Related parties

Transactions between the Company and its subsidiaries have been eliminated on consolidation.

Identity of related parties

The Group has a related party relationship with its Directors and executive officers.

The Company has a related party relationship with its subsidiaries and its Directors and executive officers.

Transactions with key management personnel

Key management personnel are considered to be the Directors of the Company and its subsidiaries.

As at March 31, 2018, the key management personnel, and their immediate relatives, controlled 25.0% of the voting shares of the Company.

Details of the Group's share-based incentive plan, which includes key management personnel, are provided in Note 5.

Furthermore, details of an employee incentive plan in relation to the key management personnel of Keraben, are provided in Note 15.

The aggregate remuneration of the Group's key management personnel, including the above incentive schemes, is set out below for each of the categories specified in IAS 24 Related Party Disclosures.

	52 weeks ended March 31, 2018 £m	52 weeks ended April 1, 2017 £m
Short-term employee benefits	**5.1**	3.8
Post-employment benefits	**0.3**	0.5
	5.4	4.3

27. Related parties (Continued)

Company

Transactions with subsidiary undertakings:	52 weeks ended March 31, 2018 £m	52 weeks ended April 1, 2017 £m
Management fees—Victoria Carpets Ltd	**—**	0.03
Management fees—Whitestone Carpets Holdings Ltd	**—**	0.03
Management fees—View Logistics Ltd	**0.03**	—
Management fees—Abingdon Flooring Ltd	**0.03**	0.03
Management fees—Globesign Ltd	**—**	0.03
Management fees—Westex (Carpets) Ltd	**0.03**	0.03
Management fees—Interfloor Group Ltd	**0.03**	0.03
Management fees—Ezi Floor Ltd	**0.03**	0.02
Management fees—The Victoria Carpet Company Pty Ltd	**0.03**	0.03
Management fees—Quest Flooring Pty Ltd	**0.03**	0.03
Management fees—Primary Flooring Pty Limited	**0.03**	0.01
Management fees—Victoria Bidco B.V	**0.03**	—
Interest payable—Victoria Carpets Ltd	**0.32**	0.29
Interest payable—Whitestone Carpets Holdings Ltd	**0.68**	0.58
Interest payable—Abingdon Flooring Ltd	**0.44**	0.45
Interest payable—Globesign Ltd	**0.25**	0.33
Interest payable—Interfloor Group Ltd	**1.49**	1.65
Interest payable—Interfloor Operations Ltd	**0.57**	1.54
Interest payable—Ezi Floor Ltd	**0.31**	0.15
Interest payable—The Victoria Carpet Company Pty Ltd	**—**	0.08
Interest payable—Primary Flooring Pty Limited	**1.20**	0.20
Interest payable—Victoria Bidco B.V	**0.36**	0.04
Interest payable—Keraben Grupo S.A.	**0.73**	—
Interest payable—Kinsan Trade, S.L.	**1.31**	—
Dividend Income—Victoria Midco Holdings Ltd	**2.75**	5.11
Preference dividend Income—Quest Flooring Pty Ltd	**0.76**	0.77

	52 weeks ended March 31, 2018 £m	52 weeks ended April 1, 2017 £m
Amounts due from subsidiary undertakings	**497.5**	146.9
Amounts due to subsidiary undertakings	**1.0**	—

Transactions with the Business Growth Fund

Gavin Petken, a Non-Executive Director of Victoria PLC, is the Business Growth Fund's ("BGF") Regional Director for the Midlands. On the September 30, 2014 the Company entered into a £10m 2022 unsecured loan facility with BGF. In addition, BGF has been granted an option over 3,730,000* new Ordinary 5p shares in the Company at 57.2p* per share, representing 5% of the Company's deemed enlarged issued share capital at the time of grant. During the year there was a significant modification to the terms of the loan, on which the coupon was reduced from 10% to 6%, details are provided in Note 16. The share option was redeemed in November 2017, details are provided in Note 22.

Interest charged to the income statement during the period in relation to the BGF loan was £1,182,000 (2017: £1,372,000). Furthermore, during the period there was a one-off non-cash finance charge of £915,000 relating to the significant modification.

* Figures restated for the effect of the five for one share split effective from September 12, 2016.

28. Post balance sheet events

Senior management long-term incentive plan

A new long-term management incentive plan was implemented post year end involving the issue of up to 100,000 ordinary shares in Victoria Midco Holdings Limited (the "Incentive Shares"), a subsidiary of the Company. Participants in the Plan will subscribe for these shares. The Plan will operate for a five year period, with the value of the Incentive Shares linked to cumulative Total Shareholder Return delivered each year above a hurdle, being the current market capitalisation of the Company increased annually by 20% p.a. on a compounding basis. At the end of the Plan, the Incentive Shares can be exchanged for new ordinary shares in Victoria, at the then prevailing share price averaged over the month prior to exchange. While the Company has the ability to buy back Incentive Shares after 3 years participants can only choose to exchange at the end of the full five-year period of the Plan. Customary good and bad leaver provisions will apply. The financial impact of the scheme has yet to be determined.

VICTORIA PLC

Annual Report and Accounts
for the 52 weeks ended April 1, 2017

INDEPENDENT AUDITOR'S REPORT
to the members of Victoria PLC

We have audited the financial statements of Victoria PLC for the 52 weeks ended April 1, 2017 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Statements of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at April 1, 2017 and of the group's profit for the period then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report has been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and Directors' Report.

Matters on which we are required to report by exception

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

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

David White
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham

July 24, 2017

CONSOLIDATED INCOME STATEMENT

For the 52 weeks ended April 1, 2017

	Notes	52 weeks ended April 1, 2017 Underlying performance £000	52 weeks ended April 1, 2017 Non-underlying items £000	52 weeks ended April 1, 2017 Reported numbers £000	53 weeks ended April 2, 2016 Underlying performance £000	53 weeks ended April 2, 2016 Non-underlying items £000	53 weeks ended April 2, 2016 Reported numbers £000
Continuing operations							
Revenue	1	**330,406**	**—**	**330,406**	255,174	—	255,174
Cost of sales		**(220,791)**	**—**	**(220,791)**	(169,930)	(249)	(170,179)
Gross profit		**109,615**	**—**	**109,615**	85,244	(249)	84,995
Distribution costs		**(54,886)**	**—**	**(54,886)**	(49,852)	(157)	(50,009)
Administrative expenses		**(21,507)**	**(7,036)**	**(28,543)**	(13,753)	(3,787)	(17,540)
Other operating income		**445**	**—**	**445**	292	—	292
Operating profit/(loss)		**33,667**	**(7,036)**	**26,631**	21,931	(4,193)	17,738
Comprising:							
Operating profit before non-underlying and exceptional items	1	**33,667**	**—**	**33,667**	21,931	—	21,931
Amortisation of acquired intangibles		**—**	**(4,432)**	**(4,432)**	—	(2,315)	(2,315)
Exceptional items	1, 2	**—**	**(2,604)**	**(2,604)**	—	(1,878)	(1,878)
Finance costs	3	**(4,259)**	**(3,598)**	**(7,857)**	(3,714)	(4,734)	(8,448)
Comprising:							
Interest payable on loans	3	**(3,555)**	**—**	**(3,555)**	(3,225)	—	(3,225)
Amortisation of prepaid finance costs	3	**(419)**	**—**	**(419)**	(226)	(228)	(454)
Interest accrued on BGF loan	3	**(169)**	**(202)**	**(371)**	(199)	(180)	(379)
Net interest expense on defined benefit pensions	3	**(116)**	**—**	**(116)**	(64)	—	(64)
Other non-underlying finance costs	3	**—**	**(3,396)**	**(3,396)**	—	(4,326)	(4,326)
Profit/(loss) before tax	4	**29,408**	**(10,634)**	**18,774**	18,217	(8,927)	9,290
Taxation	6	**(6,437)**	**255**	**(6,182)**	(4,302)	961	(3,341)
Profit/(loss) for the period from continuing operations		**22,971**	**(10,379)**	**12,592**	13,915	(7,966)	5,949
Loss from discontinued operations		**—**	**—**	**—**	—	(2,132)	(2,132)
Profit/(loss) for the period		**22,971**	**(10,379)**	**12,592**	13,915	(10,098)	3,817
Earnings per share from continuing operations—pence							
basic	7			**13.84**			7.22
diluted	7			**13.60**			7.11
Earnings per share—pence							
basic	7			**13.84**			4.63
diluted	7			**13.60**			4.60

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 52 weeks ended April 1, 2017

	Note	52 weeks ended April 1, 2017 £000	53 weeks ended April 2, 2016 £000
Profit for the period		**12,592**	3,817
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss:			
Actuarial losses on defined benefit pension scheme	20	**(7,846)**	(152)
Increase in deferred tax asset relating to pension scheme liability		**1,448**	53
Items that will not be reclassified to profit or loss		**(6,398)**	(99)
Items that may be reclassified subsequently to profit or loss:			
Currency translation gains		**1,943**	708
Items that may be reclassified subsequently to profit or loss		**1,943**	708
Other comprehensive (expense)/income		**(4,455)**	609
Total comprehensive income for the year attributable to the owners of the parent		**8,137**	4,426

CONSOLIDATED AND COMPANY BALANCE SHEETS

As at April 1, 2017

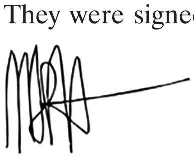
	Notes	Group April 1, 2017 £000	Group April 2, 2016 £000	Company April 1, 2017 £000	Company April 2, 2016 £000
Non-current assets					
Goodwill	9	**59,830**	37,205	**—**	—
Intangible assets other than goodwill	10	**66,320**	43,476	**—**	—
Property, plant and equipment	11	**41,826**	38,811	**—**	—
Investment property	12	**180**	180	**180**	180
Investments in subsidiaries	12	**—**	—	**49,270**	49,270
Trade and other non-current receivables	14	**—**	—	**14,194**	16,778
Deferred tax assets	19	**4,986**	3,287	**264**	264
Total non-current assets		**173,142**	122,959	**63,908**	66,492
Current assets					
Inventories	13	**73,062**	58,970	**—**	—
Trade and other receivables	14	**55,076**	42,946	**132,929**	88,646
Cash at bank and in hand	17	**27,979**	19,078	**277**	—
Total current assets		**156,117**	120,994	**133,206**	88,646
Total assets		**329,259**	243,953	**197,114**	155,138
Current liabilities					
Trade and other current payables	15	**82,873**	66,913	**6,470**	5,355
Current tax liabilities		**4,260**	2,891	**—**	—
Other financial liabilities	16, 17	**617**	596	**10,432**	5,682
Total current liabilities		**87,750**	70,400	**16,902**	11,037
Non-current liabilities					
Trade and other non-current payables	15	**19,855**	11,524	**39**	3,903
Other non-current financial liabilities	16	**116,086**	78,522	**115,129**	78,009
Deferred tax liabilities	19	**15,190**	9,129	**—**	—
Retirement benefit obligations	20	**11,086**	3,345	**—**	—
Total non-current liabilities		**162,217**	102,520	**115,168**	81,912
Total liabilities		**249,967**	172,920	**132,070**	92,949
Net assets		**79,292**	71,033	**65,044**	62,189
Equity					
Share capital	21	**4,548**	4,548	**4,548**	4,548
Share premium		**52,472**	52,462	**52,472**	52,462
Retained earnings	22	**16,451**	10,257	**7,230**	4,497
Foreign exchange reserve	22	**5,027**	3,084	**—**	—
Other reserves	22	**794**	682	**794**	682
Total Equity		**79,292**	71,033	**65,044**	62,189

The profit of the Company for the year determined in accordance with the Companies Act 2006 was £2,733,000 (2016: profit of £2,679,000).

Company Registered Number (England & Wales) 282204

The financial statements on pages 24 to 71 were approved by the Board of Directors and authorised for issue on July 24, 2017.

They were signed on its behalf by:



Michael Scott
Group Finance Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 52 weeks ended April 1, 2017

	Share capital £000	Share premium £000	Retained earnings £000	Foreign exchange reserve £000	Other reserves £000	Total equity £000
At March 29, 2015	3,639	10,144	6,539	2,376	682	23,380
Profit for the period to April 2, 2016	—	—	3,817	—	—	3,817
Other comprehensive profit for the period	—	—	(99)	—	—	(99)
Retranslation of overseas subsidiaries	—	—	—	708	—	708
Total comprehensive profit	—	—	3,718	708	—	4,426
Issue of share capital	909	42,318	—	—	—	43,227
Transactions with owners	909	42,318	—	—	—	43,227
At April 2, 2016	4,548	52,462	10,257	3,084	682	71,033
Profit for the period to April 1, 2017	—	—	12,592	—	—	12,592
Other comprehensive loss for the period	—	—	(6,398)	—	—	(6,398)
Retranslation of overseas subsidiaries	—	—	—	1,943	—	1,943
Total comprehensive profit	—	—	6,194	1,943	—	8,137
Issue of share capital	—	10	—	—	—	10
Share-based payment charge	—	—	—	—	112	112
Transactions with owners	—	10	—	—	112	122
At April 1, 2017	**4,548**	**52,472**	**16,451**	**5,027**	**794**	**79,292**

COMPANY STATEMENT OF CHANGES IN EQUITY

For the 52 weeks ended April 1, 2017

	Share capital £000	Share premium £000	Retained earnings £000	Other reserves £000	Total equity £000
At March 29, 2015	3,639	10,144	1,818	682	16,283
Profit for the period to April 2, 2016	—	—	2,679	—	2,679
Total comprehensive profit	—	—	2,679	—	2,679
Issue of share capital	909	42,318	—	—	43,227
Movement in other reserves	—	—	—	—	—
Transactions with owners	909	42,318	—	—	43,227
At April 2, 2016	4,548	52,462	4,497	682	62,189
Profit for the period to April 1, 2017	—	—	2,733	—	2,733
Other comprehensive profit/(loss) for the period	—	—	—	—	—
Total comprehensive profit	—	—	2,733	—	2,733
Issue of share capital	—	10	—	—	10
Share-based payment charge	—	—	—	112	112
Transactions with owners	—	10	—	112	122
At April 1, 2017	**4,548**	**52,472**	**7,230**	**794**	**65,044**

CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS

For the 52 weeks ended April 1, 2017

	Note	Group		Company	
		52 weeks ended April 1, 2017 £000	53 weeks ended April 2, 2016 £000	52 weeks ended April 1, 2017 £000	53 weeks ended April 2, 2016 £000
Cash flows from operating activities					
Operating profit/(loss) from continuing operations		**26,631**	17,738	**(2,096)**	10,914
Adjustments for:					
—Depreciation charges		**12,039**	10,347	**—**	—
—Amortisation of intangible assets		**4,432**	2,315	**—**	—
—Goodwill adjustment		**—**	(43)	**—**	—
—Asset impairment		**17**	160	**—**	—
—Amortisation of government grants		**(233)**	(269)	**—**	—
—Profit on disposal of property, plant and equipment		**(40)**	(143)	**—**	—
—Share-based employee remuneration		**112**	—	**112**	—
—Defined benefit pension		**(221)**	166	**—**	—
Net cash flow from operating activities before movements in working capital		**42,737**	30,271	**(1,984)**	10,914
Change in inventories		**(445)**	(7,767)	**—**	—
Change in trade and other receivables		**(5,919)**	215	**(67)**	—
Change in trade and other payables		**4,752**	7,731	**338**	179
Cash generated/(used) by continuing operations		**41,125**	30,450	**(1,713)**	11,093
Interest paid		**(3,554)**	(3,243)	**(3,435)**	(2,977)
Income taxes paid		**(5,792)**	(3,243)	**(52)**	—
Net cash flow from discontinued operations		**—**	65	**—**	—
Net cash inflow/(outflow) from operating activities		**31,779**	24,029	**(5,200)**	8,116
Investing activities					
Purchases of property, plant and equipment		**(9,422)**	(9,752)	**—**	—
Loan to subsidiary companies		**—**	—	**(28,465)**	(80,137)
Proceeds on disposal of property, plant and equipment		**215**	1,034	**—**	—
Deferred consideration and earn-out payments		**(10,314)**	(7,453)	**(5,765)**	(5,409)
Acquisition of subsidiaries net of cash acquired		**(37,798)**	(19,265)	**—**	(14,024)
Proceeds from disposal of discontinued operations		**—**	431	**—**	431
Net cash used in investing activities		**(57,319)**	(35,005)	**(34,230)**	(99,139)
Financing activities					
Increase/(decrease) in long-term loans		**34,283**	(4,573)	**34,947**	51,815
Issue of share capital		**10**	43,043	**10**	43,043
Repayment of obligations under finance leases/hire purchase		**(934)**	(650)	**—**	—
Net cash generated in financing activities		**33,359**	37,820	**34,957**	94,858
Net increase/(decrease) in cash and cash equivalents		**7,819**	26,844	**(4,473)**	3,835
Cash and cash equivalents at beginning of period		**19,078**	(8,502)	**(5,682)**	(9,517)
Effect of foreign exchange rate changes		**1,082**	736	**—**	—
Cash and cash equivalents at end of period		**27,979**	19,078	**(10,155)**	(5,682)
Comprising:					
Cash at bank and in hand	17	**27,979**	19,078	**277**	—
Bank overdrafts	17	**—**	—	**(10,432)**	(5,682)
		27,979	19,078	**(10,155)**	(5,682)

1. Segmental information

The Group is organised into two operating divisions, the sale of floorcovering products in the UK & Europe and Australia.

Geographical segment information for revenue, operating profit and a reconciliation to entity net profit is presented below.

Income statement

	52 weeks ended April 1, 2017				53 weeks ended April 2, 2016			
	UK & Europe £000	Australia £000	Unallocated central expenses £000	Total £000	UK & Europe £000	Australia £000	Unallocated central expenses £000	Total £000
Revenue from continuing operations	**241,748**	**88,658**	**—**	**330,406**	196,908	58,266	—	255,174
Underlying operating profit from continuing operations	**26,218**	**8,238**	**(789)**	**33,667**	18,183	4,958	(1,210)	21,931
Non-underlying operating items	**(3,573)**	**(859)**	**—**	**(4,432)**	(1,890)	(425)	—	(2,315)
Exceptional operating items	**(816)**	**(481)**	**(1,307)**	**(2,604)**	(1,311)	(251)	(316)	(1,878)
Operating profit from continuing operations	**21,829**	**6,898**	**(2,096)**	**26,631**	14,982	4,282	(1,526)	17,738
Underlying finance costs				**(4,259)**				(3,714)
Non-underlying finance costs				**(3,598)**				(4,734)
Profit before tax from continuing operations				**18,774**				9,290
Taxation				**(6,182)**				(3,341)
Profit after tax from continuing operations				**12,592**				5,949
Loss from discontinued operations*				**—**				(2,132)
Profit for the period				**12,592**				3,817

* The prior year loss from discontinued operations relates to the disposal of Westwood Yarns Limited, which was sold on October 2, 2015.

Management information is reviewed on a segmental basis to operating profit.

During the year, no single customer accounted for 10% or more of the Group's revenue. Inter-segment sales in the year and in the prior year between the UK & Europe and Australia were immaterial.

Balance sheet

	52 weeks ended April 1, 2017			53 weeks ended April 2, 2016		
	UK & Europe £000	Australia £000	Total £000	UK & Europe £000	Australia £000	Total £000
Total assets	**276,954**	**52,304**	**329,259**	205,654	38,299	243,953
Total liabilities	**(216,293)**	**(33,673)**	**(249,967)**	(148,822)	(24,098)	(172,920)
Net assets	**60,661**	**18,631**	**79,292**	56,832	14,201	71,033

The Group's non-current assets as at April 1, 2017 of £173,142,000 (2016: £122,959,000) are split geographically as follows: £130,404,000 in the UK & Europe (2016: £102,170,000) and £42,738,000 in Australia (2016: £20,789,000).

1. Segmental information (Continued)

Materially all revenue and non-current assets in the UK & Europe segment relate to the UK other than goodwill and intangible assets (disclosed in Notes 9 and 10) relating to the acquisition disclosed in Note 23(c).

Other segmental information

	52 weeks ended April 1, 2017			53 weeks ended April 2, 2016		
	UK & Europe £000	Australia £000	Total £000	UK & Europe £000	Australia £000	Total £000
Depreciation (from continuing operations)	**9,305**	**2,734**	**12,039**	8,314	2,033	10,347
Amortisation of acquisition intangibles	**3,573**	**859**	**4,432**	1,890	425	2,315
	12,878	**3,593**	**16,471**	10,204	2,458	12,662
Capital expenditure (from continuing operations)	**9,361**	**1,864**	**11,225**	8,961	1,242	10,203

2. Exceptional items

	2017 £000	2016 £000
(a) Acquisition and disposal related costs	**(2,109)**	(1,355)
(b) Reorganisation costs	**(331)**	(406)
(c) Negative goodwill arising on acquisition	**—**	43
(d) Asset impairment	**(17)**	(160)
(e) Preference payment claim	**(147)**	—
Exceptional items	**(2,604)**	(1,878)

All exceptional items are classified within administrative expenses.

(a) Professional fees in connection with prospecting and completing acquisitions during the year.

(b) Reorganisation costs comprise various fees incurred to date in relation to reviewing the Group's manufacuturing and logistics operations, as well as other corporate restructuring.

(c) Credit of £43,000 in the prior year in relation to negative goodwill arising on the acquisition of A&A Carpets.

(d) Figure in 2017 relates to impairment of capitalised facility costs. The prior year figure was previously included within other non-underlying items.

(e) Potential preference payment claim in respect of an Australian customer that has gone into administration.

3. Finance costs

	2017 £000	2016 £000
Interest payable on bank loans and overdrafts	**2,493**	2,145
Cash interest payable on BGF loan	**1,000**	1,000
Interest payable on Hire Purchase and Finance Leases	**62**	80
Total interest payable on loans	**3,555**	3,225
Amortisation of prepaid finance costs	**419**	226
Interest rolled up into BGF loan	**169**	199
Net interest expense on defined benefit pensions	**116**	64
Underlying interest costs	**4,259**	3,714
(a) Release of prepaid finance costs	**—**	228
(b) BGF loan and option, redemption premium charge	**202**	108
(c) Unwinding of present value of contingent earn-out liabilities	**1,776**	1,387
(c) Unwinding of present value of deferred consideration liabilities	**413**	257
(c) Other fair value adjustments to contingent earn-out liabilities	**1,616**	2,581
(d) Mark to market adjustment on foreign exchange forward contracts	**(15)**	136
(e) Mark to market adjustment on interest rate swap contracts	**4**	36
(f) Retranslation of foreign currency loans	**(398)**	—
	7,857	8,448

(a) Non-cash charge in the prior year relating to the release of the prepaid costs on the previous bank facilities, which were refinanced in April 2015.

(b) Non-cash annual cost of the redemption premium in relation to the BGF loan and option.

(c) Deferred and contingent consideration in respect to acquisitions is measured under IFRS 3, initially at fair value discounted for the time value of money. The present value is then remeasured at each half-year and year-end in relation to the unwind of this discount. In addition, any changes to contingent earn-outs arising from actual and forecast business performance are reflected. All such adjustments are non-cash items.

(d) Non-cash fair value adjustment on foreign exchange forward contracts.

(e) Non-cash fair value adjustment on an interest rate swap contract.

(f) Net impact of exchange rate movements on third party and intercompany loans.

4. Profit on ordinary activities before taxation

	2017 £000	2016 £000
After charging/(crediting):		
Net foreign exchange (gains)/losses	**(1,897)**	553
Depreciation of property, plant and equipment (see Note 11)	**12,039**	10,472
Amortisation of intangible assets (see Note 10)	**4,432**	2,315
Staff costs (see Note 5)	**59,840**	48,942
Cost of inventories recognised as an expense	**183,868**	144,354
Profit on sale of fixed assets	**(39)**	(143)
Government grants (see Note 24)	**(233)**	(269)
Operating lease rentals	**5,447**	5,485

4. Profit on ordinary activities before taxation (Continued)

Auditor's remuneration	2017 £000	2016 £000
Fees payable to the Company's Auditor in respect of audit services:		
The audit of the Group's consolidated accounts	**54**	39
The audit of the Company's subsidiaries pursuant to legislation	**253**	143
Total audit fees	**307**	182
Audit related assurance services	**2**	—
Tax compliance services	**43**	30
Taxation advisory services	**16**	—
Services relating to corporate finance transactions (either proposed or entered into) by or on behalf of the Company or any of its associates	**90**	—
Pension scheme advisory services	**18**	—
Total non-audit fees	**169**	30

5. Staff costs

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Wages and salaries	**52,061**	42,727	**367**	234
Social security costs	**4,402**	3,673	**46**	28
Share-based employee remuneration	**112**	—	**112**	—
Other pension costs	**3,265**	2,542	**8**	8
	59,840	48,942	**533**	270

Directors' remuneration is included as part of the staff costs above. Directors' remuneration is disclosed separately on page 19 of the Directors' Report and forms part of these financial statements.

Average number employed (including executive directors of subsidiaries):

	Group		Company	
	2017	2016	2017	2016
Directors	**38**	32	**6**	5
Sales and marketing	**242**	187	**—**	—
Production, logistics and maintenance	**1,397**	1,153	**—**	—
Finance, IT and administration	**125**	141	**1**	1
	1,802	1,513	**7**	6

6. Tax from continuing operations

	2017 £000	2016 £000
Current tax		
—Current year UK	**4,648**	2,961
—Current year overseas	**2,482**	1,455
—Adjustments in respect of prior years	**(216)**	53
	6,914	4,469
Deferred tax (see Note 19)		
—Credit recognised in the current year	**(1,271)**	(1,643)
—Adjustments in respect of prior years	**(143)**	(78)
—Effect of rate change	**—**	149
—Charge in respect of non-qualifying sampling assets	**682**	—
—Prior year Group relief adjustment	**—**	444
	(732)	(1,128)
Total tax charge	**6,182**	3,341

Corporation tax is calculated at 20%, 25% and 30% of the estimated assessable profit for the year in the UK, the Netherlands and Australia respectively.

The charge in respect of non-qualifying sampling assets incurred in the year of £682,000 is a non-recurring timing difference resulting from the change in accounting policy in the prior year relating to sampling assets.

The tax charge for the year can be reconciled to the profit per the income statement as follows:

	2017		2016	
	£000	%	£000	%
Profit before tax from continuing operations	**18,774**		**9,290**	
Tax charge/(credit) at the UK corporation tax rate of 20% (2016: 20%)	**3,755**	20.0	**1,858**	20.0
Tax effect of items that are not deductible/non taxable in determining taxable profit	**1,494**	7.9	**392**	4.2
Effect of different tax rates of subsidiaries operating in other jurisdictions	**631**	3.3	**450**	4.8
Deferred consideration fair value remeasurement non taxable	**810**	4.3	**824**	8.9
Effect of change in rate	**(9)**	—	**149**	1.6
Effect of change in future tax rate enacted on deferred tax recognised on intangible assets	**(136)**	(0.7)	**(461)**	(5.0)
Movement in deferred tax on revalued land no longer required	**(4)**	—	**7**	0.1
Quest acquired retained earnings	**—**	—	**147**	1.6
Adjustments to prior periods	**(359)**	(1.9)	**(25)**	(0.2)
Tax charge and effective tax rate	**6,182**	32.9	**3,341**	36.0

7. Earnings per share

The calculation of the basic, adjusted and diluted earnings per share is based on the following data:

	Basic 2017 £000	Adjusted 2017 £000	Basic 2016 £000	Adjusted 2016 £000
Profit attributable to ordinary equity holders of the parent entity from continuing operations	**12,592**	**12,592**	5,949	5,949
Exceptional items:				
Amortisation of acquired intangibles	**—**	**4,432**	—	2,315
PPE impairment	**—**	**17**	—	160
Preference payment claim	**—**	**147**	—	—
Acquisition and disposal related cost	**—**	**2,109**	—	1,355
Reorganisation costs	**—**	**331**	—	406
Negative goodwill arising on acquisition	**—**	**—**	—	(43)
Release of prepaid finance costs	**—**	**—**	—	228
BGF loan and option, redemption premium charge	**—**	**202**	—	108
Deferred and contingent consideration fair value adjustments	**—**	**3,805**	—	4,226
Mark to market adjustment on foreign exchange forward contracts	**—**	**(15)**	—	136
Mark to market adjustment on interest rate swap contracts	**—**	**4**	—	36
Retranslation of foreign currency loans	**—**	**(398)**	—	—
Tax effect on adjusted items where applicable	**—**	**(937)**	—	(961)
Deferred tax charge in respect of non-qualifying sampling assets	**—**	**682**	—	—
Earnings for the purpose of basic and adjusted earnings per share from continuing operations	**12,592**	**22,971**	5,949	13,915
Loss attributable to ordinary equity holders of the parent entity from discontinued operations	**—**	**—**	(2,132)	—
Earnings for the purpose of basic and adjusted earnings per share	**12,592**	**22,971**	3,817	13,915

Weighted average number of shares

	2017 Number of shares (000's)	2016 Number of shares (000's)
Weighted average number of shares for the purpose of basic and adjusted earnings per share	**90,968**	82,445
Effect of dilutive potential ordinary shares:		
BGF share options	**3,080**	2,800
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**94,048**	85,245

The number of shares in issue increased by a factor of five on September 12, 2016 following approval of a five-for-one share split at the AGM on September 9, 2016. The weighted average number of shares in issue over the period has been determined on this new basis and the prior year has been restated accordingly.

The potential dilutive effect of the share options has been calculated in accordance with IAS 33 using the average share price in the period.

7. Earnings per share (Continued)

The Group's earnings per share are as follows:

	2017 Pence	2016 Pence
Earnings per share from continuing operations		
Basic adjusted	**25.25**	16.88
Diluted adjusted	**24.43**	16.32
Basic	**13.84**	7.22
Diluted(1)	**13.60**	7.11
Loss per share from discontinued operations		
Basic	**—**	(2.59)
Diluted(1)	**—**	(2.59)
Earnings per share		
Basic adjusted earnings per share from total operations	**25.25**	16.88
Diluted(1) adjusted earnings per share from total operations	**24.43**	16.32
Basic earnings per share from total operations	**13.84**	4.63
Diluted(1) earnings per share from total operations	**13.60**	4.60

(1) Earnings for the purpose of diluted (basic) earnings per share have been adjusted to add back the Business Growth Fund ('BGF') redemption premium charge as this cost is only incurred if the BGF share options are not exercised.

8. Rates of exchange

The results of overseas subsidiaries have been translated into Sterling at the average exchange rates prevailing during the periods. The balance sheets are translated at the exchange rates prevailing at the period ends:

	2017		2016	
	Average	Year end	Average	Year end
Australia—A$	**1.7435**	**1.6448**	2.0327	1.8526
Europe—€	**1.1785**	**1.1777**	—	—

9. Goodwill

	Goodwill £000
At March 29, 2015	4,110
Arising on acquisition	32,045
Exchange movements	1,050
At April 2, 2016	37,205
At April 3, 2016	**37,205**
Arising on acquisition	**21,744**
Exchange movements	**881**
At April 1, 2017	**59,830**

Goodwill is attributed to the businesses identified below for the purpose of testing impairment. These businesses are the lowest level at which goodwill is monitored and represent cash generating units ("CGUs"). The CGUs within a reported segment share similar characteristics to each other and to the other businesses within that segment.

9. Goodwill (Continued)

The aggregate carrying amounts of goodwill allocated to each CGU are as follows:

	Reported Segment	2017 £000	2016 £000
Westex (Carpets) Limited	UK & Europe	**2,735**	2,735
Whitestone Weavers Group	UK & Europe	**1,375**	1,375
Interfloor Limited	UK & Europe	**25,245**	25,245
Quest Flooring Pty Limited	Australia	**8,842**	7,850
Ezi Floor Limited	UK & Europe	**7,094**	—
Primary Flooring Pty Limited	Australia	**7,043**	—
Grass Inc. B.V. & Avalon B.V.	UK & Europe	**7,496**	—
		59,830	37,205

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the goodwill have been determined based on value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. The discount rates used of 11.4% for CGUs within the UK, 10.7% for CGUs within Europe and 12.3% for CGUs within Australia are estimated using weighted-average costs of capital that reflect current market assessments of the time value of money and the risks specific to the markets in which the businesses operate. The primary reasons for the difference in the rates between the UK, Europe and Australia are the differences in underlying risk-free rates and cost of debt. The calculation uses cash flow projections extrapolated from the budget for the year ending March 31, 2018. A terminal value was calculated based on a terminal growth rate assumption of 2.0%.

The Group does not consider it reasonably probable that any significant changes to the key assumptions will arise that would result in impairment to any of the Goodwill balances. If the terminal growth rate was assumed to be nil in the Directors' opinion there would still be no provision for impairment required. As at April 1, 2017 no impairment provision was therefore considered necessary.

Goodwill comprises intangible assets that do not qualify for separate recognition, in particular the existing workforce.

None of the goodwill is expected to be tax deductible.

10. Intangible assets

		Customer relationships £000	Brand names £000	Group Total £000
Cost	At March 29, 2015	4,700	4,745	9,445
	Additions	31,453	4,498	35,951
	Exchange difference	913	110	1,023
	At April 2, 2016	37,066	9,353	46,419
	At April 3, 2016	**37,066**	**9,353**	**46,419**
	Additions	**24,195**	**2,393**	**26,588**
	Exchange difference	**714**	**84**	**798**
	At April 1, 2017	**61,975**	**11,830**	**73,805**
Amortisation	At March 29, 2015	327	260	587
	Charge for the period	2,020	295	2,315
	Exchange difference	39	2	41
	At April 2, 2016	2,386	557	2,943
	At April 3, 2016	**2,386**	**557**	**2,943**
	Charge for the period	**3,993**	**439**	**4,432**
	Exchange difference	**104**	**6**	**110**
	At April 1, 2017	**6,483**	**1,002**	**7,485**
Net book value	**At April 1, 2017**	**55,492**	**10,828**	**66,320**
	At April 2, 2016	34,680	8,796	43,476
	At March 29, 2015	4,373	4,485	8,858

11. Property, plant and equipment

	Freehold land and buildings £000	Plant and machinery £000	Fixtures, vehicles and equipment £000	Group Total £000
Cost				
At March 29, 2015	7,514	33,931	12,273	53,718
Exchange differences	—	754	124	878
Acquisition	6,944	7,144	341	14,429
Additions	165	2,144	7,894	10,203
Disposals	(821)	(999)	(6,683)	(8,503)
At April 2, 2016	13,802	42,974	13,949	70,725
At April 3, 2016	**13,802**	**42,974**	**13,949**	**70,725**
Exchange differences	**(1)**	**2,879**	**464**	**3,342**
Acquisition	**93**	**3,120**	**196**	**3,409**
Additions	**69**	**3,649**	**7,507**	**11,225**
Disposals	**—**	**(1,378)**	**(6,781)**	**(8,159)**
At April 1, 2017	**13,963**	**51,244**	**15,335**	**80,542**
Accumulated depreciation				
At March 29, 2015	173	23,669	4,391	28,233
Exchange differences	—	722	65	787
Charge for the period	345	3,109	6,893	10,347
Impairment	—	160	—	160
Disposals	(200)	(960)	(6,453)	(7,613)
At April 2, 2016	318	26,700	4,896	31,914
At April 3, 2016	**318**	**26,700**	**4,896**	**31,914**
Exchange differences	**—**	**2,448**	**262**	**2,710**
Charge for the period	**445**	**4,072**	**7,522**	**12,039**
Impairment	**—**	**—**	**17**	**17**
Disposals	**—**	**(1,353)**	**(6,611)**	**(7,964)**
At April 1, 2017	**763**	**31,867**	**6,086**	**38,716**
Net Book Value				
At April 1, 2017	**13,200**	**19,377**	**9,249**	**41,826**
At April 2, 2016	13,484	16,275	9,052	38,811
At March 29, 2015	7,341	10,262	7,882	25,485

The prior year figures exclude discontinued operations.

The Company holds no property, plant and equipment.

11. Property, plant and equipment (Continued)

Included within fixed assets are the following:

	Plant and machinery Hire purchase £000	Fixtures, vehicles and equipment Hire purchase £000	Plant and machinery Finance lease £000	Fixtures, vehicles and equipment Finance lease £000	Group Total £000
Held under hire purchase/finance leases:					
Cost at April 1, 2017	**561**	**950**	**4,241**	**514**	**6,266**
Accumulated depreciation at April 1, 2017	**64**	**416**	**3,046**	**232**	**3,758**
Depreciation charged in year	**54**	**199**	**323**	**79**	**655**
Held under hire purchase/finance leases:					
Cost at April 2, 2016	275	930	—	1,427	2,632
Accumulated depreciation at April 2, 2016	39	366	—	536	941
Depreciation charged in year	15	170	—	273	458

Capital expenditure authorised and committed at the period end:

	2017 £000	2016 £000
Contracts placed	**296**	828

The Company held no assets under finance lease or hire purchase agreements and had no capital commitments at either year end.

12. Fixed asset investments

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
(a) Investment property	**180**	180	**180**	180
(b) Investment in subsidiaries	**—**	—	**49,270**	49,270

(a) Investment property relates to land and is held at cost as the fair value is dependent on future use and the grant of the necessary planning consents.

(b) Victoria PLC owns directly or indirectly the whole of the allotted ordinary share capital of the following subsidiary companies.

12. Fixed asset investments (Continued)

As at April 1, 2017	Country of incorporation and operation	Nature of business	Ownership
Victoria Midco Holdings Limited	England	Holding Company	Direct
Victoria Carpets Limited	England	Carpet manufacture	Indirect
Carpets@Home Limited	England	Carpet distributor	Indirect
Globesign Limited	England	Holding Company	Indirect
Westex (Carpets) Limited	England	Carpet manufacture	Indirect
Abingdon Flooring Limited	England	Carpet manufacture	Indirect
Distinctive Flooring Limited	England	Carpet distributor	Indirect
Alliance Distribution Limited	England	Logistic Services	Indirect
Whitestone Carpets Holdings Limited	England	Holding Company	Indirect
View Logistics Limited	England	Logistic Services	Indirect
Carpet Line Direct Limited	England	Carpet distributor	Indirect
Whitestone Weavers Limited	England	Carpet distributor	Indirect
Thomas Witter Carpets Limited	England	Carpet distributor	Indirect
Gaskell Mackay Carpets Limited	England	Carpet distributor	Indirect
A&A Carpets Limited	England	Carpet distributor	Indirect
Interfloor Limited	England	Carpet underlay manufacturer	Indirect
Ezi Floor Limited	England	Carpet underlay manufacturer	Indirect
The Victoria Carpet Company Pty Limited	Australia	Carpet manufacture	Indirect
Quest Flooring Pty Ltd	Australia	Holding Company	Indirect
Quest Carpet Manufacturers Pty Ltd	Australia	Carpet manufacture	Indirect
Quest Carpet Manufacturers Unit Trust	Australia	Unit Trust	Indirect
Primary Flooring Pty Limited	Australia	Carpet underlay manufacturer	Indirect
Victoria Bidco BV	The Netherlands	Holding Company	Indirect
Avalon BV	The Netherlands	Artificial grass distributor	Indirect
GrassInc BV	The Netherlands	Artificial grass distributor	Indirect
Victoria Belgium Holdco nv	Belgium	Holding Company	Indirect
V-Line Carpets Limited	England	Non-trading	Indirect
Stikatak Limited	England	Non-trading	Indirect
Tacktrim Limited	England	Non-trading	Indirect
Interfloor Operations Limited	England	Non-trading	Indirect
Interfloor Group Limited	England	Non-trading	Indirect
The Victoria Carpet Company Limited	England	Non-trading	Indirect
Flooring at Home Limited	England	Non-trading	Indirect
Munster Carpets Limited	Ireland	Non-trading	Indirect

13. Inventories

	2017 £000	2016 £000
Raw materials	**18,754**	12,773
Work-in-progress	**3,404**	2,963
Finished goods	**50,904**	43,234
	73,062	58,970

The Company held no inventories at either year-end. There is no material difference between the balance sheet value of inventories and their replacement cost.

14. Trade and other receivables

Amounts falling due within one year:

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Trade debtors	**51,454**	40,133	**—**	—
Amounts owed by subsidiaries	**—**	—	**132,737**	88,521
Other debtors	**238**	490	**—**	—
Prepayments and accrued income	**3,384**	2,323	**192**	125
	55,076	42,946	**132,929**	88,646

Amounts falling due after one year:

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Amounts owed by subsidiaries	**—**	—	**14,194**	16,778
	—	—	**14,194**	16,778

Interest is charged on amounts owed by subsidiaries to the Company at market rates. There are no repayment terms attached to those loans classified as being due within one year.

Amounts owed by subsidiaries to the Company are not considered to be impaired.

The above amounts are stated net of an allowance (net of VAT) of £777,000 (2016: £958,000) made for estimated irrecoverable amounts from sale of goods. The movement of this allowance account during the year is summarised below:

	£000	£000
Opening balance at April 3, 2016	**958**	811
Acquisition opening balances	**166**	30
Increase in provisions	**489**	316
Recovered against provisions	**(864)**	(210)
Exchange differences	**28**	11
Closing balance at April 1, 2017	**777**	958

An analysis of the age of trade receivables that are past due at the reporting date but not impaired can be seen in the table below:

	2017 £000	2016 £000
1–30 days overdue	**8,860**	6,422
31–60 days overdue	**947**	547
> 60 days overdue	**965**	519
Total	**10,772**	7,488

An analysis of the age of impaired trade receivables is as follows:

	2017 £000	2016 £000
1–30 days overdue	**—**	198
31–60 days overdue	**50**	72
> 60 days overdue	**832**	1,025
Total	**882**	1,295

14. Trade and other receivables (Continued)

The main factors in assessing the impairment of trade receivables are the age of the balance and the circumstances of the individual customer. The Directors consider that the carrying amount of all receivables, including those impaired, approximates to their fair value.

15. Trade and other payables

Amounts falling due within one year:

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Trade creditors	**46,400**	43,550	**—**	—
Amounts due to subsidiaries	**—**	—	**—**	1
Deferred and contingent earn-out liabilities	**14,728**	9,265	**5,780**	5,002
Other creditors	**11,967**	7,476	**—**	—
Accruals	**9,569**	6,407	**690**	352
Deferred income	**209**	215	**—**	—
	82,873	66,913	**6,470**	5,355

Amounts falling due after one year:

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Deferred and contingent earn-out liabilities	**19,316**	11,130	**39**	3,903
Deferred income	**168**	339	**—**	—
Other creditors	**371**	55	**—**	—
	19,855	11,524	**39**	3,903

Deferred and contingent earn-out liabilities (Group and Company) are in connection with the acquisitions of Globesign Limited, Abingdon Flooring Group, Whitestone Weavers Group, Quest Carpet Manufacturers Pty Limited, Ezi Floor Limited, Avalon B.V. and Grass Inc B.V. Under IFRS 13 Fair Value Measurement this is classified under the fair value hierarchy as Level 3. The deferred and contingent earn-out liabilities falling due after one year of £19.32m is split as follows: between one to two years £8.43m and between two to five years £10.89m.

Deferred income relates to government grants as shown in Note 24.

16. Other financial liabilities

Amounts falling due within one year:

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Bank overdraft	**—**	—	**10,432**	5,682
Finance leases & hire purchase agreements	**617**	596	**—**	—
	617	596	**10,432**	5,682

16. Other financial liabilities (Continued)

Amounts falling due after one year:

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Bank loans:				
—due between one and two years	**105,189**	—	**105,189**	—
—due between two and five years	**—**	68,485	**—**	68,485
BGF loan:				
—due between one and two years	**2,897**	391	**2,897**	391
—due between two and five years	**5,445**	4,560	**5,445**	4,560
—due over five years	**1,598**	4,573	**1,598**	4,573
Finance leases and hire purchase agreements:				
—due between one and two years	**558**	280	**—**	—
—due between two and five years	**399**	233	**—**	—
	116,086	78,522	**115,129**	78,009

Bank loans as at April 1, 2017 relate to a Group multi-currency revolving credit facility provided by Barclays, HSBC, RBS and AIB. This facility was refinanced following the year-end with a maturity on October 15, 2020 and subject to the option of a one year extension, and is secured by way of debenture over the assets of the Group.

The BGF loan relates to the debt component of the BGF loan and option instruments.

The Group's net debt position as at April 1, 2017 was £89.63m (2016: £61.11m), before netting off prepaid finance costs. The contractual maturities of financial liabilities and average effective interest rates are set out in Note 25.

17. Financial assets and liabilities

The financial assets of the Group, all of which fall due within one year, comprised:

	At April 1, 2017				At April 2, 2016			
	Loans and receivables £000	Financial assets held at fair value through profit and loss £000	Assets not within the scope of IAS 39 £000	Total £000	Loans and receivables £000	Financial assets held at fair value through profit and loss £000	Assets not within the scope of IAS 39 £000	Total £000
Cash								
Sterling	**10,870**	**—**	**—**	**10,870**	12,599	—	—	12,599
US Dollars	**1,495**	**—**	**—**	**1,495**	912	—	—	912
Euros	**1,367**	**—**	**—**	**1,367**	751	—	—	751
Australian Dollars	**14,058**	**—**	**—**	**14,058**	4,623	—	—	4,623
New Zealand Dollars	**189**	**—**	**—**	**189**	193	—	—	193
	27,979	**—**	**—**	**27,979**	19,078	—	—	19,078
Current assets								
Trade and other receivables	**51,692**	**—**	**3,384**	**55,076**	40,239	—	2,323	42,562
Current Inventories	**—**	**—**	**73,062**	**73,062**	—	—	58,970	58,970
Forward foreign exchange contracts	**—**	**—**	**—**	**—**	—	380	—	380
Interest rate swap contracts	**—**	**—**	**—**	**—**	—	4	—	4
Current assets	**79,671**	**—**	**76,446**	**156,117**	59,317	384	61,293	120,994

17. Financial assets and liabilities (Continued)

The financial liabilities of the Group comprised:

	At April 1, 2017				At April 2, 2016			
	Other financial liabilities at amortised cost £000	Financial liabilities held at fair value through profit and loss £000	Liabilities not within the scope of IAS 39 £000	Total £000	Other financial liabilities at amortised cost £000	Financial liabilities held at fair value through profit and loss £000	Liabilities not within the scope of IAS 39 £000	Total £000
Current liabilities								
Trade and other payables	**70,104**	**7,673**	**4,955**	**82,732**	54,955	5,634	5,825	66,414
Current tax liabilities	**—**	**—**	**4,260**	**4,260**	—	—	2,891	2,891
Forward foreign exchange contracts	**—**	**141**	**—**	**141**	—	499	—	499
Finance leases and hire purchase	**617**	**—**	**—**	**617**	596	—	—	596
Current liabilities	**70,721**	**7,814**	**9,215**	**87,750**	55,551	6,133	8,716	70,400
Non-current liabilities								
Trade and other payables	**10,200**	**9,487**	**168**	**19,855**	5,886	5,299	339	11,524
Deferred tax liabilities	**—**	**—**	**15,190**	**15,190**	—	—	9,129	9,129
Retirement benefit obligations	**—**	**—**	**11,086**	**11,086**	—	—	3,345	3,345
Finance leases & hire purchase	**957**	**—**	**—**	**957**	513	—	—	513
Bank loans	**105,189**	**—**	**—**	**105,189**	68,485	—	—	68,485
BGF loan	**9,940**	**—**	**—**	**9,940**	9,524	—	—	9,524
Non-current liabilities	**126,286**	**9,487**	**26,444**	**162,217**	84,408	5,299	12,813	102,520
Total liabilities	**197,007**	**17,301**	**35,659**	**249,967**	139,959	11,432	21,529	172,920

The financial assets of the Company comprised:

	At April 1, 2017				At April 2, 2016			
	Loans and receivables £000	Financial assets held at fair value through profit and loss £000	Assets not within the scope of IAS 39 £000	Total £000	Loans and receivables £000	Financial assets held at fair value through profit and loss £000	Assets not within the scope of IAS 39 £000	Total £000
Cash								
Euros	**30**	**—**	**—**	**30**	—	—	—	—
Australian Dollars	**247**	**—**	**—**	**247**	—	—	—	—
	277	**—**	**—**	**277**	—	—	—	—
Current assets								
Trade and other receivables	**132,737**	**—**	**192**	**132,929**	88,646	—	—	88,646
Current assets	**133,014**	**—**	**192**	**133,206**	88,646	—	—	88,646
Non-current assets								
Amounts owed by subsidiaries	**14,194**	**—**	**—**	**14,194**	16,778	—	—	16,778
Deferred tax assets	**—**	**—**	**264**	**264**	—	—	—	—
Non-current assets	**14,194**	**—**	**264**	**14,458**	16,778	—	—	16,778
Total financial assets	**147,108**	**—**	**456**	**147,664**	105,424	—	—	105,424

17. Financial assets and liabilities (Continued)

The financial liabilities of the Company comprised:

	At April 1, 2017				At April 2, 2016			
	Other financial liabilities at amortised cost £000	Financial liabilities held at fair value through profit and loss £000	Liabilities not within the scope of IAS 39 £000	Total £000	Other financial liabilities at amortised cost £000	Financial liabilities held at fair value through profit and loss £000	Liabilities not within the scope of IAS 39 £000	Total £000
Overdraft								
Sterling	**10,432**	**—**	**—**	**10,432**	5,682	—	—	5,682
	10,432	**—**	**—**	**10,432**	5,682	—	—	5,682
Current liabilities								
Trade and other payables	**690**	**5,780**	**—**	**6,470**	353	5,002	—	5,355
Current tax liabilities	**—**	**—**	**—**	**—**	—	—	—	—
Current liabilities	**11,122**	**5,780**	**—**	**16,902**	6,035	5,002	—	11,037
Non-current liabilities								
Trade and other payables	**—**	**39**	**—**	**39**	—	3,903	—	3,903
Bank loans	**105,189**	**—**	**—**	**105,189**	68,485	—	—	68,485
BGF loan	**9,940**	**—**	**—**	**9,940**	9,524	—	—	9,524
Non-current liabilities	**115,129**	**39**	**—**	**115,168**	78,009	3,903	—	81,912
Total liabilities	**126,245**	**5,819**	**—**	**132,070**	84,044	8,905	—	92,949

Fair value measurement of financial instruments

Financial assets and financial liabilities measured at fair value in the balance sheet are grouped into three levels of fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement as follows:

- Level one: quoted prices in active markets for identical assets or liabilities
- Level two: inputs other than quoted prices included within Level one that are observable for the asset or liability, either directly or indrectly
- Level three: unobservable inputs for the assets or liabilities

All financial assets and liabilities have been identified as Level one with the exception of:

- Forward foreign exchange contracts, which are Level two financial assets/liabilities and all expire within 12 months from April 1, 2017.
- The Group's interest rate swap contract, which is a Level two financial asset and expires in May 2018.

  The Group has relied upon valuations performed by third party valuations specialists for compex valuations of the forward exchange contracts and interest rate swap contract. Valuation techniques have utilised observable forward exchange rates and interest rates corresponding to the maturity of the contract. The effects of non-observable inputs are not significant for forward exchange contracts and the interest rate swap contract.
- Contingent earn-out liabilities, which are Level three liabilities.

  The fair value of the contingent consideration arising from acquisitions is determined considering the estimated payment discounted to present value. Estimated payments are calculated using financial projections for the next 12 months and then applying growth assumptions for future years where relevant.

The most significant inputs, all of which are unobservable, are the estimated growth rates in future profits and the discount rates applied. The estimated fair value increases if the estimated growth rates increase or the discount rates decrease. The overall valuations are sensititve to both assumptions. The Board considers

17. Financial assets and liabilities (Continued)

that changing the above unobservable inputs to reflect other reasonably possible alternative assumptions would not result in a significant change in the estimated fair value.

There were no transfers between level one, level two and level three in 2017 or 2016.

The deferred and contingent earn-out liabilities of the Group are as follows:

Amounts falling due within one year:

	2017 £000	2016 £000
Deferred consideration liabilities	**7,055**	3,631
Contingent earn-out liabilities	**7,673**	5,634
	14,728	9,265

Amounts falling due after one year:

	2017 £000	2016 £000
Deferred consideration liabilities:		
—due between one and two years	**4,459**	4,138
—due between two and five years	**5,370**	1,693
Contingent earn-out liabilities:		
—due between one and two years	**4,389**	4,239
—due between two and five years	**5,098**	1,059
	19,316	11,130

Reconciliation of movement in contingent earn-out liabilities	£000
Total contingent earn-out liabilities as at April 2, 2016	**10,933**
Additional liabilities from acquisitions in the period	**9,368**
Payments made during the period	**(6,559)**
Unwinding of present value	**1,776**
Other fair value adjustments	**1,616**
Exchange rate difference	**26**
Total contingent earn-out liabilities as at April 1, 2017	**17,160**

18. Operating lease arrangements

The Group and Company as lessee

Details of operating lease arrangements for the Group and Company are as follows:

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Payments under operating leases recognised in income statement for the year	**5,046**	5,385	**—**	503

18. Operating lease arrangements (Continued)

At the balance sheet date, the Group and Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Group		Company	
Minimum lease payments	2017 £000	2016 £000	2017 £000	2016 £000
Within one year	**6,495**	5,849	**536**	503
In the second to fifth years inclusive	**15,046**	13,744	**2,102**	2,003
After five years	**12,921**	10,700	**6,265**	6,500
	34,462	30,293	**8,903**	9,006

Operating lease payments represent rentals payable by the Group and Company principally for vehicles and certain of its properties. Leases of vehicles are usually negotiated for a term of 3–5 years and rentals are fixed for the term of the lease. Leases of land and buildings are usually negotiated for 5–20 years.

19. Deferred taxation

	Group £000	Company £000
At March 29, 2015	467	(708)
Credit to income statement (see Note 6)	(1,572)	—
Prior year adjustment for Group relief (see Note 6)	444	444
Deferred tax in relation to pension scheme	(53)	—
Deferred tax on intangible assets acquired	7,559	—
Adjustment for acquisitions in the year	(1,091)	—
Adjustment for disposals in the year	(169)	—
Exchange adjustment	257	—
At April 2, 2016	5,842	(264)
At April 3, 2016	**5,842**	**(264)**
Credit to income statement (see Note 6)	**(1,414)**	**—**
Charge in respect of non-qualifying sampling assets (see Note 6)	**682**	**—**
Deferred tax in relation to pension scheme	**(1,448)**	**—**
Deferred tax on intangible assets acquired	**6,801**	**—**
Adjustment for acquisitions in the year	**(339)**	**—**
Exchange adjustment	**80**	**—**
At April 1, 2017	**10,204**	**(264)**

The provision for deferred taxation is as follows:

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Capital allowances	**(754)**	(963)	**—**	—
Liability on recovering value through sale	**(74)**	(71)	**(74)**	(71)
Deferred grant income	**(113)**	(163)	**—**	—
Tax losses	**(525)**	(679)	**(190)**	(193)
Deferred tax on intangible assets acquired	**14,888**	8,810	**—**	—
Deferred tax on defined benefit pension	**(2,106)**	(636)	**—**	—
Other timing differences	**(1,112)**	(456)	**—**	—
	10,204	5,842	**(264)**	(264)

19. Deferred taxation (Continued)

The provision is based on taxation rates of 30% in respect of balances relating to the Australia businesses (2015: 30%) and 25% in respect of balances relating to the Dutch businesses. The rates applied to UK balances vary dependent on the timing of when the balances are expected to unwind as noted below.

Effect on UK deferred tax balances of proposed changes in the UK corporation tax rate

The UK corporation tax rate reduction from 20% to 19% on April 1, 2017, to 18% on April 1, 2020 and to 17% on April 1, 2020 has been substantively enacted. Accordingly, deferred tax balances at April 1, 2017 have been calculated at the rate at which the relevant balance is expected to be recovered or settled.

Deferred tax assets and liabilities

The deferred tax balances shown on the balance sheet are:

	Group		Company	
	2017 £000	**2016 £000**	**2017 £000**	**2016 £000**
Deferred tax liabilities	**15,190**	9,129	**—**	—
Deferred tax assets	**(4,986)**	(3,287)	**(264)**	(264)
	10,204	5,842	**(264)**	(264)

20. Retirement benefit obligations

Defined contribution schemes

The Group operates a number of defined contribution pension schemes. The companies and the employees contribute towards the schemes.

Contributions are charged to the Income Statement as incurred and amounted to £3,265,000 (2016: £2,542,000), of which £2,111,000 (2016: £1,742,000) relates to the UK schemes. The total contributions outstanding at year-end were £nil (2016: £nil).

Defined benefit schemes

The Group has two defined benefit schemes, both of which relate to Interfloor Limited.

Interfloor Limited sponsors the Final Salary Scheme ("the Main Scheme") and the Interfloor Limited Executive Scheme ("the Executive Scheme") which are both defined benefit arrangements. The defined benefit schemes are administered by a separate fund that is legally separated from the Group. The trustees of the pension fund are required by law to act in the interest of the fund and of all relevant stakeholders in the scheme. The trustees of the pension fund are responsible for the investment policy with regard to the assets of the fund.

The last full actuarial valuations of these schemes were carried out by a qualified independent actuary as at July 31, 2015.

The contributions made by the employer over the financial period were £95,000 (2016: £nil) in respect of the Main Scheme and £126,000 (2016: £nil) in respect of the Executive Scheme.

Contributions to the Executive and Main Schemes are made in accordance with the Schedule of Contributions. Future contributions are expected to be an annual premium of £95,000 in respect of the Main Scheme and £126,000 contributions payable to the Executive Scheme. These payments are in line with the certified Schedules of Contributions until they are reviewed on completion of the triennial valuations of the schemes as at August 1, 2018.

As both schemes are closed to future accrual there will be no current service cost in future years.

The defined benefit schemes typically expose the Company to actuarial risks such as: investment risk, interest rate risk and longevity risk.

20. Retirement benefit obligations (Continued)

Investment risk

The present value of the defined benefit schemes' liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the returns on schemes' assets are below this rate, it will create a scheme deficit. Due to the long-term nature of the schemes' liabilities, the trustees of the pension fund consider it appropriate that a reasonable portion of the schemes' assets should be invested in equity securities to leverage the return generated by the funds.

Interest risk

A decrease in the bond interest rate will increase the schemes' liability but this will be partially offset by an increase in the return on the plan's debt investments.

Longevity risk

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the schemes' participants will increase the schemes' liability.

The present value of the defined benefit liabilities was measured using the projected unit credit method.

The expected rates of return on plan assets are determined by reference to relevant indices. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

Principal actuarial assumptions (expressed as weighted averages) at the consolidated balance sheet date were as follows:

	2017	2016
Discount rate	**2.5%**	3.6%
Revaluation rate of deferred pensioners of CPI or 5% p.a. if less	**2.4%**	2.0%
Pension in payment increases of RPI or 5% p.a. if less	**3.2%**	2.9%
Pension in payment increases of CPI or 3% p.a. if less	**2.1%**	1.8%
Inflation (RPI)	**3.4%**	3.0%
Inflation (CPI)	**2.4%**	2.0%

The assumptions relating to longevity underlying the pension liabilities at the Consolidated Statement of Financial Position date are based on 115% of the standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year-old to live for a number of years as follows:

(i) Current pensioner aged 65: 20.9 years (male), 22.9 years (female).

(ii) Future retiree (aged 45) upon reaching 65: 22.2 years (male), 24.4 years (female).

Amounts recognised in income in respect of these defined benefit schemes are as follows:

	2017 £000	2016 £000
Administrative expenses	**—**	166
Net interest expense	**116**	64
Components of defined benefit costs recognised in profit or loss	**116**	230

The net interest expense has been included within finance costs. The remeasurement of the net defined benefit liability is included in the statement of comprehensive income.

20. Retirement benefit obligations (Continued)

Amounts recognised in the Consolidated Statement of Comprehensive Income are as follows:

	2017 £000	2016 £000
The return on plan assets (excluding amounts included in net interest expense)	**2,999**	(40)
Actuarial gains and (losses) arising from changes in demographic assumptions	**—**	314
Actuarial losses arising from changes in financial assumptions	**(11,114)**	(877)
Actuarial (losses) and gains arising from experience adjustments	**269**	451
Remeasurement of the net defined benefit liability	**(7,846)**	(152)

The largest contributor to net actuarial losses in the year was the change in discount rate applied to the scheme liabilities, which reduced from 3.6% in 2016 to 2.5% in 2017. The discount rate is assessed by reference to expected returns on high quality corporate bonds, which reduced significantly during the period.

The amount included in the Consolidated Balance Sheet arising from the Group's obligations in respect of its defined benefit retirement benefit schemes is as follows:

	2017 £000	2016 £000
Present value of defined benefit obligations	**(36,470)**	(25,945)
Fair value of plan assets	**25,384**	22,600
Net liability arising from defined benefit obligation	**(11,086)**	(3,345)
Deferred tax applied to net obligation	**2,106**	636

Movements in the present value of defined benefit obligations in the period were as follows:

	2017 £000	2016 £000
Opening defined benefit obligation	**25,945**	—
Defined benefit obligation acquired	**—**	25,861
Expense	**—**	166
Interest cost	**912**	539
Remeasurement (gains)/losses:		
Actuarial gains and (losses) arising from changes in demographic assumption	**—**	(314)
Actuarial losses arising from changes in financial assumptions	**11,114**	877
Actuarial (losses) and gains arising from experience adjustments	**(269)**	(451)
Benefits paid and expenses	**(1,232)**	(733)
Closing defined benefit obligation	**36,470**	25,945

Movements in the fair value of plan assets in the period were as follows:

	2017 £000	2016 £000
Opening fair value of plan assets	**22,600**	—
Fair value of plan assets acquired	**—**	22,898
Interest income	**796**	475
Remeasurement gains:		
The return on plan assets (excluding amounts included in net interest expense)	**2,999**	(40)
Contributions from the employer	**221**	—
Benefits paid and expenses	**(1,232)**	(733)
Closing fair value of plan assets	**25,384**	22,600

20. Retirement benefit obligations (Continued)

The major categories and fair values of plan assets at the end of the reporting period for each category are as follows:

	2017 £000	2016 £000
Cash and cash equivalents	**669**	518
Government bonds	**2,538**	1,826
Corporate bonds	**3,034**	3,386
UK equities	**9,897**	9,236
Property	**1,432**	1,551
Overseas equities	**7,814**	6,083
Closing fair value of plan assets	**25,384**	22,600

None of the fair values of the assets shown above include any of the employer's own financial instruments or any property occupied by, or other assets used by, the employer. All of the schemes assets have a quoted market price in an active market.

The actual return on plan assets was £3,795,000 (2016: £435,000).

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

If the discount rate decreased by 0.25% per annum, the defined benefit obligation would increase by 4.5%.

If the rate of inflation increases by 0.25% per annum, the defined benefit obligation would increase by 3.3%.

If the life expectancy increases by one year for both men and women, the defined benefit obligation would increase by 4.1%.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the Consolidated Balance Sheet.

The Group expects to make a contribution of £221,000 (2016: £221,000) to the defined benefit schemes during the next financial period.

21. Share capital

	2017 £000	2016 £000
Allotted, called up and fully paid 90,969,396 Ordinary shares of 5p each (2016: 90,965,845)	**4,548**	4,548

The Company has one class of Ordinary shares which carry no right to fixed income.

The prior year number of ordinary shares have been restated to reflect the five for one share split which came into effect on September 12, 2016.

The Company issued 3,551 shares in the year in connection with the retailer incentive scheme (shares issued before September 12, 2016 have been restated for the five for one share split noted above).

21. Share capital (Continued)

Capital risk management

The Group considers its capital to comprise its Ordinary share capital, share premium, accumulated retained earnings and net debt. In managing its capital, the Group's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through a combination of capital growth and distributions.

In order to achieve this objective, the Group monitors its gearing to balance risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through altering its dividend policy, new share issues, or the reduction of debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

The Group is subjected to a number of financial covenants in connection with its group bank facilities. These covenants are tested quarterly and were not breached during the year.

22. Reserves

(a) Retained earnings

Retained earnings for the Group as at April 1, 2017 were £16,451,000 (2016: £10,257,000).

The profit of the Company for the year determined in accordance with the Companies Act 2006 was £2,733,000 (2016: profit of £2,679,000). The Company is exempt under Section 408 of the Companies Act 2006 from presenting its own Income statement and Statement of Comprehensive Income.

(b) Foreign exchange reserve

The foreign exchange reserve for the Group as at April 1, 2017 was £5,027,000 (2016: £3,083,000), in respect of foreign exchange differences on consolidation of overseas subsidiaries.

(c) Share premium

The share premium account for the Group as at April 1, 2017 was £52,472,000 (2016: £52,462,000), in respect of premium received on the issuance of equity above the nominal value of the shares issued.

(d) Other reserves

The Company entered into a fully subordinated £10m 2022 unsecured loan note facility prodivded by the Business Growth Fund ("BGF") at the time of the acquisition of Abingdon Flooring group and granted BGF an option for 3,730,000* new Victoria PLC ordinary 5p shares at an exercise price of £0.572* (together, the "BGF loan and option"). The BGF loan and option is accounted for as separete debt and equity components. The equity component was determined to have a fair value of £682,000.

The increase of £112,000 in the current year relates to a share-based payment charge on growth shares issued in the period (see further details in the Directors' Report).

23. Acquisition of subsidiaries

(a) Ezi Floor

On October 3, 2016 the Group acquired the business and assets of Ezi Floor Limited.

Ezi Floor benefits from a modern, well equipped, manufacturing facility near Bradford, Yorkshire, and is an efficient manufacturer and distributor of a range of underlay and underlay accessories for both the residential and contract markets. It sells to wholesalers, retail groups, and independent stores throughout the UK.

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* Figures restated for the effect of the five for one share split effective from September 12, 2016.

23. Acquisition of subsidiaries (Continued)

The acquisition of Ezi Floor is highly complementary to the Group's existing businesses, with the addition of underlay and hard flooring ranges to the Group's product portfolio which previously consisted of only broadloom carpet and carpet tiles. The acquisition is expected to be immediately accretive to the underlying earnings per share of the Company.

The Group results for the year ended April 1, 2017 includes contribution from Ezi Floor of £4.4m of revenue and £1.2m of underlying profit before tax (before amortisation of acquired intangibles, acquisition and reorganisation costs). If the acquisition had been completed on the first day of the financial year Group revenue and underlying profit before tax would have been higher by £5.0m and £1.1m respectively.

Consideration

The consideration for the acquisition comprises:

(i) Initial cash consideration of £6.5m;

(ii) Deferred cash consideration of £6.5m, payable in annual instalments over four years; and

(iii) Contingent cash consideration of a maximum of £6.5m, wholly dependent on improved EBITDA over the next four years.

Net Assets Acquired

	Amounts recognised at acquisition date £000
Property, plant and equipment	1,759
Trade and other receivables	1,638
Inventories	1,170
Book value of net assets acquired	4,567
Provisional fair value adjustments:	
Intangible assets arising on acquisition—Customer Relationships (see Note 10)	5,900
Intangible assets arising on acquisition—Brand Names (see Note 10)	150
Deferred tax liability on intangible assets acquired	(1,099)
Fair value of total identifiable net assets	9,518
Goodwill (see Note 9)	7,094
Total consideration	16,612
Satisfied by:	
Cash	6,500
Deferred consideration	6,041
Contingent consideration	4,071
	16,612

Other than where fair value adjustments have been made, the book value of assets acquired is considered to approximate their fair values. Gross trade receivables acquired are considered to equate to the fair value of contractually collectable cash flows.

Depending on the future performance of Ezi Floor, the contingent element of consideration could vary from the present value assessed above. However, based on the overall quantum and sensitivity to changes in assumed future growth rates, the range in potential outcomes of contingent consideration is considered to be immaterial.

After fair value adjustments, goodwill of £7.1m is created on the consolidation of Ezi Floor which relates to expected future profits of the business.

23. Acquisition of subsidiaries (Continued)

Transaction costs amounting to £155,000 relating to the acquisition have been recognised as an expense and included in the administrative expenses in the Group Income Statement.

(b) Dunlop Flooring

The Group acquired the net assets of Dunlop Flooring through a newly incorporated company in Australia namely Primary Flooring Pty Ltd. The new entity continues to trade under the Dunlop Flooring name.

Dunlop Flooring is the largest manufacturer and distributor of carpet underlay in Australia catering to both the domestic and commercial markets. The two manufacturing plants are located at Sunshine, near Melbourne and Wetherill Park, a suburb of Sydney.

Dunlop Flooring also sources, imports and distributes a range of hard flooring comprising laminates, engineered wood and luxury vinyl plank under the "Heartridge" brand name. Exclusive product ranges are also provided to key customers under the "Castleton" and "Invincible" brand names.

The acquisition of Dunlop Flooring is highly complementary to the Group's existing businesses in Australia with the addition of underlay and hard flooring ranges to the Group's product portfolio which previously consisted of only broadloom carpet and carpet tiles. The acquisition is expected to be immediately accretive to the underlying earnings per share of the Company.

The Group results for the year ended April 1, 2017 include contribution from Dunlop Flooring A$8.7m (£5.0m[1]) of revenue and A$0.8m (£0.5m[1]) of underlying profit before tax (before amortisation of acquired intangibles, acquisition and reorganisation costs). If the acquisition had been completed on the first day of the financial year Group revenue and underlying profit before tax would have been higher by A$45.4m (£26.1m[1]) and A$4.7m (£2.7m[1]) respectively.

Consideration

Cash consideration of A$36.4m (£22.4m[2]) was paid on completion of the acquisition. There is no deferred or contingent consideration.

Net Assets Acquired

	Amounts recognised at acquisition date £000
Property, plant and equipment	1,540
Trade and other receivables	2,681
Inventories	5,378
Trade and other payables	(2,725)
Deferred tax assets	339
Book value of net assets acquired	7,213
Provisional fair value adjustments:	
Intangible assets arising on acquisition—Customer Relationships (see Note 10)	10,030
Intangible assets arising on acquisition—Brand Names (see Note 10)	1,477
Deferred tax liability on intangible assets acquired	(3,453)
Fair value of total identifiable net assets	15,267
Goodwill (see Note 9)	7,128
Total consideration	22,395
Satisfied by:	
Cash	22,395
	22,395

1 Applying the average exchange rate over the financial year of 1.7435.

2 Applying the GBP to A$ exchange rate at the date of acquisition of 1.6252.

23. Acquisition of subsidiaries (Continued)

Other than where fair value adjustments have been made, the book value of assets acquired is considered to approximate their fair values. Gross trade receivables acquired are considered to equate to the fair value of contractually collectable cash flows.

After fair value adjustments, goodwill of £7.1m is created on the consolidation of Dunlop Flooring, which relates to expected future profits of the business.

Transaction costs amounting to £418,000 relating to the acquisition have been recognised as an expense and included in the administrative expenses in the Group Income Statement.

(c) Avalon and GrassInc.

On February 13, 2017 the Group acquired 100% of the equity of Avalon B.V and GrassInc. B.V

Avalon and GrassInc. primarily supply artificial grass for domestic and landscaping purposes across Europe. This is a very high growth—and high margin—segment of the flooring market.

The acquisitions continue Victoria's strategy of growing its business with earnings-enhancing acquisitions, and then using available synergies to drive further increases in profits. The Board believes that the Acquisitions present an excellent strategic fit with Victoria's existing business and will have strong long-term growth prospects as part of the Group.

The Group results for the year ended April 1, 2017 include contribution from Avalon and GrassInc of €3.0m (£2.6m[1]) of revenue and €0.7m (£0.6m[1]) of underlying profit before tax (before amortisation of acquired intangibles, acquisition and reorganisation costs). If the acquisition had been completed on the first day of the financial year Group revenue and underlying profit before tax would have been higher by €16.7m (£14.2m[1]) and €3.3m (£2.8m[1]) respectively.

Consideration

The consideration for the acquisition comprises:

(i) Initial cash consideration of €11.2 million (£9.5m[2]);

(ii) Deferred cash consideration of €5.1 million (£4.3m[2]) payable in instalments over four years; and

(iii) Contingent cash consideration of up to approximately €8.8 million (£7.5m[2]) dependent on improved EBITDA and other criteria over the next four years.

[1] Applying the average exchange rate over the financial year of 1.1785.

[2] Applying the GBP to € exchange rate at the date of acquisition of 1.1736

23. Acquisition of subsidiaries (Continued)

Net Assets Acquired

	Amounts recognised at acquisition date £000
Property, plant and equipment	110
Trade and other receivables	941
Inventories	5,180
Trade and other payables	(1,438)
Current tax liabilities	(66)
Net cash/(overdraft)	626
Loans	(620)
Book value of net assets acquired	4,692
Provisional fair value adjustments:	
Intangible assets arising on acquisition—Customer Relationships (see Note 10)	8,265
Intangible assets arising on acquisition—Brand Names (see Note 10)	767
Deferred tax liability on intangible assets acquired	(2,258)
Fair value of total identifiable net assets	11,466
Goodwill (see Note 9)	7,522
Total consideration	18,988
Satisfied by:	
Cash	9,524
Deferred consideration	4,168
Contingent consideration	5,297
	18,988

Other than where fair value adjustments have been made, the book value of assets acquired are considered to approximate their fair values. Gross trade receivables acquired are considered to equate to the fair value of contractually collectable cash flows.

Depending on the future performance of Avalon and GrassInc., the contingent element of consideration could vary from the present value assessed above. However, based on the overall quantum and sensitivity to changes in assumed future growth rates, the range in potential outcomes of contingent consideration is considered to be immaterial.

After fair value adjustments, goodwill of £7.5m is created on the consolidation of Avalon and GrassInc. which relates to expected future profits of the businesses.

Transaction costs amounting to £1,033,000 relating to the acquisitions have been recognised as an expense and included in the administrative expenses in the Group Income Statement.

24. Government grants

	2017 £000	2016 £000
Deferred income at April 3, 2016	**554**	782
Amortisation to deferred income by release through cost of production	**(233)**	(269)
Adjustment for acquisitions in the year	**—**	37
Exchange adjustment	**56**	4
Deferred income at April 1, 2017	**377**	554
Presented in:		
Current liabilities	**209**	215
Non-current liabilities	**168**	339
	377	554

There are no unfulfilled conditions or other contingencies attaching to government assistance.

25. Financial instruments

Background

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout the financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

The "financial instruments" which are affected by these risks comprise borrowings, cash and liquid resources used to provide finance for the Group's operations, together with various items such as trade debtors and trade creditors that arise directly from its operations, inter-company payables and receivables, and any derivatives transactions (such as interest rate swaps and forward foreign currency contracts) used to manage the risks from interest rate and currency rate volatility.

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives monthly reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables and investments.

The Group's exposure to credit risk is primarily attributable to its trade receivables. Credit risk is managed locally by the management of each business unit. Prior to accepting new customers, credit checks are obtained from reputable external sources. The amounts presented in the balance sheet are net of allowance for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction on the recoverability of the cash flows.

25. Financial instruments (Continued)

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with low credit risk assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The Company has no significant concentration of credit risk, other than with its own subsidiaries, the performances of which are closely monitored. The Directors confirm that the carrying amounts of monies owed by its subsidiaries approximate to their fair value.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due.

To achieve this aim, the cash position is continuously monitored to ensure that cash balances (or agreed facilities) meet expected requirements for a period of at least 90 days.

The Board monitors annual cash budgets and updated forecasts against actual cash position on a monthly basis. At the balance sheet date, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

The maturity of financial liabilities is detailed in Note 16.

Market risk

Market risk arises from the Group's use of interest bearing and foreign currency financial instruments. It is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) or foreign exchange rates (currency risk).

(a) Interest rate risk

The Group finances its operations through a mixture of retained profits, equity capital and bank facilities, including hire purchase and lease finance. The Group borrows in the desired currency at floating or fixed rates of interest and may then use interest rate swaps to secure the desired interest profile and manage exposure to interest rate fluctuations.

Interest rate sensitivity

The annualised effect of a 50 basis point decrease in the interest rate at the balance sheet date on the variable rate debt carried at that date would, all other variables held constant, have resulted in an increase in post-tax profit for the year of £423,000 (2016: increase in post-tax profit of £284,000). A 50 basis point increase in the interest rate would, on the same basis, have reduced the profit for the year by the same amount.

Borrowings contractual maturities and effective interest rate analysis

In respect of interest bearing financial liabilities, the following table indicates the undiscounted amounts due for the remaining contractual maturity (including interest payments based on the outstanding liability at the year end) and their effective interest rates. The ageing of these amounts is based on the earliest dates on which the Group can be required to pay.

25. Financial instruments (Continued)

Total undiscounted obligations including interest payments	As at April 1, 2017 Effective Interest Rate %	Total £000	0–1 Years £000	1–2 Years £000	2–5 Years £000	Over 5 Years £000	As at April 2, 2016 Effective Interest Rate %	Total £000	0–1 Years £000	1–2 Years £000	2–5 Years £000	Over 5 Years £000
Group												
Cash	**0.00%**	**27,979**	**27,979**	**—**	**—**	**—**	0.00%	19,078	19,078	—	—	—
Bank loans & overdraft	**2.83%**	**(110,376)**	**(3,001)**	**(107,375)**	**—**	**—**	3.28%	(76,097)	(2,272)	(2,272)	(71,552)	—
BGF loan	**13.30%**	**(16,135)**	**(1,000)**	**(3,134)**	**(10,291)**	**(1,710)**	13.30%	(17,134)	(1,000)	(1,000)	(9,758)	(5,376)
Finance lease and HP	**4.10%**	**(1,574)**	**(617)**	**(558)**	**(399)**	**—**	4.79%	(1,109)	(183)	(223)	(703)	—
		(100,106)	**23,361**	**(111,067)**	**(10,690)**	**(1,710)**		(75,262)	15,623	(3,495)	(82,013)	(5,376)
Company												
Bank loans & overdraft	**2.83%**	**(120,808)**	**(13,433)**	**(107,375)**	**—**	**—**	3.03%	(75,578)	(2,099)	(2,099)	(71,379)	—
BGF loan	**13.30%**	**(16,135)**	**(1,000)**	**(3,134)**	**(10,291)**	**(1,710)**	13.30%	(17,134)	(1,000)	(1,000)	(9,758)	(5,376)
Finance lease and HP	**—**	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—	—
		(136,943)	**(14,433)**	**(110,509)**	**(10,291)**	**(1,710)**		(97,712)	(3,099)	(3,099)	(81,137)	(5,376)

In addition, the following tables summarises the total undiscounted deferred and contingent consideration liabilities in relation to past acquisitions, again aged based on the earliest dates on which the Group can be required to pay.

Total undiscounted obligations	As at April 1, 2017 Total £000	0–1 Years £000	1–2 Years £000	2–5 Years £000	Over 5 Years £000	As at April 2, 2016 Total £000	0–1 Years £000	1–2 Years £000	2–5 Years £000	Over 5 Years £000
Group										
Deferred consideration liabilities	**(17,622)**	**(7,170)**	**(4,685)**	**(5,767)**	**—**	(9,951)	(3,637)	(4,425)	(1,889)	—
Contingent earn-out liabilities	**(22,289)**	**(9,026)**	**(4,857)**	**(8,406)**	**—**	(13,002)	(6,202)	(5,293)	(1,507)	—
	(39,911)	**(16,196)**	**(9,542)**	**(14,173)**	**—**	(22,953)	(9,839)	(9,718)	(3,396)	—
Company										
Deferred consideration liabilities	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—
Contingent earn-out liabilities	**(6,111)**	**(6,057)**	**—**	**(54)**	**—**	(10,388)	(5,500)	(4,709)	(179)	—
	(6,111)	**(6,057)**	**—**	**(54)**	**—**	(10,388)	(5,500)	(4,709)	(179)	—

Non-interest bearing liabilities

Details of trade and other payables falling due within one year are set out in Note 15.

(b) Currency risk

The main currency exposure of the Group arises from the ownership of the Australian subsidiaries which cumulatively account for approximately 23.9% of the Group's net assets.

It is the Board's policy not to hedge against movements in the Sterling/Australian Dollar and Sterling/Euro exchange rate.

Other currency exposure derives from trading operations where goods are exported or raw materials and capital equipment are imported. These exposures may be managed by forward currency contracts, particularly when the amounts or periods to maturities are significant and at times when currencies are particularly volatile.

25. Financial instruments (Continued)

Currency risk sensitivity

The effect of a 10% strengthening of the Australian Dollar against Sterling over the full year would, all other variables held constant, have resulted in an increase in Group post-tax profit for the year of £176,000 (2016: increased Group post-tax profit by £273,000). A 10% weakening in the exchange rate would, on the same basis, have decreased Group post-tax profit by £144,000 (2016: decreased Group post-tax profit by £223,000).

The effect of a 10% strengthening of the Australia Dollar against Sterling at year-end rates would have resulted in an increase to equity of £2,103,000 (2016: an increase of £1,491,000). A 10% weakening in the exchange rate would, on the same basis, have decreased equity by £1,721,000 (2016: decrease of £1,220,000).

The effect of a 10% strengthening of the Euro against Sterling over the full year would, all other variables held constant, have resulted in a decrease in Group post-tax profit for the year of £68,000. A 10% weakening in the exchange rate would, on the same basis, have increased Group post-tax profit by £48,000.

The effect of a 10% strengthening of the Euro against Sterling at year-end rates would have resulted in an decrease to equity of £69,000. A 10% weakening in the exchange rate would, on the same basis, have decreased equity by £56,000.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2017 £000	2016 £000	2017 £000	2016 £000
Australia Dollar	**33,673**	24,098	**52,304**	38,299
Euro	**5,841**	—	**5,221**	—

(c) Trading

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

26. Key sources of estimation uncertainty

In applying the Group's accounting policies, appropriate estimates have been made in a number of areas and the actual outcome may vary from the position described in the Group's and Company's balance sheets at April 1, 2017. The key sources of uncertainty at the balance sheet date that may give rise to a material adjustment to the carrying value of assets and liabilities within the next financial year are as follows:

Realisation of deferred tax assets

Deferred tax assets are recognised at the balance sheet date based on the assumption that there is a high expectation that the asset will be realised in due course. This assumption is dependent on the UK & Europe and Australia divisions' ability to generate sufficient future taxable profits. Further details are set out in Note 19.

Valuation of deferred and contingent earn-out consideration

Liabilities are recognised in respect of acquisitions with outstanding deferred or contingent earn-outs at the end of the period. These are assessed based upon management forecasts for each business in question. Key assumptions are those regarding discount rates, growth rates and expected changes to selling prices and direct costs. Further details are set out in Note 17.

26. Key sources of estimation uncertainty (Continued)

Valuation of acquired intangible assets

Intangible assets are recognised on acquisitions in relation to customer relationships and brands. These are assessed based upon management forecasts for each business in question. Key assumptions are those regarding discount rates, growth rates, expected changes to selling prices and direct costs, brand royalty rates and customer attrition. Further details are set out in Note 10.

Impairment of goodwill

On an annual basis the Group is required to perform an impairment review to assess whether the carrying value of goodwill is less than its recoverable amount. Recoverable amount is based on a calculation of expected future cash flows, which include estimates of future performance. Details of assumptions used in this review are detailed in Note 9.

Defined benefit obligation

The Group has two defined benefit pension schemes. The obligations under the schemes are recognised in the Consolidated Balance Sheet and represent the present value of the obligation calculated by independent actuaries, with input from the Directors. These actuarial valuations include assumptions such as discount rates, return on assets and mortality rates. These assumptions vary from time to time according to prevailing economic conditions.

Because of changing market and economic conditions, the expenses and liabilities actually arising under the scheme in the future may differ materially from the estimates made on the basis of the actuarial assumptions. The effects of any change to these assumptions are accounted for in the next financial year as other comprehensive income. The calculation of any charge relating to retirement benefits is clearly dependent on the assumptions used, which reflects the exercise of judgement.

Further details are set out in Note 20.

Inventories

A proportion of inventory is made up of stocks which are not expected to sell for the full normal selling price, either because they are remnants, come from discontinued ranges, or are below the required quality standard. This inventory is carried at the lower of cost and net realisable value. During the year to April 1, 2017, the total movement in stock provisions resulted in a credit to the income statement of £189,000 (2016: charge of £220,000). Further details are set out in Note 13.

Trade receivables

Details of the provision made for non-recoverability of debts due to the Group from the sale of goods are set out in Note 14.

27. Related parties

Transactions between the Company and its subsidiaries have been eliminated on consolidation.

Identity of related parties

The Group has a related party relationship with its Directors and executive officers.

The Company has a related party relationship with its subsidiaries and its Directors and executive officers.

Transactions with key management personnel

Key management personnel are considered to be the Directors of the Company and its subsidiaries.

As at April 1, 2017, the key management personnel, and their immediate relatives controlled 33.0% of the voting shares of the Company.

27. Related parties (Continued)

The remuneration of the key management personnel of the Group is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

	52 weeks ended April 1, 2017 £000	53 weeks ended April 2, 2016 £000
Short-term employee benefits	**3,801**	2,895
Post-employment benefits	**469**	419
	4,270	3,314

Transactions with subsidiary undertakings:

	Company	
	52 weeks ended April 1, 2017 £000	53 weeks ended April 2, 2016 £000
Management fee—Victoria Carpets Limited	**30**	—
Management fee—Globesign Limited	**30**	—
Management fee—Abingdon Flooring Limited	**30**	—
Management fee—Whitestone Carpets Holdings Limited	**30**	—
Management fee—Interfloor Group Limited	**30**	—
Management fee—Ezi Floor Limited	**15**	—
Management fee—The Victoria Carpet Company Pty Limited	**30**	—
Management fee—Quest Flooring Pty Ltd	**30**	—
Management fee—Primary Flooring Pty Limited	**5**	—
Management fee—Victoria Bidco BV	**4**	—
Interest on intercompany loans—Victoria Carpets Limited	**290**	—
Interest on intercompany loans—Globesign Limited	**335**	—
Interest on intercompany loans—Abingdon Flooring Limited	**448**	—
Interest on intercompany loans—Whitestone Carpets Holdings Limited	**578**	—
Interest on intercompany loans—Interfloor Group Limited	**1,651**	—
Interest on intercompany loans—Ezi Floor Limited	**147**	—
Interest on intercompany loans—The Victoria Carpet Company Pty Limited	**76**	—
Interest on intercompany loans—Primary Flooring Pty Limited	**202**	—
Interest on intercompany loans—Victoria Bidco BV	**36**	—
Interest on loan notes—Interfloor Operations Limited	**1,544**	—
Dividend income—Victoria Midco Holdings Limited	**5,112**	—
Dividend income—The Victoria Carpet Company Pty Limited	**—**	984
Dividend income—Globesign Limited	**—**	3,500
Dividend income—Abingdon Flooring Limited	**—**	3,000
Dividend income—Interfloor Group Limited	**—**	3,500
Dividend income—Whitestone Carpets Holdings Limited	**—**	2,000
Preference dividend income—Quest Flooring Pty Limited	**767**	474

	52 weeks ended April 1, 2017 £000	53 weeks ended April 2, 2016 £000
Amounts due from subsidiary undertakings	**146,930**	105,299
Amounts due to subsidiary undertakings	**1**	1

27. Related parties (Continued)

Transactions with the Business Growth Fund

Gavin Petken, a Non-Executive Director of Victoria PLC, is the Business Growth Fund's ("BGF") Regional Director for the Midlands. On the September 30, 2014 the Company entered into a £10m 2022 unsecured loan facility with BGF. In addition, BGF has been granted an option over 3,730,000* new Ordinary 5p shares in the Company at 57.2p* per share, representing 5% of the Company's deemed enlarged issued share capital at the time of grant.

The BGF loan and option is accounted for as separate debt and equity components.

Interest charged to the income statement during the period in relation to the BGF loan was £1,372,000 (2016: £1,307,000).

28. Post balance sheet events

On July 5, 2017, the Group entered into a new, extended multi-currency revolving credit facility. Further details are provided in the Financial Review on page 16.

* Figures restated for the effect of the five for one share split effective from September 12, 2016.

VICTORIA PLC

Annual Report and Accounts
for the 53 weeks ended April 2, 2016

Independent Auditor's Report
to the Members of Victoria PLC

We have audited the financial statements of Victoria PLC for the 53 weeks ended April 2, 2016 which comprise the consolidated Income statement, the consolidated statement of comprehensive income, the consolidated and parent company balance sheets, the consolidated and parent company statements of changes in equity, the consolidated and parent company statements of cash flow and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 20, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and international Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at April 2, 2016 and of the group's profit for the period then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

David White
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham

July 25, 2016

VICTORIA PLC

Consolidated Income Statement
For the 53 weeks ended April 2, 2016

		Notes	53 weeks ended April 2, 2016 Underlying performance £000	53 weeks ended April 2, 2016 Non-underlying items £000	53 weeks ended April 2, 2016 Reported numbers £000	52 weeks ended March 28, 2015 Underlying performance re-stated £000	52 weeks ended March 28, 2015 Non-underlying items re-stated £000	52 weeks ended March 28, 2015 Reported numbers re-stated £000
Continuing operations								
Revenue		1	**255,174**	**—**	**255,174**	127,003	—	127,003
Cost of sales			**(169,930)**	**(249)**	**(170,179)**	(85,751)	—	(85,751)
Gross profit			**85,244**	**(249)**	**84,995**	41,252	—	41,252
Distribution costs			**(49,852)**	**(157)**	**(50,009)**	(22,268)	—	(22,268)
Administrative expenses (including intangible amortisation)			**(13,753)**	**(3,787)**	**(17,540)**	(9,941)	(7,327)	(17,268)
Other operating income			**292**	**—**	**292**	386	—	386
Operating profit/(loss)			**21,931**	**(4,193)**	**17,738**	9,429	(7,327)	2,102
Comprising:								
Operating profit before exceptional items and intangible amortisation		1	**21,931**	**—**	**21,931**	9,429	—	9,429
Intangible amortisation			**—**	**(2,315)**	**(2,315)**	—	(270)	(270)
Asset impairment			**—**	**(160)**	**(160)**	—	—	—
Exceptional items		1, 2	**—**	**(1,718)**	**(1,718)**	—	(7,057)	(7,057)
Finance costs		3	**(3,714)**	**(4,734)**	**(8,448)**	(1,498)	(2,192)	(3,690)
Profit/(loss) before tax		4	**18,217**	**(8,927)**	**9,290**	7,931	(9,519)	(1,588)
Taxation		6	**(4,302)**	**961**	**(3,341)**	(1,658)	—	(1,658)
Profit/(loss) for the period from continuing operations			**13,915**	**(7,966)**	**5,949**	6,273	(9,519)	(3,246)
Loss for the period from discontinued operations		25	**—**	**(2,132)**	**(2,132)**	—	(346)	(346)
Profit/(loss) for the period			**13,915**	**(10,098)**	**3,817**	6,273	(9,865)	(3,592)
Earnings/(loss) per share from continuing operations—pence	basic	8			**36.08**			(27.37)
	diluted	8			**35.53**			(27.37)
Earnings/(loss) per share	basic	8			**23.15**			(30.29)
	diluted	8			**23.02**			(30.29)

Consolidated Statement of Comprehensive Income

For the 53 weeks ended April 2, 2016

	53 weeks ended April 2, 2016 £000	52 weeks ended March 28, 2015 re-stated £000
Profit/(loss) for the period	**3,817**	(3,592)
Other Comprehensive income/(expense):		
Items that will not be reclassified to profit or loss:		
Actuarial losses on pension scheme	**(152)**	—
Increase in deferred tax asset relating to pension scheme liability	**53**	—
Total items that will not be reclassified to profit or loss	**(99)**	—
Items that may be reclassified subsequently to profit or loss		
Currency translation gains/(losses)	**708**	(798)
Totals items that may be reclassified subsequently to profit or loss	**708**	(798)
Other comprehensive income/(expense) for the year, net of tax	**609**	(798)
Total comprehensive income/(loss) for the year attributable to the owners of the parent	**4,426**	(4,390)

Consolidated and Company Balance Sheets

As at April 2, 2016

		Group		Company	
	Notes	April 2, 2016 £000	March 28, 2015 re-stated £000	April 2, 2016 £000	March 28, 2015 re-stated £000
Non-current assets					
Goodwill	10	**37,205**	4,110	**—**	—
Intangible assets	11	**43,476**	8,858	**—**	—
Property, plant and equipment	12	**38,811**	27,789	**—**	—
Investment property	13	**180**	180	**180**	180
Investment in subsidiary undertakings	13	**—**	—	**49,270**	38,180
Trade and other receivables	15	**—**	—	**16,778**	—
Deferred tax asset	20	**3,287**	1,903	**264**	708
Total non-current assets		**122,959**	42,840	**66,492**	39,068
Current assets					
Inventories	14	**58,970**	40,956	**—**	—
Trade and other receivables	15	**42,562**	30,397	**88,646**	23,871
Cash at bank and in hand	18	**19,078**	2,392	**—**	—
Other financial assets	18	**384**	—	**—**	—
Total current assets		**120,994**	73,745	**88,646**	23,871
Total assets		**243,953**	116,585	**155,138**	62,939
Current liabilities					
Trade and other payables	16	**66,913**	39,066	**5,355**	4,995
Current tax liabilities		**2,891**	2,014	**—**	—
Other financial liabilities	17, 18	**596**	18,268	**5,682**	16,066
Total current liabilities		**70,400**	59,348	**11,037**	21,061
Non-current liabilities					
Trade and other payables	16	**11,524**	12,260	**3,903**	6,757
Other financial liabilities	17	**78,522**	19,227	**78,009**	18,838
Deferred tax liabilities	20	**9,129**	2,370	**—**	—
Retirement benefit obligations	21	**3,345**	—	**—**	—
Total non-current liabilities		**102,520**	33,857	**81,912**	25,595
Total liabilities		**172,920**	93,205	**92,949**	46,656
Net assets		**71,033**	23,380	**62,189**	16,283
Equity					
Share capital	22	**4,548**	3,639	**4,548**	3,639
Share premium		**52,462**	10,144	**52,462**	10,144
Retained earnings	23	**13,341**	8,915	**4,497**	1,818
Other reserves	23	**682**	682	**682**	682
Total equity		**71,033**	23,380	**62,189**	16,283

Company Registered Number (England & Wales) 282204

The financial statements on pages 22 to 67 were approved by the Board of Directors and authorised for issue on July 25, 2016.

They were signed on its behalf by:

Michael Scott
Group Finance Director

Consolidated Statement of Changes in Equity

For the 53 weeks ended April 2, 2016

	Share capital £000	Share premium £000	Retained earnings £000	Other reserves £000	Total equity £000
At March 30, 2014 (re-stated)	1,772	909	33,996	—	36,677
Loss for the period to March 28, 2015	—	—	(3,592)	—	(3,592)
Other comprehensive loss for the period	—	—	(798)	—	(798)
Total comprehensive loss	—	—	(4,390)	—	(4,390)
Dividends paid	—	—	(20,691)	—	(20,691)
Issue of share capital	1,867	9,235	—	—	11,102
Movement in other reserves		—	—	682	682
Transactions with owners	1,867	9,235	(20,691)	682	(8,907)
At March 28, 2015 (re-stated)	3,639	10,144	8,915	682	23,380
Profit for the period to April 2, 2016	—	—	3,817	—	3,817
Other comprehensive income for the period	—	—	609	—	609
Total comprehensive income	—	—	4,426	—	4,426
Issue of share capital	909	42,318	—	—	43,227
Transactions with owners	909	42,318	—	—	43,227
At April 2, 2016	**4,548**	**52,462**	**13,341**	**682**	**71,033**

Company Statement of Changes in Equity
For the 53 weeks ended April 2, 2016

	Share capital £000	Share premium £000	Retained earnings £000	Other reserves £000	Total equity £000
At March 30, 2014 (re-stated)	1,772	909	29,306	—	31,987
Loss for the period to March 28, 2015	—	—	(6,797)	—	(6,797)
Total comprehensive loss	—	—	(6,797)	—	(6,797)
Dividends paid	—	—	(20,691)	—	(20,691)
Issue of share capital	1,867	9,235	—	—	11,102
Movement in other reserves	—	—	—	682	682
Transactions with owners	1,867	9,235	(20,691)	682	(8,907)
At March 28, 2015 (re-stated)	3,639	10,144	1,818	682	16,283
Profit for the period to April 2, 2016	—	—	2,679	—	2,679
Total comprehensive income	—	—	2,679	—	2,679
Issue of share capital	909	42,318	—	—	43,227
Transactions with owners	909	42,318	—	—	43,227
At April 2, 2016	**4,548**	**52,462**	**4,497**	**682**	**62,189**

Consolidated and Company Statements of Cash Flows

For the 53 weeks ended April 2, 2016

	Notes	Group: 53 weeks ended April 2, 2016 £000	Group: 52 weeks ended March 28, 2015 re-stated £000	Company: 53 weeks ended April 2, 2016 £000	Company: 52 weeks ended March 28, 2015 re-stated £000
Cash flows from operating activities					
Operating profit/(loss) from continuing operations		**17,738**	2,102	**10,914**	(4,522)
Adjustments for:					
—Depreciation charges		**10,347**	6,405	**—**	—
—Amortisation of intangible assets		**2,315**	270	**—**	—
—Fair value charge for Contract for Differences		**—**	7,397	**—**	7,397
—Goodwill adjustment		**(43)**	(895)		
—Asset impairment		**160**	—	**—**	—
—Profit on disposal of property, plant and equipment		**(143)**	(69)	**—**	—
—Exchange rate difference on consolidation		**594**	(27)	**—**	—
Net cash flow from operating activities before movements in working capital		**30,968**	15,183	**10,914**	2,875
Change in inventories		**(7,767)**	1,511	**—**	—
Change in trade and other receivables		**215**	3,297	**(80,137)**	(7,875)
Change in trade and other payables		**7,628**	(2,600)	**179**	120
Cash generated/(used) by continuing operations		**31,044**	17,391	**(69,044)**	(4,880)
Interest paid		**(3,243)**	(1,419)	**(2,977)**	(1,114)
Income taxes paid		**(3,243)**	(2,113)	**—**	—
Net cash flow from discontinued operations		**65**	(1,183)	**—**	—
Net cash inflow/(outflow) from operating activities		**24,623**	12,676	**(72,021)**	(5,994)
Investing activities					
Purchases of property, plant and equipment		**(9,752)**	(5,074)	**—**	—
Proceeds from disposal of Westwood Yarns Limited		**431**	—	**431**	—
Proceeds on disposal of property, plant and equipment		**1,034**	816	**—**	—
Deferred consideration and earn-out payments		**(7,453)**	(1,000)	**(5,409)**	(1,000)
Acquisition of subsidiaries net of cash acquired		**(19,265)**	(14,616)	**(14,024)**	(7,655)
Net cash used in investing activities		**(35,005)**	(19,874)	**(19,002)**	(8,655)
Financing activities					
(Decrease)/increase in long term loans		**(4,573)**	8,160	**51,815**	16,396
Issue of share capital		**43,043**	1,543	**43,043**	1,543
Repayment of obligations under finance leases/HP		**(650)**	(241)	**—**	—
Dividends paid		**—**	(20,691)	**—**	(20,691)
Net cash generated/(used) in financing activities		**37,820**	(11,229)	**94,858**	(2,752)
Net increase/(decrease) in cash and cash equivalents		**27,438**	(18,427)	**3,835**	(17,401)
Cash and cash equivalents at beginning of period		**(8,502)**	9,925	**(9,517)**	7,884
Effect of foreign exchange rate changes		**142**	—	**—**	—
Cash and cash equivalents at end of period	26	**19,078**	(8,502)	**(5,682)**	(9,517)

1. Segmental information

The Group is organised into two operating divisions, the sale of floorcovering products in the UK and Australia.

Geographical segment information for revenue, operating profit and a reconciliation to entity net profit is presented below.

Income statement

	53 weeks ended April 2, 2016				52 weeks ended March 28, 2015			
	UK £000	Australia £000	Unallocated central expenses £000	Total £000	UK re-stated £000	Australia re-stated £000	Unallocated central expenses £000	Total re-stated £000
Revenue from continuing operations	**196,908**	**58,266**	**—**	**255,174**	91,610	35,393	—	127,003
Underlying operating profit	**18,183**	**4,958**	**(1,210)**	**21,931**	9,151	1,568	(1,290)	9,429
Non-underlying operating items	**(2,050)**	**(425)**	**—**	**(2,475)**	(270)	—	—	(270)
Exceptional operating items	**(1,151)**	**(251)**	**(316)**	**(1,718)**	(398)	—	(6,659)	(7,057)
Operating profit from continuing operations	**14,982**	**4,282**	**(1,526)**	**17,738**	8,483	1,568	(7,949)	2,102
Underlying interest charges				**(3,714)**				(1,498)
Non-underlying finance costs				**(4,734)**				(2,192)
Profit/(loss) before tax from continuing operations				**9,290**				(1,588)
Tax				**(3,341)**				(1,658)
Profit/(loss) after tax from continuing operations				**5,949**				(3,246)
Loss from discontinued operations*				**(2,132)**				(346)
Profit/(loss) for the period				**3,817**				(3,592)

* Loss from discontinued operations relates to the disposal of Westwood Yarns Limited, which was sold on October 2, 2015 (see note 25).

Management information is reviewed on a segmental basis to operating profit.

During the year, no single customer accounted for 10% or more of the Group's revenue. Intersegment sales in the year and in the prior year between the UK and Australia were immaterial.

Balance sheet

	As at April 2, 2016				As at March 28, 2015			
	UK £'000	Australia £'000	Unallocated central assets/ liabilities £'000	Total £'000	UK re-stated £'000	Australia re-stated £'000	Unallocated central assets/ liabilities £'000	Total re-stated £'000
Segment total assets	**205,085**	**38,299**	**569**	**243,953**	95,876	20,377	332	116,585
Segment total liabilities	**(134,948)**	**(24,098)**	**(13,874)**	**(172,920)**	(65,407)	(7,939)	(19,859)	(93,205)
Net assets	**70,137**	**14,201**	**(13,305)**	**71,033**	30,469	12,438	(19,527)	23,380

The Group's non-current assets as at April 2, 2016 of £122,959,000 (2015: £42,840,000) are split geographically as follows: £102,170,000 in the UK (2015: £37,580,000) and £20,789,000 in Australia (2015: 5,260,000).

1. Segmental information (Continued)

Other segmental information

	53 weeks ended April 2, 2016				52 weeks ended March 28, 2015			
	UK £'000	Australia £'000	Unallocated central liabilities £'000	Total £'000	UK re-stated £'000	Australia re-stated £'000	Unallocated central liabilities £'000	Total re-stated £'000
Depreciation (from continuing operations)	**8,314**	**2,033**	**—**	**10,347**	4,409	1,996	—	6,405
Amortisation of acquired intangibles	**1,890**	**425**	**—**	**2,315**	270	—	—	270
	10,204	**2,458**	**—**	**12,662**	4,679	1,996	—	6,675
Capital expenditure (from continuing operations)	**8,961**	**1,242**	**—**	**10,203**	4,064	1,010	—	5,074

2. Exceptional Items from continuing operations

	2016 £000	2015 re-stated £000
(a) Acquisition and disposal related costs	**(1,355)**	(398)
(b) Non-core closure costs	**(406)**	—
(c) Contract for Differences	**—**	(7,554)
(d) Goodwill adjustment	**43**	895
	(1,718)	(7,057)

All exceptional items are classified within administrative expenses (except where noted).

(a) Professional fees in connection with the acquisitions and disposal completed during the year.

(b) Costs in relation to the cessation of a non-core manufacturing process within the UK operation during the period. Of the total closure cost, £249,000 is included in Cost of Sales and £157,000 in administrative expenses.

(c) The prior year charge relates to the Contract for Differences between the Company and Camden Holdings Limited. There are no remaining liabilities outstanding in respect to the Contract for Differences.

(d) Credit of £43,000 in the year in relation to negative goodwill arising on the acquisition of A&A Carpets, as set out in Note 24(c). Prior year adjustment is a result of the change in accounting policy in relation to sampling expenditure, as set out it in Note 31(b).

3. Finance costs

	2016 £000	2015 £000
Interest on loans and overdrafts wholly repayable within five years	**2,435**	940
Interest payable of BGF loan	**1,199**	513
Hire purchase and finance lease interest	**80**	45
Underlying interest costs	**3,714**	1,498
(a) Release of prepaid finance costs	**228**	—
(b) BGF loan and option, redemption premium charge	**108**	224
(c) Unwinding of present value of deferred and contingent consideration	**4,226**	1,968
(d) Mark to market adjustment on foreign exchange forward contracts	**136**	—
(e) Mark to market adjustment on interest rate swap	**36**	—
	8,448	3,690

(a) Non-cash charge relating to the release of the prepaid costs on the previous bank facilities, which were refinanced in April 2015.

(b) Non-cash annual cost of the redemption premium in relation to the BGF loan and option (see Note 31(a)).

(c) Deferred and contingent consideration in respect to acquisitions is measured under IFRS 3, initially at fair value discounted for the time value of money. The present value is then re-measured at each half-year and year-end to unwind the time value of money. In addition, any changes arising from actual and forecast business performance are reflected, although such movements form an immaterial portion of the overall annual charge. All such adjustments are non-cash items.

(d) Non-cash fair value adjustment on foreign exchange forward contracts.

(e) Non-cash fair value adjustment on an interest rate swap contract.

4. Profit/(loss) on ordinary activities before taxation

	2016 £000	2015 re-stated £000
After charging/(crediting):		
Net foreign exchange (gains)/losses	**553**	(11)
Depreciation of property, plant and equipment (see Note 12)	**10,472**	6,650
Amortisation of intangible assets (see Note 11)	**2,315**	270
Staff costs (see Note 5)	**48,942**	31,899
Cost of inventories recognised as an expense	**170,179**	86,695
(Profit)/loss on sale of fixed assets	**(143)**	(69)
Government grants (see Note 27)	**(269)**	(295)
Operating lease rentals	**5,485**	3,235
Auditors' remuneration:		
Fees payable to the Company's Auditor for the audit of the Company's annual financial statements	**39**	25
The audit of the Company's subsidiaries pursuant to legislation	**143**	119
Total audit fees	**182**	144
Other services pursuant to legislation	**—**	1
Tax compliance services	**30**	29
Total non-audit fees	**30**	30

5. Staff costs

	2016 £000	2015 £000
Wages and salaries	**42,727**	28,193
Social security costs	**3,673**	2,174
Other pension costs	**2,542**	1,532
	48,942	31,899

Directors' remuneration is included as part of the staff costs above. Directors' remuneration is disclosed separately in the Directors' Report and forms part of these financial statements.

Average number employed (including executive directors of subsidiaries)

	2016	2015
Directors	**32**	16
Sales and Marketing	**187**	101
Production, logistics and maintenance	**1,153**	814
Finance, IT and Administration	**141**	95
	1,513	1,026

6. Tax from continuing operations

	2016 £000	2015 £000
Current tax		
—Current year UK	**2,961**	1,815
—Current year overseas	**1,455**	495
—Adjustments in respect of prior years	**53**	(145)
	4,469	2,165
Deferred Tax (Note 19)		
—Credit recognised in the current year	**(1,643)**	(436)
—Adjustments in respect of prior years	**(78)**	(92)
—Prior year Group relief adjustment	**444**	—
—Effect of rate change	**149**	21
	(1,128)	(507)
Total tax	**3,341**	1,658

Corporation tax is calculated at 20% and 30% (2015: 21% and 30%) of the estimated assessable profit for the year in the UK and Australia respectively.

6. Tax from continuing operations (Continued)

The tax charge for the year can be reconciled to the profit/(loss) per the income statement as follows:

	2016 £000	2016 %	2015 re-stated £000	2015 re-stated %
Profit/(loss) before tax from continuing operations	**9,290**		(1,588)	
Tax charge/(credit) at the UK corporation tax rate of 20% (2015: 21%)	**1,858**	**20.0**	(333)	21.0
Tax effect of items that are not deductible/ non taxable in determining taxable profit	**392**	**4.2**	37	(2.3)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**450**	**4.8**	126	(7.9)
Deferred consideration fair value re-measurement non taxable	**824**	**8.9**	413	(26.0)
Effect of change in rate	**149**	**1.6**	21	(1.3)
Effect of change in future tax rate enacted on deferred tax recognised on intangible assets	**(461)**	**(5.0)**	—	—
Movement in deferred tax on revalued land no longer required	**7**	**0.1**	(4)	0.3
Quest acquired retained earnings	**147**	**1.6**	—	—
Tax losses not recognised for deferred tax	**—**	**—**	49	(3.1)
Adjustments to prior periods	**(25)**	**(0.2)**	(237)	14.8
Contract for Differences charge non taxable	**—**	**—**	1,586	(99.9)
Tax charge and effective tax rate	**3,341**	**36.0**	1,658	(104.4)

7. Dividends

	2016 £000	2015 £000
Amounts recognised as distributions to equity holders in the period:		
Special dividend of 292.0p per share paid on July 25, 2014	**—**	20,692
	—	20,692

8. Earnings/(loss) per share

The calculation of the basic, adjusted and diluted (loss)/earnings per share is based on the following data:

	Basic 2016 £000	Adjusted 2016 £000	Basic 2015 re-stated £000	Adjusted 2015 re-stated £000
Profit/(loss) attributable to ordinary equity holders of the parent entity from continuing operations	**5,949**	**5,949**	(3,246)	(3,246)
Exceptional items:				
Amortisation of acquired intangibles	**—**	**2,315**	—	270
Acquisition costs	**—**	**1,355**	—	398
Unwinding of present value of deferred and contingent consideration	**—**	**4,226**	—	1,968
Closure costs	**—**	**406**	—	—
Asset impairment	**—**	**160**	—	—
Release of prepaid finance costs	**—**	**228**	—	—
BGF loan and option, redemption premium charge	**—**	**108**	—	224
Mark to Market adjustment on foreign exchange forward contracts and interest rate swap	**—**	**172**	—	—
Goodwill adjustment (see Notes 2 and 10)	**—**	**(43)**	—	(895)
Contract for Differences	**—**	**—**	—	7,554
Tax effect on adjusted items where applicable	**—**	**(961)**	—	—
Earnings for the purpose of basic and adjusted earnings/(loss) per share from continuing operations	**5,949**	**13,915**	(3,246)	6,273
Loss attributable to ordinary equity holders of the parent entity from discontinued operations	**(2,132)**	**—**	(346)	—
Earnings for the purpose of basic and adjusted earnings/(loss) per share	**3,817**	**13,915**	(3,592)	6,273

Weighted average number of shares

	2016 Number of shares ('000)	2015 Number of shares ('000)
Weighted average number of ordinary shares for the purposes of basic and adjusted earnings per share	**16,489**	11,859
Effect of dilutive potential ordinary shares:		
BGF share options	**560**	120
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**17,049**	11,979

The potential dilutive effect of the share options has been calculated in accordance with IAS 33 using the average share price in the period.

8. Earnings/(loss) per share (Continued)

The Group's earnings/(loss) per share are as follows:

	2016 Pence	2015 re-stated Pence
Earnings/(loss) per share from continuing operations		
Basic adjusted	**84.39**	52.90
Diluted adjusted	**81.62**	52.37
Basic	**36.08**	(27.37)
Diluted[(1)]	**35.53**	(27.37)
Earnings/(loss) per share from discontinued operations		
Basic	**(12.93)**	(2.92)
Diluted[(1)]	**(12.93)**	(2.92)
Earnings/(loss) per share		
Basic adjusted	**84.39**	52.90
Diluted adjusted	**81.62**	52.37
Basic	**23.15**	(30.29)
Diluted[(1)]	**23.02**	(30.29)

(1) Earnings for the purpose of diluted (basic) earnings per share have been adjusted to add back the Business Growth Fund ('BGF') redemption charge as this cost is only incurred if the BGF options are not exercised.

9. Rates of exchange

The results of overseas subsidiaries have been translated into Sterling at the average exchange rates prevailing during the periods. The balance sheets are translated at the exchange rates prevailing at the period ends:

	2016		2015	
	Average	Year end	Average	Year end
Australia—A$	**2.0327**	**1.8526**	1.8547	1.9184

10. Goodwill

	Goodwill £000
At March 30, 2014	2,735
Arising on acquisition	1,375
Exchange movements	—
At March 28, 2015 (re-stated)	4,110
At March 29, 2015	4,110
Arising on acquisition	32,045
Exchange movements	1,050
At April 2, 2016	**37,205**

Goodwill is attributed to the businesses identified below for the purpose of testing impairment. These businesses are the lowest level at which goodwill is monitored and represent cash generating units ("CGU"). The CGUs within a reported segment share similar characteristics to each other and to the other businesses within that segment.

10. Goodwill (Continued)

The aggregate carrying amounts of goodwill allocated to each CGU are as follows:

	Reported Segment	2016 £000	2015 £000 re-stated
Globesign Limited	UK	**2,735**	2,735
Whitestone Weavers Group	UK	**1,375**	1,375
Interfloor Limited	UK	**25,245**	—
Quest Flooring Pty Limited	Australia	**7,850**	—
		37,205	4,110

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the goodwill have been determined based on value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. The discount rates used of 13.4% for CGUs within the UK and 14.3% for CGUs within Australia are estimated using weighted-average costs of capital that reflect current market assessments of the time value of money and the risks specific to the markets in which the businesses operate. The primary reason for the difference in this rate between the UK and Australia is the difference in underlying interest rates.

The calculation uses cash flow projections extrapolated from the budget for the year ending April 1, 2017. A terminal value was calculated based on a terminal growth rate assumption of 2.0%.

The Group does not consider it reasonably probable that any significant changes to the key assumptions will arise that would result in impairment to any of the Goodwill balances. If the terminal growth rate was assumed to be nil in the Director's opinion there would still be no provision for impairment required. As at April 2, 2016 no impairment provision was therefore considered necessary.

Goodwill comprises intangible assets that do not qualify for separate recognition, in particular the existing workforce. None of the goodwill is expected to be tax deductible.

11. Intangible assets

		Customer Relationships £000	Brand Names £000	Group Total £000
Cost	At March 30, 2014	2,539	2,731	5,270
	Additions (see Note 24)	2,161	2,014	4,175
	At March 28, 2015	4,700	4,745	9,445
	At March 29, 2015	**4,700**	**4,745**	**9,445**
	Additions (see Note 24)	**31,453**	**4,498**	**35,951**
	Exchange differences	**913**	**110**	**1,023**
	At April 2, 2016	**37,066**	**9,353**	**46,419**
Amortisation	At March 30, 2014	164	153	317
	Charges for the period	163	107	270
	At March 28, 2015	327	260	587
	At March 29, 2015	**327**	**260**	**587**
	Charges for the period	**2,020**	**295**	**2,315**
	Exchange differences	**39**	**2**	**41**
	At April 2, 2016	**2,386**	**557**	**2,943**
Net book value	**At April 2, 2016**	**34,680**	**8,796**	**43,476**
	At March 28, 2015	4,373	4,485	8,858
	At March 29, 2014	2,375	2,578	4,953

12. Property, plant and equipment

Group	Freehold land and buildings £000	Plant and machinery £000	Fixtures vehicles and equipment re-stated £000	Continuing operations Total re-stated £000	Discontinued operations Plant and machinery £000	Discontinued operations Property and equipment £000	Group Total £000
Cost							
At March 30, 2014	7,407	31,806	7,776	46,989	9,248	1,775	58,012
Exchange differences	(29)	(1,427)	(189)	(1,645)	—	—	(1,645)
Acquisition	293	4,126	4,805	9,224	—	—	9,224
Additions	34	1,006	4,034	5,074	1	—	5,075
Transfers	(169)	169	—	—	—	—	—
Disposals	(22)	(1,749)	(4,153)	(5,924)	—	—	(5,924)
At March 28, 2015	7,514	33,931	12,273	53,718	9,249	1,775	64,742
At March 29, 2015	**7,514**	**33,931**	**12,273**	**53,718**	**9,249**	**1,775**	**64,742**
Exchange differences		**754**	**124**	**878**	**—**	**—**	**878**
Acquisition	**6,944**	**7,144**	**341**	**14,429**	**—**	**—**	**14,429**
Additions	**165**	**2,144**	**7,894**	**10,203**	**—**	**—**	**10,203**
Divestment	**—**	**—**	**—**	**—**	**(9,249)**	**(1,775)**	**(11,024)**
Disposals	**(821)**	**(999)**	**(6,683)**	**(8,503)**	**—**	**—**	**(8,503)**
At April 2, 2016	**13,802**	**42,974**	**13,949**	**70,725**	**—**	**—**	**70,725**
Accumulated depreciation							
At March 30, 2014	61	24,401	4,356	28,818	7,975	500	37,293
Exchange differences	(13)	(1,136)	(117)	(1,266)	—	—	(1,266)
Charge for the year	267	1,888	4,250	6,405	218	27	6,650
Transfers	(120)	120	—	—	—	—	—
Disposals	(22)	(1,604)	(4,098)	(5,724)	—	—	(5,724)
At March 28, 2015	173	23,669	4,391	28,233	8,193	527	36,953
At March 29, 2015	**173**	**23,669**	**4,391**	**28,233**	**8,193**	**527**	**36,953**
Exchange differences	**—**	**722**	**65**	**787**			**787**
Charge for the year	**345**	**3,109**	**6,893**	**10,347**	**102**	**23**	**10,472**
Transfers	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Impairment	**—**	**160**	**—**	**160**	**—**	**—**	**160**
Divestment	**—**	**—**	**—**	**—**	**(8,295)**	**(550)**	**(8,845)**
Disposals	**(200)**	**(960)**	**(6,453)**	**(7,613)**	**—**	**—**	**(7,613)**
At April 2, 2016	**318**	**26,700**	**4,896**	**31,914**	**—**	**—**	**31,914**
Net Book Value							
At April 2, 2016	**13,484**	**16,275**	**9,052**	**38,811**	**—**	**—**	**38,811**
At March 28, 2015	7,341	10,262	7,882	25,485	1,056	1,248	27,789
At March 29, 2014	7,346	7,405	3,420	18,171	1,273	1,275	20,719

The Company holds no property, plant and equipment.

12. Property, plant and equipment (Continued)

Included within fixed assets are the following:

	Group Plant and machinery Hire purchase £000	Group Fixtures, vehicles and equipment Hire purchase £000	Group Fixtures, vehicles and equipment Finance lease £000	Group Total £000
Held under hire purchase/finance leases:				
Cost at April 2, 2016	**275**	**930**	**1,427**	**2,632**
Accumulated depreciation at April 2, 2016	**39**	**366**	**536**	**941**
Depreciation charged in year	**15**	**170**	**273**	**458**
Held under hire purchase/ finance leases:				
Cost at March 28, 2015	215	718	1,405	2,338
Accumulated depreciation at March 28, 2015	68	222	353	643
Depreciation charged in year	6	39	220	265

Capital expenditure authorised and committed at the period end:

	Group	
	2016 £000	2015 £000
Contracts placed	**828**	188

The Company held no assets under finance lease or hire purchase agreements and had no capital commitments at either year end.

13. Fixed asset investments

		Group		Company	
	Note	2016 £000	2015 £000	2016 £000	2015 £000
Investment property	(a)	**180**	180	**180**	180
Investment in subsidiaries	(b)	**—**	—	**49,270**	38,180

a) Investment property

Investment property relates to land and is held at cost as the fair value is dependent on future use and the grant of the necessary planning consents.

b) Investment in subsidiaries

Investment in subsidiaries in the Company balance sheet was subject to additions in the year of £14,024,000 (see Note 24(b)) and disposals of £2,934,000 (see Note 25).

13. Fixed asset investments (Continued)

Victoria PLC owns directly or indirectly the whole of the allotted ordinary share capital of the following subsidiary companies.

As at April 2, 2016	Country of incorporation and operation	Nature of business	Ownership
Victoria Midco Holdings Limited	England	Holding Company	Direct
Victoria Carpets Limited	England	Carpet manufacture	Direct
Carpets@Home Limited	England	Carpet distributor	Direct
Globesign Limited	England	Holding Company	Direct
Westex (Carpets) Limited	England	Carpet manufacture	Indirect
Abingdon Flooring Limited	England	Carpet manufacture	Direct
Distinctive Flooring Limited	England	Carpet distributor	Indirect
Alliance Distribution Limited	England	Logistic Services	Indirect
Whitestone Carpets Holdings Limited	England	Holding Company	Direct
View Logistics Limited	England	Logistic Services	Indirect
Carpet Line Direct Limited	England	Carpet distributor	Indirect
Whitestone Weavers Limited	England	Carpet distributor	Indirect
Thomas Witter Carpets Limited	England	Carpet distributor	Indirect
Gaskell Mackay Carpets Limited	England	Carpet distributor	Indirect
A&A Carpets Limited	England	Carpet distributor	Indirect
Interfloor Limited	England	Carpet underlay manufacturer	Indirect
The Victoria Carpet Company Pty Limited	Australia	Carpet manufacture	Direct
Quest Flooring Pty Ltd	Australia	Holding Company	Direct
Quest Carpet Manufacturers Pty Ltd	Australia	Carpet manufacture	Indirect
Quest Carpet Manufacturers Unit Trust	Australia	Unit Trust	Indirect
Victoria Belgium Holdco nv	Belgium	Holding Company	Indirect
V-Line Carpets Limited	England	Non-trading	Direct
Stikatak Limited	England	Non-trading	Indirect
Tacktrim Limited	England	Non-trading	Indirect
Interfloor Operations Limited	England	Non-trading	Indirect
Interfloor Group Limited	England	Non-trading	Direct
The Victoria Carpet Company Limited	England	Non-trading	Direct
Flooring at Home Limited	England	Non-trading	Direct
Munster Carpets Limited	Ireland	Non-trading	Indirect

Following the year end the Group was restructured resulting in Victoria Midco Holdings Limited being the only directly owned subsidiary of Victoria Plc and acting as an intermediary holding company. As a result, all other Group companies are now indirectly owned by Victoria Plc.

14. Inventories

	Group	
	2016 £000	2015 £000
Raw materials	**12,773**	5,613
Work-in-progress	**2,963**	2,955
Finished goods	**43,234**	32,388
	58,970	40,956

The Company held no inventories at either year end. There is no material difference between the balance sheet value of inventories and their replacement cost.

15. Trade and other receivables

Amounts falling due within one year:

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Trade debtors	**40,133**	29,120	**—**	—
Amounts owed by subsidiaries	**—**	—	**88,521**	23,763
Other debtors	**106**	6	**—**	—
Prepayments and accrued income	**2,323**	1,271	**125**	108
	42,562	30,397	**88,646**	23,871

Amounts falling due after one year:

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Amounts owed by subsidiaries	**—**	—	**16,778**	—
	—	—	**16,778**	—

Amounts owed by subsidiaries to the Company are not considered to be impaired.

The above amounts are stated net of an allowance (net of VAT) of £958,000 (2015: £811,000) made for estimated irrecoverable amounts from sale of goods. The movement of this allowance account during the year is summarised below:

	2016 £000	2015 £000
Opening balance at March 29, 2015	**811**	218
Acquisition opening balances	**30**	805
Increase/(decrease) in provisions	**316**	(64)
Written off against provisions	**(212)**	(123)
Recovered amounts	**2**	(19)
Exchange differences	**11**	(6)
Closing balance at April 2, 2016	**958**	811

An analysis of the age of trade receivables that are past due at the reporting date but not impaired can be seen in the table below:

	2016 £000	2015 £000
1–30 days overdue	**6,422**	5,081
31–60 days overdue	**547**	484
>60 days overdue	**519**	441
Total	**7,488**	6,006

An analysis of the age of impaired trade receivables is as follows:

	2016 £000	2015 £000
1–30 days overdue	**198**	80
31–60 days overdue	**72**	30
>60 days overdue	**1,025**	990
Total	**1,295**	1,100

The main factors in assessing the impairment of trade receivables are the age of the balance and the circumstances of the individual customer. The directors consider that the carrying amount of all receivables, including those impaired, approximate to their fair value.

16. Trade and other payables

Amounts falling due within one year:

	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Trade creditors	**43,550**	23,633	**—**	—
Amounts due to subsidiaries	**—**	—	**1**	1
Deferred and contingent earn-out liabilities	**9,265**	6,459	**5,002**	4,416
Other creditors	**7,476**	5,939	**—**	—
Accruals	**6,407**	2,780	**352**	578
Deferred income	**215**	255	**—**	—
	66,913	39,066	**5,355**	4,995

Amounts falling due after one year:

	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Deferred and contingent earn-out liabilities	**11,130**	11,675	**3,903**	6,757
Deferred income	**339**	527	**—**	—
Other creditors	**55**	58	**—**	—
	11,524	12,260	**3,903**	6,757

Deferred and contingent earn-out liabilities (Group and Company) are in connection with the acquisitions of Globesign Limited, Abingdon Flooring Group, Whitestone Weavers Group and Quest Carpet Manufacturers Pty Limited. Under IFRS 13 Fair Value Measurement this is classified under the fair value hierarchy as Level 3. The deferred and contingent earn-out liabilities falling due after one year of £11.13m is split as follows: between one to two years £8.38m and between two to five years £2.75m.

Deferred income relates to government grants as shown in Note 27.

17. Other financial liabilities

Amounts falling due within one year:

	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Bank overdraft	**—**	10,894	**5,682**	9,517
Bank loans	**—**	6,549	**—**	6,549
BGF loan	**—**	—	**—**	—
Finance leases and hire purchase agreements	**596**	825	**—**	—
	596	18,268	**5,682**	16,066

17. Other financial liabilities (Continued)

Amounts falling due after one year:

	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Bank loans				
—between one and two years	**—**	9,611	**—**	9,611
—between two and five years	**68,485**	—	**68,485**	—
BGF loan				
—between one and two years	**391**	181	**391**	181
—between two and five years	**4,560**	1,960	**4,560**	1,960
—over five years	**4,573**	7,086	**4,573**	7,086
Finance leases and hire purchase agreements				
—between one and two years	**280**	326	**—**	—
—between two and five years	**233**	63	**—**	—
	78,522	19,227	**78,009**	18,838

Bank loans as at April 2, 2016 relate to a Group multi-currency revolving credit facility provided by Barclays and HSBC. This facility is due for renewal in October 2018 subject to the option of a one year extension, and is secured by way of debenture over the assets of the Group.

The BGF loan relates to the debt component of the BGF loan and option instruments. Further details are provided in Note 31(a).

The Group's net debt position as at April 2, 2016 was £61.1m (2015: £35.7m) as set out in Note 26. The contractual maturities of financial liabilities and an analysis of the average effective interest rate of borrowings is set out in Note 28.

18. Financial assets and liabilities

The financial assets of the Group, all of which fall due within one year, comprised:

	At April 2, 2016				At March 28, 2015			
	Loans and receivables £000	Financial assets held at fair value through profit and loss £000	Assets not within the scope of IAS 39 £000	Total £000	Loans and receivables £000	Financial assets held at fair value through profit and loss £000	Assets not within the scope of IAS 39 £000	Total £000
Cash								
Sterling	**12,599**	**—**	**—**	**12,599**	926	—	—	926
Australian Dollars	**4,623**	**—**	**—**	**4,623**	570	—	—	570
Euro	**751**	**—**	**—**	**751**	423	—	—	423
New Zealand Dollars	**193**	**—**	**—**	**193**	110	—	—	110
US Dollars	**912**	**—**	**—**	**912**	363	—	—	363
	19,078	**—**	**—**	**19,078**	2,392	—	—	2,392
Trade and other receivables	**40,239**	**—**	**2,323**	**42,562**	29,078	—	1,271	30,349
Inventories	**—**	**—**	**58,970**	**58,970**	—	—	40,956	40,956
Forward foreign exchange contracts	**—**	**380**	**—**	**380**	—	48	—	48
Interest rate swap contacts	**—**	**4**	**—**	**4**	—	—	—	—
Current assets	**59,317**	**384**	**61,293**	**120,994**	31,470	48	42,227	73,745

18. Financial assets and liabilities (Continued)

The financial liabilities of the Group comprised:

	At April 2, 2016				At March 28, 2015			
	Other financial liabilities at amortised cost £000	Financial liabilities held at fair value through profit and loss £000	Liabilities not within the scope of IAS 39 £000	Total £000	Other financial liabilities at amortised cost £000	Financial liabilities held at fair value through profit and loss £000	Liabilities not within the scope of IAS 39 £000	Total £000
Overdraft								
Sterling	—	—	—	—	10,894	—	—	10,894
	—	—	—	—	10,894	—	—	10,894
Current liabilities								
Trade and other payables	**54,955**	**5,634**	**5,825**	**66,414**	30,418	4,416	4,232	39,066
Current tax liabilities	—	—	**2,891**	**2,891**	—	—	2,014	2,014
Hire purchase and finance leases	**596**	—	—	**596**	—			825
Interest rate swap contacts	—	—	—	—	—	—	—	—
Forward foreign exchange contracts	—	**499**	—	**499**	—	—	—	—
Bank loans					6,689			6,549
Current liabilities	**55,551**	**6,133**	**8,716**	**70,400**	48,686	4,416	6,246	59,348
Non-current liabilities								
Trade and other payables	**5,886**	**5,299**	**339**	**11,524**	4,004	7,730	527	12,261
Deferred tax liabilities	—	—	**9,129**	**9,129**	—	—	2,370	2,370
Retirement benefit obligations	—	—	**3,345**	**3,345**	—	—	—	—
Hire purchase and finance leases	**513**	—	—	**513**	388	—	—	388
Bank loans	**68,485**	—	—	**68,485**	9,611	—	—	9,611
BGF loan	**9,524**	—	—	**9,524**	9,227	—	—	9,227
Non-current liabilities	**84,408**	**5,299**	**12,813**	**102,520**	23,230	7,730	2,897	33,857
Total liabilities	**139,959**	**11,432**	**21,529**	**172,920**	71,916	12,146	9,143	93,205

The financial assets of the Company comprised:

	At April 2, 2016				At March 28, 2015			
	Loans and receivables £000	Financial assets held at fair value through profit and loss £000	Assets not within the scope of IAS 39 £000	Total £000	Loans and receivables £000	Financial assets held at fair value through profit and loss £000	Assets not within the scope of IAS 39 £000	Total £000
Current assets								
Trade and other receivables	**88,646**	—	—	**88,646**	23,871	—	—	23,871
	88,646	—	—	**88,646**	23,871	—	—	23,871
Non-current assets								
Trade and other receivables	**16,778**	—	—	**16,778**	—	—	—	—
	16,778	—	—	**16,778**	—	—	—	—

18. Financial assets and liabilities (Continued)

The financial liabilities of the Company comprised:

	At April 2, 2016				At March 28, 2015			
	Other financial liabilities at amortised cost £000	Financial liabilities held at fair value through profit and loss £000	Liabilities not within the scope of IAS 39 £000	Total £000	Other financial liabilities at amortised cost £000	Financial liabilities held at fair value through profit and loss £000	Liabilities not within the scope of IAS 39 £000	Total £000
Overdraft								
Sterling	**5,682**	**—**	**—**	**5,682**	9,517	—	—	9,517
	5,682	**—**	**—**	**5,682**	9,517	—	—	9,517
Current liabilities								
Trade and other payables	**353**	**5,002**	**—**	**5,355**	579	4,416	—	4,995
Bank loans	**—**	**—**	**—**	**—**	6,549	—	—	6,549
Current liabilities	**6,035**	**5,002**	**—**	**11,037**	16,645	4,416	—	21,061
Non-current liabilities								
Trade and other payables	**—**	**3,903**	**—**	**3,903**	—	6,757	—	6,757
Bank loans	**68,485**	**—**	**—**	**68,485**	9,611	—	—	9,611
BGF loan	**9,524**	**—**	**—**	**9,524**	9,227	—	—	9,227
Non-current liabilities	**78,009**	**3,903**	**—**	**81,912**	18,838	6,757	—	25,595
Total liabilities	**84,044**	**8,905**	**—**	**92,949**	35,483	11,173	—	46,656

Fair value measurement of financial instruments

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement as follows:

- Level one: quoted prices in active markets for identical assets or liabilities
- Level two: inputs other than quoted prices included within Level one that are observable for the asset or liability, either directly or indirectly
- Level three: unobservable inputs for the assets or liabilities

All financial assets and liabilities have been identified as Level one with the exception of:

- Forward foreign exchange contracts, which are Level two financial assets/liabilities and all expire within 12 months from April 2, 2016.
- The Group's interest rate swap contract, which is a Level two financial asset and expires in May 2018.

The Group has relied upon valuations performed by third party valuations specialists for complex valuations of the forward exchange contracts and the interest rate swap contract. Valuation techniques have utilised observable forward exchange rates and interest rates corresponding to the maturity of the contract. The effects of non-observable inputs are not significant for forward exchange contracts and the interest rate swap contract.

- Contingent earn-out liabilities, which are Level three liabilities.

The fair value of the intangibles under level 3 are estimated using an income approach which capitalises the estimated royalty income which would be charged to a third party to use the brand.

The most significant inputs, all of which are unobservable, are the estimated royalty rate and the discount rate. The estimated fair value increases if the estimated royalty rate increases or the discount rate declines. The overall valuations are sensitive to both assumptions.

18. Financial assets and liabilities (Continued)

There were no transfers between level one, level two and level three in 2016 or 2015.The deferred and contingent earn-out liabilities are as follows:

	Group	
	2016 £000	2015 £000
Current liabilities		
Deferred earn-out liabilities	**3,631**	2,043
Contingent earn-out liabilities	**5,634**	4,416
	9,265	6,459
Non-current liabilities		
Deferred earn-out liabilities	**5,831**	3,945
Contingent earn-out liabilities	**5,299**	7,730
	11,130	11,675
Total liabilities		
Deferred earn-out liabilities	**9,462**	5,988
Contingent earn-out liabilities	**10,933**	12,146
Total	**20,395**	18,134

Reconciliation of movement in contingent earn-out liabilities	£000
Contingent earn-out liabilities as at March 28, 2015	12,146
Additional contingent earn-out liabilities from acquisitions in the period	377
Earn-out payments during the period	(5,410)
Share issue in lieu of earn-out payment	(150)
Revaluation of present value of contingent consideration	3,960
Exchange rate difference	10
Contingent earn-out liabilities as at April 2, 2016	10,933

19. Operating lease arrangements

The Group and Company as lessee

Details of operating lease arrangements for the Group and Company are as follows:

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Payments under operating leases recognised in income statement for the year.	**5,385**	2,761	**503**	495

At the balance sheet date, the Group and Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Group		Company	
Minimum lease payments	2016 £000	2015 £000	2016 £000	2015 £000
Within one year	**5,849**	4,192	**503**	503
In the second to fifth years inclusive	**13,744**	10,772	**2,003**	2,004
After five years	**10,700**	12,304	**6,500**	6,998
	30,293	27,268	**9,006**	9,505

19. Operating lease arrangements (Continued)

Operating lease payments represent rentals payable by the Group and Company principally for vehicles and certain of its properties. Leases of vehicles are usually negotiated for a term of 3–5 years and rentals are fixed for the term of the lease. Leases of land and buildings are usually negotiated for 5–20 years.

20. Deferred taxation

	Group £000	Company £000
At March 29, 2014	(231)	(285)
Exchange adjustment	55	—
Credit to Income statement (see Note 6)	(528)	(444)
Adjustment for acquisitions in year opening balances	315	—
Effect of rate change (see Note 6)	21	21
Deferred tax on intangible assets acquired	835	—
At March 28, 2015	467	(708)
At March 29, 2015	**467**	**(708)**
Exchange adjustment	**257**	**—**
Credit to Income statement (see Note 6)	**(1,721)**	**—**
Prior year adjustment for Group relief	**444**	**444**
Adjustment for acquisitions in year	**(1,091)**	**—**
Adjustment for disposal in year	**(169)**	**—**
Effect of rate change (see Note 6)	**149**	**—**
Deferred tax in relation to pension scheme	**(53)**	**—**
Deferred tax on intangible assets acquired	**7,559**	**—**
At April 2, 2016	**5,842**	**(264)**

The provision for deferred taxation is as follows:

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Capital Allowances	**(963)**	1,232	**—**	—
Liability on recovering value through sale	**(71)**	(81)	**(71)**	(81)
Deferred grant income	**(163)**	(234)	**—**	—
Tax losses	**(679)**	(1,237)	**(193)**	(627)
Deferred tax on intangible assets acquired	**8,810**	1,289	**—**	—
Other timing differences	**(1,092)**	(502)	**—**	—
	5,842	467	**(264)**	(708)

The provision is based on taxation rates of 30% in respect of balances relating to the Australia businesses (2015: 30%). The rates applied to UK balances vary dependent on the timing of when the balances are expected to unwind as noted below.

Effect on UK deferred tax balances of proposed changes in the UK corporation tax rate

The UK corporation tax rate reduction from 20% to 19% on April 1, 2017 and to 18% on April 1, 2020 have been substantively enacted. Accordingly, deferred tax balances at April 2, 2016 have been calculated at the rate at which the relevant balance is expected to be recovered or settled. The UK Finance Bill 2016 includes a reduction of the UK corporation tax rate to 17% on April 1, 2020. Once the UK Finance Bill 2016 substantively enacted, relevant deferred tax balances will be re-measured to 17%.

20. Deferred taxation (Continued)

Deferred tax assets and liabilities

The deferred tax balances shown on the balance sheet are:

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Deferred tax liabilities	**9,129**	2,370	**—**	—
Deferred tax assets	**(3,287)**	(1,903)	**(264)**	(708)
	5,842	467	**(264)**	(708)

21. Retirement benefit obligations

Defined contribution schemes

The Group operates a number of defined contribution pension schemes. The companies and the employees contribute towards the schemes.

Contributions are charged to the Income Statement as incurred and amounted to £2,542,000 (2014: £1,532,000), of which £1,742,000 (2015: £869,000) relates to the UK schemes. The total contributions outstanding at year end was £nil (2015: £nil).

Defined benefit schemes

The Group has two defined benefit schemes, both of which relate to Interfloor Limited, which was acquired during the period.

Interfloor Limited sponsors the Final Salary Scheme (“the Main Scheme”) and the Interfloor Limited Executive Scheme (“the Executive Scheme”) which are both defined benefit arrangements. The defined benefit schemes are administered by a separate fund that is legally separated from the Group. The trustees of the pension fund are required by law to act in the interest of the fund and of all relevant stakeholders in the scheme. The trustees of the pension fund are responsible for the investment policy with regard to the assets of the fund.

The last full actuarial valuations of these schemes were carried out by a qualified independent actuary as at July 31, 2015.

The contributions made by the employer over the financial period were £nil, (2015: £nil) in respect of the Main Scheme and £nil (2015: £nil) in respect of the Executive Scheme.

Contributions to the Executive and Main Schemes are made in accordance with the Schedule of Contributions. Future contributions are expected to be an annual premium of £95,000 in respect of the Main Scheme and £126,000 contributions payable to the Executive Scheme. These payments are in line with the certified Schedules of Contributions until they are reviewed on completion of the triennial valuations of the schemes as at August 1, 2018.

As both schemes are closed to future accrual there will be no current service cost in future years.

The defined benefit schemes typically expose the company to actuarial risks such as: investment risk, interest rate risk and longevity risk.

Investment risk

The present value of the defined benefit schemes’ liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the returns on schemes’ assets are below this rate, it will create a scheme deficit. Due to the long-term nature of the schemes’ liabilities, the trustees of the pension fund consider it appropriate that a reasonable portion of the schemes’ assets should be invested in equity securities to leverage the return generated by the funds.

21. Retirement benefit obligations (Continued)

Interest risk

A decrease in the bond interest rate will increase the schemes' liability but this will be partially offset by an increase in the return on the plan's debt investments.

Longevity risk

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the schemes' participants will increase the schemes' liability.

The present value of the defined benefit liabilities were measured using the projected unit credit method.

The expected rates of return on plan assets are determined by reference to relevant indices. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

Principal actuarial assumptions (expressed as weighted averages) at the Consolidated Statement of Financial Position date were as follows:

	2016
Discount rate	3.6%
Revaluation rate of deferred pensioners of CPI or 5% p.a. if less	2.0%
Pension in payment increases of RPI or 5% p.a. if less	2.9%
Pension in payment increases of CPI or 3% p.a. if less	1.8%
Inflation (RPI)	3.0%
Inflation (CPI)	2.0%

The assumptions relating to longevity underlying the pension liabilities at the Consolidated Statement of Financial Position date are based on 115% of the standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65 year old to live for a number of years as follows:

(i) Current pensioner aged 65: 20.8 years (male), 22.8 years (female).

(ii) Future retiree (aged 45) upon reaching 65: 22.1 years (male), 24.3 years (female).

Amounts recognised in income in respect of these defined benefit schemes are as follows:

	2016 £000
Administrative expenses	**166**
Net interest expense	**64**
Components of defined benefit costs recognised in profit or loss	**230**

The net interest expense has been included within finance costs. The remeasurement of the net defined benefit liability is included in the statement of comprehensive income.

Amounts recognised in the Consolidated Statement of Comprehensive Income are as follows:

	2016 £000
The return on plan assets (excluding amounts included in net interest expense)	**(40)**
Actuarial gains and (losses) arising from changes in demographic assumptions	**314**
Actuarial losses arising from changes in financial assumptions	**(877)**
Actuarial (losses) and gains arising from experience adjustments	**451**
Effect of the asset ceiling (excluding amounts included in net interest cost)	**—**
Remeasurement of the net defined benefit liability	**(152)**

21. Retirement benefit obligations (Continued)

The amount included in the Consolidated Balance Sheet arising from the Group's obligations in respect of its defined benefit retirement benefit schemes is as follows:

	2016 £000
Present value of defined benefit obligations	(25,945)
Fair value of plan assets	22,600
Net liability arising from defined benefit obligation	(3,345)
Deferred tax applied to net obligation	636

Movements in the present value of defined benefit obligations in the period were as follows:

	2016 £000
Defined benefit obligation acquired	25,861
Expense	166
Interest cost	539
Remeasurement (gains)/losses:	
Actuarial gains and (losses) arising from changes in demographic assumptions	(314)
Actuarial losses arising from changes in financial assumptions	877
Actuarial (losses) and gains arising from experience adjustments	(451)
Benefits paid and expenses	(733)
Closing defined benefit obligation	25,945

Movements in the fair value of plan assets in the period were as follows:

	2016 £000
Fair value of plan assets acquired	22,898
Interest income	475
Remeasurement gains:	
The return on plan assets (excluding amounts included in net interest expense)	(40)
Benefits paid and expenses	(733)
Closing fair value of plan assets	22,600

The major categories and fair values of plan assets at the end of the reporting period for each category are as follows:

	2016 £000
Cash and cash equivalents	518
Government bonds	1,826
Corporate bonds	3,386
UK equities	9,236
Property	1,551
Overseas equities	6,083
Closing fair value of plan assets	22,600

None of the fair values of the assets shown above include any of the employer's own financial instruments or any property occupied by, or other assets used by, the employer. All of the schemes assets have a quoted market price in an active market.

The actual return on plan assets was £435,000.

21. Retirement benefit obligations (Continued)

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

If the discount rate decreased by 0.25% per annum, the defined benefit obligation would increase by 4.4%.

If the rate of inflation increases by 0.25% per annum, the defined benefit obligation would increase by 3.3%.

If the life expectancy increases by one year for both men and women, the defined benefit obligation would increase by 2.5%.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the Consolidated Balance Sheet.

The Group expects to make a contribution of £221,000 (2015: nil) to the defined benefit schemes during the next financial period.

22. Share capital

	2016 £000	2015 £000
Allotted, called up and fully paid 18,193,169 Ordinary shares of 25p each (2015: 14,556,579)	**4,548**	3,639

The Company has one class of Ordinary shares which carry no right to fixed income.

The Company issued 3,636,590 fully paid ordinary shares of 25p each during the year ended April 2, 2016. Of this total, 2,906,856 shares were placed to fund the acquisition of Interfloor Group Limited in September 2015. A further placing of 711,035 shares was undertaken in October 2015 to satisfy significant institutional demand identified in response to this acquisition. A further 15,384 shares were issued to a vendor of Globesign Limited in lieu of an element of deferred earn-out payment; 1,860 shares issued to a manager in lieu of bonus entitlement and 1,455 shares issued in connection with the retailer incentive scheme.

Capital risk management

The Group considers its capital to comprise its Ordinary share capital, share premium, accumulated retained earnings and net debt. In managing its capital, the Group's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through a combination of capital growth and distributions.

In order to achieve this objective, the Group monitors its gearing to balance risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through altering its dividend policy, new share issues, or the reduction of debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

The Group is subjected to a number of financial covenants in connection with its UK bank facilities. These covenants are tested quarterly and were not breached during the year.

23. Reserves

(a) Retained earnings

Consolidated retained earnings for the Group as at April 2, 2016 was £13,341,000 (2015: £8,915,000) which included £4,827,000 (2015: £4,119,000) in respect of foreign exchange differences on consolidation of overseas subsidiaries.

The profit of the Company for the year determined in accordance with the Companies Act 2006 was £2,679,000 (2015: loss of £6,797,000) The Company is exempt under Section 408 of the Companies Act 2006 from presenting its own Income statement and Statement of Comprehensive Income.

(b) Other reserves

The Company entered into a fully subordinated £10m 2022 unsecured loan note facility provided by the Business Growth Fund ('BGF') at the time of the acquisition of Abingdon Flooring group and granted BGF an option for 746,000 new Victoria Plc ordinary 25p shares at an exercise price of £2.86 (together, the 'BGF loan and option'). The BGF loan and option is accounted for as separate debt and equity components (see Note 31(a)). The equity component was determined to have a fair value of £682,000.

24. Acquisition of subsidiaries

(a) Quest Flooring

On August 7, 2015, the Group acquired the entire issued share capital of Quest Carpet Manufacturers Pty Limited and Quest Carpet Manufacturers Unit Trust (together "Quest Carpets").

The principle activity of Quest Carpets is the design, manufacture and distribution of carpets across Australia and New Zealand. The business operates from facilities in Dandenong, near Melbourne, Australia and employs a workforce of 89 people.

Quest Carpets is highly complementary to the Group's existing business in Australia. The acquisition is expected to be immediately accretive to the underlying earnings per share of the Company.

The Group results for the year ended April 2, 2016 included A$42.0m (£20.6m[1]) of revenue and A$4.1m (£2.0m[1]) of profit before tax from Quest Carpets. If the acquisition had been completed on the first day of the financial year, Group revenues for the period would have been A$23.2m (£11.5m[1]) higher and Group profit before tax would have been A$3.2m (£1.6m[1]) higher.

Consideration

(i) Initial cash consideration of A$15.3m (£7.1m[2]).

(ii) Non-contingent deferred consideration of A$10.5m, payable in three equal annual instalments of A$3.5m commencing in June 2016. This deferred consideration had a present value in Sterling as at the acquisition date of £4.5m[2].

(iii) In addition, there are contingent payments in relation to rental property that was retained by the vendors and leased back to the business, which has been treated as deferred consideration for the purpose of assessing the total cost of the acquisition and goodwill created. These payments are made annually over three years commencing in July 2016 and are equal to 50 per cent. of the EBITDA generated by Quest Flooring for that year to 30 June in excess of A$7.0m.

Note 1—Applying the average GBP to AUD exchange rate over the financial year of 2.0327.

Note 2—Applying the GBP to AUD exchange rate at the time of the acquisition of 2.1388.

24. Acquisition of subsidiaries (Continued)

Net assets acquired

	Amounts recognised at acquisition date £000
Property, plant & equipment	1,247
Inventories	3,186
Trade and other receivables	4,000
Net cash / (overdraft)	764
Bank loan	(2,338)
HP / Finance leases	(375)
Vendor loan	(1,507)
Trade and other payables	(4,151)
Current tax liabilities	(245)
Book value of net assets acquired	581
Provisional fair value adjustments:	
Intangible assets (see Note 11)	6,624
Deferred tax liability on intangible assets acquired	(1,987)
Fair value of total identifiable net assets	5,218
Goodwill (see Note 10)	6,800
Total consideration	12,018
Satisfied by:	
Cash	7,143
Deferred and contingent consideration	4,875
	12,018

Other than where fair value adjustments have been made, the book values of asset acquired are considered to approximate to their fair values. The gross contractual amounts of the trade receivables acquired are considered to equate to the fair value of contractual cash flows to be collected.

Depending on the future performance of Quest Flooring, the contingent element of consideration could vary from the present value assessed above. However, based on the overall quantum and sensitivity to changes in assumed future growth rates, the range in potential outcomes of contingent consideration is considered to be immaterial.

After fair value adjustments, goodwill of £6.8m is created on consolidation of Quest Flooring, which relates to expected future profits of the business.

Transaction costs of £251,000 relating to the acquisition of Quest Flooring have been recognised as an expense and included within administrative expenses in the Income Statement.

(b) Interfloor Group Limited

On September 11, 2015, the Group acquired the entire issued share capital of Interfloor Group Limited (“Interfloor Group”).

The principle activity of Interfloor Group is the design, manufacture and distribution of carpet underlay and related accessories. The business operates in the UK from facilities in Haslingden in Lancashire, England, and Dumfries in Scotland, and employs a workforce of more than 300 people.

The acquisition of Interfloor Group will provide a number of commercial, operational and financial benefits to the Group. The acquisition is expected to be immediately accretive to the underlying earnings per share of the Company.

24. Acquisition of subsidiaries (Continued)

The Group results for the year ended April 2, 2016 included £41.1m of revenue and £6.0m of profit before tax from Interfloor Group. If the acquisition had been completed on the first day of the financial year, Group revenues for the period would have been £30.8m higher and Group profit before tax would have been £4.7m higher.

Consideration

Cash consideration of £14.0m was paid on completion of the acquisition. No deferred or contingent consideration is payable.

Net asset acquired

	Amounts recognised at acquisition date £000
Property, plant & equipment	9,205
Inventories	6,008
Trade and other receivables	9,202
Net cash / (overdraft)	1,572
Bank loan	(33,493)
HP / Finance leases	(6)
Loan notes	(22,056)
Trade and other payables	(12,670)
Current tax asset	332
Deferred tax asset	1,118
Pension scheme liability	(2,963)
Book value of net assets acquired	(43,751)
Provisional fair value adjustments:	
Freehold property	3,497
Loan notes	5,278
Intangible assets (see Note 11)	29,327
Deferred tax liability on intangible assets acquired	(5,572)
Fair value of total identifiable net assets	(11,221)
Goodwill (see Note 10)	25,245
Total consideration	14,024
Satisfied by:	
Cash	14,024
Deferred consideration	—
	14,024

Other than where fair value adjustments have been made, the book values of asset acquired are considered to approximate to their fair values.

The fair value adjustment to freehold property is to reflect the difference between vacant possession market value and book value in the acquired balance sheet.

The loan notes, which were assigned to Victoria PLC as part of the acquisition, attract no coupon and were therefore adjusted from their nominal value to a lower fair value to reflect the discounting effect of a market interest rate for such a loan.

Transaction costs of £721,000 relating to the acquisition of Interfloor Group have been recognised as an expense and included within administrative expenses in the Income Statement.

24. Acquisition of subsidiaries (Continued)

(c) A&A Carpets Limited

On June 19, 2015, the Group acquired the entire issued share capital of Stott Holdings Limited and its subsidiary, A&A Carpets Limited (together "A&A Carpets"), a flooring distribution business. The acquisition further enhances the Group's marketing and distribution operations in the UK.

Cash consideration of £600,000 was paid, with transaction costs of £24,000 recognised within administrative expenses. The fair value of the acquired assets and liabilities was a net assets position of £643,000. No separately identifiable intangible assets were acquired. As a result, negative goodwill of £43,000 was recognised in the year as a non-underlying income.

25. Discontinued operations

On October 2, 2015, the Group disposed of its wholly owned subsidiary, Westwood Yarns Limited. The Group received cash consideration of £0.43m and recognised a net loss on disposal of £1.85m (non-cash item).

Income statement of discontinued operations

	53 weeks ended April 2, 2016[1] £000	52 weeks ended March 28, 2015 £000
Revenue	**5,152**	10,731
Intercompany revenue	**(4,609)**	(9,429)
Net revenue	**543**	1,302
Operating expenses	**(774)**	(1,489)
Depreciation	**(124)**	(245)
Operating loss	**(355)**	(432)
Finance costs	**(2)**	—
Loss before tax	**(357)**	(432)
Tax	**72**	86
Loss on disposal	**(1,847)**	—
Loss for the financial year from discontinued operations	**(2,132)**	(346)

(1) Westwood Yarns Limited results in the year ended April 2, 2016 are only included up to the October 2, 2015—the date of disposal of the business.

25. Discontinued operations (Continued)

Assets and liabilities of discontinued operations

	As at October 2, 2015 £000
Property, plant and equipment	2,180
Inventories	1,353
Trade and other receivables	1,706
Total assets	5,239
Trade and other payables	1,980
Deferred tax liabilities	98
Bank overdraft	883
Total liabilities	2,961
Net assets disposed	2,278
Total consideration	431
Net loss on disposal	1,847

Cash flows from discontinued operations

	53 weeks ended April 2, 2016(1) £000	52 weeks ended March 28, 2015 £000
Net cash flows from operating activities	**67**	(1,183)
Net cash flows from financing activities	**(2)**	—
Net cash flows	**65**	(1,183)
Cash and cash equivalents at the beginning of the period	**(948)**	235
Cash and cash equivalent disposed	**883**	—
Cash and cash equivalents at the end of the period	**—**	(948)

(1) Westwood Yarns Limited cash flows in the year ended April 2, 2016 are only included up to the October 2, 2015—the date of disposal of the business.

26. Analysis of net debt

	At March 28, 2015 re-stated £000	Cash flow £000	Capital expenditure under finance leases/HP £000	Acquisitions £000	Other non-cash changes £000	Exchange movement £000	At April 2, 2016 £000
Cash	2,392	10,593	—	—	5,951	142	**19,078**
Bank overdraft	(10,894)	16,845	—	—	(5,951)	—	**—**
Cash and cash equivalents	(8,502)	27,438	—	—	—	142	**19,078**
Finance leases and hire purchase agreements							
—Payable less than one year	(825)	650	—	(83)	(326)	(12)	**(596)**
—Payable more than one year	(388)	—	(451)	—	326	—	**(513)**
Bank loans							
—Payable less than one year	(6,689)	6,689	—	—	—	—	**—**
—Payable more than one year	(9,712)	(3,181)	—	(54,632)	—	(1,755)	**(69,280)**
BGF loan							
—Payable less than one year	—	—	—	—	—	—	**—**
—Payable more than one year	(9,542)	—	—	—	(254)	—	**(9,796)**
Net debt	(35,658)	31,596	(451)	(54,715)	(254)	(1,625)	**(61,107)**
Prepaid finance costs	556	1,065	—	—	(554)	—	**1,067**
Net debt including prepaid finance costs	(35,102)	32,661	(451)	(54,715)	(808)	(1,625)	**(60,040)**

The BGF loan relates to the debt component of the BGF loan and option instruments. Further details are provided in Note 31(a).

The bank loans and BGF loan are disclosed in the table excluding prepaid finance costs.

The Group's policy on Derivatives and Other Financial Instruments is set out in Note 28.

27. Government Grants

	2016 £000	2015 £000
Deferred Income at March 28, 2015	**782**	1,138
Total grant income in the year	**—**	—
Deferred income from acquisitions during the year	**37**	—
Less: Amortisation to deferred income by release through cost of production in the year	**(269)**	(295)
Exchange differences	**4**	(61)
Deferred income at April 2, 2016	**554**	782
Presented in:		
Current liabilities	**215**	255
Non-current liabilities	**339**	527
Deferred income at April 2, 2016	**554**	782

There are no unfulfilled conditions or other contingencies attaching to government assistance.

28. Financial instruments

Background

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks

28. Financial instruments (Continued)

and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout the financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

The "financial instruments" which are affected by these risks comprise borrowings, cash and liquid resources used to provide finance for the Group's operations, together with various items such as trade debtors and trade creditors that arise directly from its operations, inter-company payables and receivables, and any derivatives transactions (such as interest rate swaps and forward foreign currency contracts) used to manage the risks from interest rate and currency rate volatility.

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives monthly reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables and investments.

The Group's exposure to credit risk is primarily attributable to its trade receivables. Credit risk is managed locally by the management of each business unit. Prior to accepting new customers, credit checks are obtained from reputable external sources. The amounts presented in the balance sheet are net of allowance for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction on the recoverability of the cash flows.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with low credit risk assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The Company has no significant concentration of credit risk, other than with its own subsidiaries, the performances of which are closely monitored. The Directors confirm that the carrying amounts of monies owed by its subsidiaries approximate to their fair value.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due.

To achieve this aim, the cash position is continuously monitored to ensure that cash balances (or agreed facilities) meet expected requirements for a period of at least 90 days.

28. Financial instruments (Continued)

The Board monitors annual cash budgets and updated forecasts against actual cash position on a monthly basis. At the balance sheet date, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

The maturity of financial liabilities is detailed in Note 17.

Market risk

Market risk arises from the Group's use of interest bearing and foreign currency financial instruments. It is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) or foreign exchange rates (currency risk).

a) Interest rate risk

The Group finances its operations through a mixture of retained profits, equity capital and bank facilities, including hire purchase and lease finance. The Group borrows in the desired currency at floating or fixed rates of interest and may then use interest rate swaps to secure the desired interest profile and manage exposure to interest rate fluctuations.

Interest rate sensitivity

The annualised effect of a 50 basis point decrease in the interest rate at the balance sheet date on the variable rate debt carried at that date would, all other variables held constant, have resulted in a increase in post-tax profit for the year of £284,000 (2015: decrease in post-tax loss of £110,000). A 50 basis point increase in the interest rate would, on the same basis, have reduced the profit for the year by the same amount.

Borrowings, contractual maturities and effective interest rate analysis

In respect of income-earning financial assets and interest bearing financial liabilities, the following table indicates their effective interest rates for the remaining contractual maturity based on the discounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The bank loans and BGF loan are disclosed in the table excluding prepaid finance costs.

	As at April 2, 2016						As at March 28, 2015					
	Effective Interest Rate %	Total £000	0–1 years £000	1–2 years £000	2–5 years £000	Over 5 years £000	Effective Interest Rate %	Total £000	0–1 years £000	1–2 years £000	2–5 years £000	Over 5 years £'000
Group												
Cash	**0.00**	**19,078**	**19,078**	—	—	—	0.08	2,392	2,392	—	—	—
Bank loans & overdraft	**3.28**	**(69,280)**	—	—	**(69,280)**	—	4.15	(27,295)	(17,583)	(9,712)	—	—
BGF loan and option	**13.30**	**(10,000)**	—	—	**(1,666)**	**(8,334)**	13.30	(10,000)	—	—	—	(10,000)
Finance lease and HP	**4.79**	**(1,109)**	**(183)**	**(223)**	**(703)**	—	5.32	(1,213)	(450)	(457)	(306)	—
	4.55	**(61,311)**	**18,895**	**(223)**	**(71,649)**	**(8,334)**	6.56	(36,116)	(15,641)	(10,169)	(306)	(10,000)
Company												
Bank loans & overdraft	**3.03**	**(74,962)**	**(5,682)**	**(9,712)**	**(69,280)**	—	3.46	(25,918)	(16,206)	(9,712)	—	—
BGF loan and option	**13.30**	**(10,000)**	—	—	**(1,666)**	**(8,334)**	13.30	(10,000)	—	—	—	(10,000)
	4.24	**(84,962)**	**(5,682)**	**(9,712)**	**(70,946)**	**(8,334)**	6.20	(35,918)	(16,206)	(9,712)	—	(10,000)

Non-interest bearing liabilities

	2016 £000	2015 £000
Non-interest bearing liabilities falling due within one year	**66,913**	39,066

Details of trade and other payables falling due within one year are set out in Note 16.

28. Financial instruments (Continued)

b) Currency risk

The main currency exposure of the Group arises from the ownership of the two Australian subsidiaries, which accounts for approximately 20% of the Group's net assets.

It is the Board's policy not to hedge against movements in the Sterling/Australian Dollar exchange rate.

Other currency exposure derives from trading operations where goods are exported or raw materials and capital equipment are imported. These exposures may be managed by forward currency contracts, particularly when the amounts or periods to maturities are significant and at times when currencies are particularly volatile.

Currency risk sensitivity

The effect of a 10% strengthening of the Australian Dollar against Sterling over the full year would, all other variables held constant, have resulted in an increase in Group post-tax profit for the year of £273,000. (2015: decreased Group post-tax loss by £121,000). A 10% weakening in the exchange rate would, on the same basis, have decreased Group post-tax profit by £223,000 (2015: increased Group post-tax loss by £99,000).

The effect of a 10% strengthening of the Australia Dollar against sterling at year end rates would have resulted in an increase to equity of £1,491,000 (2015: an increase of £1,318,000). A 10% weakening in the exchange rate would, on the same basis, have decreased equity by £1,220,000 (2015: decrease of £1,078,000).

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2016 £000	2015 £000	2016 £000	2015 £000
Australian dollar	**24,098**	7,939	**38,299**	20,377

c) Trading

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

29. Key sources of estimation uncertainty

In applying the Group's accounting policies, appropriate estimates have been made in a number of areas and the actual outcome may vary from the position described in the Group's and Company's balance sheets at April 2, 2016. The key sources of uncertainty at the balance sheet date that may give rise to a material adjustment to the carrying value of assets and liabilities within the next financial year are as follows:

Deferred tax assets

Deferred tax assets are recognised at the balance sheet date based on the assumption that there is a high expectation that the asset will be realised in due course. This assumption is dependent on the UK and Australia's ability to generate sufficient future taxable profits.

Deferred earn-out consideration and intangible asset valuations on acquisitions

Details of the deferred earn-out consideration and intangible asset valuations on the acquisitions made during the period are set out in Note 24.

Impairment of Goodwill

On an annual basis the Group is required to perform an impairment review to assess whether the carrying value of goodwill is less than its recoverable amount. Recoverable amount is based on a calculation of

29. Key sources of estimation uncertainty (Continued)

expected future cash flows, which include estimates of future performance. Details of assumptions used in this review are detailed in Note 10.

Defined benefit obligation

The Group has two defined benefit pension schemes. The obligations under the schemes are recognised in the Consolidated Balance Sheet and represent the present value of the obligation calculated by independent actuaries, with input from the Directors. These actuarial valuations include assumptions such as discount rates, return on assets and mortality rates. These assumptions vary from time to time according to prevailing economic conditions.

Because of changing market and economic conditions, the expenses and liabilities actually arising under the scheme in the future may differ materially from the estimates made on the basis of the actuarial assumptions. The effects of any change to these assumptions are accounted for in the next financial year as other comprehensive income. The calculation of any charge relating to retirement benefits is clearly dependent on the assumptions used, which reflects the exercise of judgement.

Inventories

A proportion of inventory is made up of stocks which are not expected to sell for the full normal selling price, either because they are remnants, come from discontinued ranges, or are below the required quality standard. This inventory is carried at a value which reflects the Directors' best estimates of achievable selling prices.

Trade receivables

Details of the provision made for non-recoverability of debts due to the Group from the sale of goods are set out under Note 15.

30. Related parties

Transactions between the Company and its subsidiaries have been eliminated on consolidation.

Identity of related parties

The Group has a related party relationship with its Directors and executive officers.

The Company has a related party relationship with its subsidiaries and its directors and executive officers.

Transactions with key management personnel

Key management personnel are considered to be the directors of the Company and its subsidiaries.

As at April 2, 2016, the key management personnel, and their immediate relatives controlled 41.6% of the voting shares of the Company.

The remuneration of the key management personnel of the Group is set out below in aggregate for each of the categories specified in IAS24 Related Party Disclosures.

	Group	
	53 weeks ended April 2, 2016 £000	**52 weeks ended March 28, 2015 £000**
Short-term employee benefits	**2,895**	1,661
Post-employment benefits	**419**	196
	3,314	1,857

30. Related parties (Continued)

Transactions with subsidiary undertakings:

	Company	
	53 weeks ended April 2, 2016 £000	52 weeks ended March 28, 2015 £000
Dividend income—The Victoria Carpet Company Pty Limited	**984**	—
Dividend income—Quest Flooring Pty Limited	**474**	—
Dividend income—Victoria Carpets Limited	**—**	500
Dividend income—Globesign Limited	**3,500**	2,000
Dividend income—Abingdon Flooring Limited	**3,000**	1,500
Dividend income—Interfloor Group Limited	**3,500**	—
Dividend income—Whitestone Carpets Holdings Limited	**2,000**	500
Rental income—Victoria Carpets Limited	**—**	80

	As at April 2, 2016 £000	As at March 28, 2015 £000
Amounts due from subsidiary undertakings	**88,521**	23,763
Amounts due to subsidiary undertakings	**1**	1

Transactions with the Business Growth Fund

Gavin Petken, a Non-Executive Director of Victoria PLC, is the Business Growth Fund's ('BGF') Regional Director for the South. On the September 30, 2014 the Company entered into a £10m 2022 unsecured loan facility with BGF. In addition, BGF has been granted an option over 746,000 new Ordinary 25p shares in the Company at 286p per share, representing 5% of the Company's deemed enlarged issued share capital at the time of grant.

The BGF loan and option is accounted for as separate debt and equity components (see Note 31(a)).

Interest charged to the income statement during the period in relation to the BGF loan was £1,326,000 (2015: £724,000).

31. Change in accounting policy and prior year adjustment

(a) Business Growth Fund loan and equity warrants

There has been a change this year in the accounting treatment of the Business Growth Fund ('BGF') fully subordinated £10m 2022 unsecured loan note facility and associated equity warrants (the 'BGF loan and option'). The loan note facility was previously treated as a £10m loan held on the balance sheet within 'other financial liabilities' along with accrued interest (totalling £164,000 as at the prior year-end) in relation to a £2,133,560 redemption premium payable in 2019. Linked to the loan note facility, BGF own warrants to acquire 746,000 shares in Victoria PLC at 286p per share, the total cost to BGF of exercising these warrants being £2,133,560 (payable to the Company). As at March 28, 2015, a balance of £60,000 was held in a share based payment reserve in relation to these warrants.

These instruments are now accounted for using split accounting which involves first determining the carrying amount of debt component. This is done by measuring the net present value of the discounted cash flows of interest and capital repayments, ignoring the possibility of exercise of the equity warrants. The discount rate is the market rate at the time of inception for a similar liability that does not have an associated equity instrument. On this basis the debt component, held within 'other financial liabilities', had a fair value as at March 28, 2015 of £9,470,000, and the equity component, held within 'other reserves', a fair value of £682,000. As at April 2, 2016, the fair value of the debt component had increased to £9,796,000 due to the unwinding of the interest rate discount over time, with a £326,000 charge going to finance costs in the income statement. This charge is split £146,000 within underlying interest charges and £180,000 within non-underlying finance costs, the latter amount being the additional annual charge associated with the redemption premium. In addition, there is non-underlying finance income of £72,000 in the year relating to the difference in the recognised BGF liability as at March 28, 2015 under the two

31. Change in accounting policy and prior year adjustment (Continued)

treatments (being the previous £60,000 share based payment reserve and a difference of £12,000.in interest charge to that date).

Furthermore, in the prior year, prepaid finance costs, including those associated with the BGF loan and option, were recognised within prepayments. These have now been offset against the relevant financial liability in the balance sheet. Amortisation of these prepayments was previously included in the income statement with administration costs and are now included within finance costs.

The resultant restatement of non-current financial liabilities and total equity for the Company as at March 28, 2015 is summarised below.

	Company	
	As at March 28, 2015	
	New treatment £000	Previous treatment £000
Amounts owed by subsidiaries	23,763	23,763
Prepayments and accrued income	108	664
Trade and other receivables	23,871	24,427
Bank overdrafts	9,517	9,517
Bank loans	6,549	6,689
Current other financial liabilities	16,066	16,206
BGF loan (debt component) recognised under the respective treatments	9,155	10,164
Difference between accounting treatments taken to BGF liability (subsequently released in the year to April 2, 2016)	72	—
Other non-current other financial liabilities	9,611	9,712
Non-current financial liabilities	18,838	19,876
Share capital	3,639	3,639
Share premium	10,144	10,144
Retained earnings	1,818	1,818
Share based payment reserve	—	60
Other reserves (BGF equity component)	682	—
Total equity	16,283	15,661

The impact on the prior year income statement of the change in accounting treatment to split the debt and equity components of the BGF loan and option is deemed to be immaterial and has therefore not been adjusted.

(b) New accounting policy in relation to sampling assets

A new accounting policy has been adopted this year in relation to expenditure on sampling assets. Sampling assets consist of a variety of product samples and sample books, as well as point of sale stands designed to hold the samples. The cost of these assets was previously expensed as incurred. Under the new policy, these assets are capitalised as fixed assets and depreciated.

The Group places sampling assets with retail customers for the purpose of helping to generate future customer sales, and therefore sales for the Group. These assets are held by customers in their stores for a period of time until the introduction of new colours or a new range by the Group, resulting in their replacement. As such, it has been deemed appropriate to capitalise these assets on the Group's balance sheet to reflect their existence and expected future economic benefit, and to depreciate to the income statement to match their cost against the revenue generated.

The Group's consolidated accounts and all subsidiary accounts have been prepared on the basis of this new accounting policy, with a prior-year adjustment reflected in the comparable figures. This includes a fully retrospective adjustment to reflect the Group's restated position and performance had this accounting

31. Change in accounting policy and prior year adjustment (Continued)

policy been adopted historically. As such, the restated depreciation charge in the year includes charges in relation to sampling assets acquired in previous financial years.

Sampling assets have been classed as 'Fixtures, vehicles and equipment' and sit within this category as presented in Note 12.

The useful economic life of these assets has been prudently estimated to be 24 months, and all sampling assets are depreciated on a straight-line basis over this time period.

The impact on the Group's consolidated income statement in the prior year is summarised below.

Income statement

	52 weeks ended March 28, 2015		
	Previous basis £000	Impact of change in accounting policy £000	Re-stated £000
Revenue	127,003	—	127,003
Underlying operating profit	9,392	37	9,429
Non-underlying operating items	(270)	—	(270)
Exceptional operating items	(7,952)	895	(7,057)
Operating profit	1,170	932	2,102
Interest charges	(1,498)	—	(1,498)
Non-underlying finance costs	(2,192)	—	(2,192)
Profit/(loss) before tax	(2,520)	932	(1,588)
Taxation	(1,658)	—	(1,658)
Profit/(loss) after tax from continuing operations	(4,178)	932	(3,246)
Loss from discontinued operations	(346)	—	(346)
Profit/(loss) for the period	(4,524)	932	(3,592)

Operating profit on the previous basis includes a £79,000 adjustment in relation to amortisation of prepaid finance costs, which was previously included within administration costs and has been reallocated to interest charges.

The change in underlying operating profit results from timing differences between the acquisition of sampling assets and the aggregate depreciation profile. The reduction in exceptional operating items relates to the fact that the net book value of these assets under the new accounting policy on the Abingdon Flooring acquired balance sheet is greater than the assessed goodwill arising from the acquisition at the time; with the resultant difference being treated as an exceptional acquisition related income, as required by IFRS.

The impact on the Group's earnings per share in the prior year is summarised below.

Earnings per share

	52 weeks ended March 28, 2015		
	Previous basis	Impact of change in accounting policy	Re-stated
From continuing operations:			
Basic earnings per share	(35.23p)	7.86p	(27.37p)
Diluted earnings per share	(35.23p)	7.86p	(27.37p)
Including discontinued:			
Basic earnings per share	(38.15p)	7.86p	(30.29p)
Diluted earnings per share	(38.15p)	7.86p	(30.29p)

31. Change in accounting policy and prior year adjustment (Continued)

The impact on the Group's consolidated balance sheet and other key financial information in the prior year is summarised below.

Balance sheet

	As at March 28, 2015			As at March 29, 2014		
	Previous basis £000	Impact of change in accounting policy £000	Re-stated £000	Previous basis £000	Impact of change in accounting policy £000	Re-stated £000
Total assets	113,656	2,929	116,585	78,697	2,038	80,735
Total liabilities	(93,205)	—	(93,205)	(44,058)	—	(44,058)
Net assets	20,451	2,929	23,380	34,639	2,038	36,677

Total assets and liabilities on the previous basis as at both March 28, 2015 and March 29, 2014 include adjustments in relation to the BGF loan and option and prepaid finance costs (see Note 31(a)).

The adjustment in total assets as at March 28, 2015 of £2,929,000 comprises an increase in fixed assets of £5,300,000 relating to the net book value of capitalised sampling assets, less a reduction in goodwill of £2,371,000 in relation to the acquisitions of Whitestone and Abingdon as a result of recognising sampling assets in their respective acquired balance sheets. Retained earnings as at March 28, 2015 also increase by £2,929,000.

The adjustment in total assets as at March 29, 2014 of £2,038,000 relates entirely to the net book value of capitalised sampling assets, with the equivalent increase in retained earnings.

Other information

	52 weeks ended March 28, 2015		
	Previous basis £000	Impact of change in accounting policy £000	Re-stated £000
Depreciation (from continuing operations)	2,758	3,647	6,405
Amortisation of acquired intangibles	270	—	270
	3,028	3,647	6,675

	52 weeks ended March 28, 2015		
	Previous basis £000	Impact of change in accounting policy £000	Re-stated £000
Capital expenditure (from continuing operations)	1,391	3,683	5,074

There is no impact from this accounting policy change on the Victoria PLC company only accounts.

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain. In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Sole Shareholder of Keraben Grupo, S.A.U.,

Opinion

We have audited the financial statements of Keraben Grupo, S.A.U. (the Company), which comprise the balance sheet as at 31 December 2017, and the statement of profit or loss, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended.

In our opinion, the accompanying financial statements present fairly, in all material respects, the equity and financial position of the Company as at 31 December 2017, and its results and its cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Company (identified in Note 2-a to the financial statements) and, in particular, with the accounting principles and rules contained therein.

Basis for Opinion

We conducted our audit in accordance with the audit regulations in force in Spain. Our responsibilities under those regulations are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those pertaining to independence, that are relevant to our audit of the financial statements in Spain pursuant to the audit regulations in force. In this regard, we have not provided any services other than those relating to the audit of financial statements and there have not been any situations or circumstances that, in accordance with the aforementioned audit regulations, might have affected the requisite independence in such a way as to compromise our independence.

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

Most Significant Audit Matters

The most significant audit matters are those matters that, in our professional judgement, were considered to be the most significant risks of material misstatement in our audit of the financial statements of the current period. These risks were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on those risks.

Changes in the Company's shareholder structure

Description	Procedures applied in the audit
As described in Note 1 to the accompanying financial statements, on 16 November 2017 the agreement to sell all of the Company's shares to a new shareholder was executed in a public deed. This transaction gave rise to, among other significant things, a process to divest assets unrelated to the Company's activities, certain non-recurring expenses, the early repayment of the full amount of the Company's bank borrowings and the arrangement of a new financing agreement with a related company. In view of the significance of these transactions, we considered this to be a significant matter in our audit.	Our audit procedures to address this matter included, among others, the obtainment, perusal and review of the sale agreement and of all the relevant documents relating to the aforementioned transactions, in order to obtain an appropriate understanding of the terms and conditions agreed upon and of their accounting impacts. Also, tests of details were conducted to assess the consistency of the Company's accounting records with the related supporting documentation. Lastly, we assessed whether the notes to the accompanying financial statements include the related disclosures required by the regulatory financial reporting framework applicable to the Company in relation to the transactions indicated.

Revenue recognition

Description	Procedures applied in the audit
As described in Note 15 to the accompanying financial statements, the Company recognised revenue of EUR 129,665 thousand in 2017, which relates mainly to the manufacture and marketing of pavements and ceramic wall and floor tiles. The recognition of this revenue in accordance with the current regulatory framework, although not complex, involves a large number of transactions with a significant number of customers. In view of these circumstances, we determined the occurrence of the Company's revenue and, particularly, of the uncollected sales transactions at the end of the year, to be a matter of significance in our audit.	Our audit procedures to address this matter included, among others, understanding the process for recognising revenue and accounts receivable in place at the Company. Also, we applied substantive procedures on a selective basis, such as a review of the consistency of the amounts accrued and recognised as revenue by the Company and the obtainment of third-party confirmations of a portion of the transactions recognised as "Revenue" in the accompanying statement of profit or loss, as well as of the accounts receivable recognised at the end of the year. In addition, analytical procedures were performed which made it possible to assess the reasonableness of the sales volumes and margins obtained in the year with respect to the trends of prior years, and tests of details were performed on a sample of sales recognised. Lastly, we assessed whether Note 15 to the accompanying financial statements includes the related disclosures required by the regulatory financial reporting framework applicable to the Company.

Other Information: Directors' Report

The other information comprises only the directors' report for 2017, the preparation of which is the responsibility of the Company's directors and which does not form part of the financial statements.

Our audit opinion on the financial statements does not cover the directors' report. Our responsibility relating to the directors' report, in accordance with the applicable audit regulations, consists of evaluating and reporting on whether the directors' report is consistent with the financial statements, based on our knowledge of the entity obtained in the audit of those financial statements and excluding any information other than that obtained as evidence during the audit. Also, our responsibility consists of evaluating and reporting on whether the content and presentation of the directors' report are in conformity with the applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report that fact.

Based on the work performed, as described in the preceding paragraph, the information in the directors' report is consistent with that contained in the financial statements for 2017 and its content and presentation are in conformity with the applicable regulations.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for preparing the accompanying financial statements so that they present fairly the Company's equity, financial position and results in accordance with the regulatory financial reporting framework applicable to the Company in Spain, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the audit regulations in force in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is included in the Appendix to this auditor's report. This description, which is on pages 5 and 6, forms part of our auditor's report.

DELOITTE, S.L.
Registered in ROAC under no. S0692

Pablo Company Sáez
Registered in ROAC under no. 23470

18 May 2018

Appendix to our auditor's report

Further to the information contained in our auditor's report, in this Appendix we include our responsibilities in relation to the audit of the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements

As part of an audit in accordance with the audit regulations in force in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the use by the directors of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the entity's directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the significant risks communicated with the entity's directors, we determine those risks that were of most significance in the audit of the financial statements of the current period and are therefore the most significant assessed risks.

We describe those risks in our auditor's report unless law or regulation precludes public disclosure about the matter.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain. In the event of a discrepancy, the Spanish-language version prevails.

KERABEN GRUPO, S.A.U.

BALANCE SHEET AS AT 31 DECEMBER 2017

(Thousands of euros)

	Notes	2017	2016
ASSETS			
NON-CURRENT ASSETS:		**113,303**	**124,249**
Intangible assets—	**5**	**3,965**	**5,306**
Research and development expenditure			99
Patents, licences, trademarks and other		3,569	4,974
Computer software		396	233
Property, plant and equipment—	**6**	**99,489**	**100,438**
Land and buildings		69,372	69,632
Plant and other items of property, plant and equipment		29,670	30,596
Property, plant and equipment in the course of construction and advances		447	210
Investment property—	**7**	**735**	**4,428**
Land		672	2,934
Buildings		63	1,494
Non-current investments in Group companies and associates—	**8 & 17-b**	**1,081**	**2,368**
Equity instruments		1,081	2,368
Non-current financial assets		**160**	**157**
Deferred tax assets	**14**	**7,873**	**11,552**
CURRENT ASSETS:		**58,691**	**71,309**
Inventories—	**9**	**21,261**	**20,181**
Greenhouse gas emission allowances		881	1,128
Goods held for resale		1,067	898
Raw materials and other supplies		1,489	1,271
Work in progress		425	486
Finished godos		17,399	16,398
Trade and other receivables—		**30,254**	**30,707**
Trade receivables for sales and services		28,294	24,704
Trade receivables from Group companies and associates	**17-b**	115	2,097
Sundry accounts receivable		80	92
Employee receivables		37	44
Current tax assets		1,207	2,526
Other accounts receivable from public authorities		521	1,244
Current financial assets—		**5**	**3,005**
Equity instruments		—	—
Loans to companies		—	—
Other financial assets		5	3,005
Current prepayments and accrued income		**180**	**188**
Cash and cash equivalents	**8**	**6,991**	**17,228**
TOTAL ASSETS		**171,994**	**195,558**
EQUITY AND LIABILITIES			
EQUITY:		**41,332**	**84,633**
SHAREHOLDERS' EQUITY—	**10**	**40,834**	**84,042**
Share capital		**5,291**	**5,291**
Share premium		**28,497**	**28,497**
Reserves—		**50,254**	**2,087**
Legal and bylaw reserves		1,058	1,058
Other reserves		49,196	1,029
Profit for the year		**(43,208)**	**48,167**
GRANTS, DONATIONS AND LEGACIES RECEIVED		**498**	**591**
NON-CURRENT LIABILITIES:		**102,718**	**74,474**
Non-current payables—	**13**	**798**	**61,227**
Bank borrowings		—	60,250
Obligations under finance leases		—	
Other financial liabilities		798	977
Long Term Debts with group companies and associated	**17-b**	**89,787**	
Deferred tax liabilities	**14**	**12,133**	**13,247**
CURRENT LIABILITIES:		**27,944**	**36,451**
Short-term provisions	**12**	**546**	**629**
Current payables—	**13**	**1,372**	**10,255**
Bank borrowings		—	7,007
Obligations under finance leases		36	143
Other financial liabilities		1,336	3,105
Long Term Debts with group companies and associated	**17-b**	**309**	
Trade and other payables—		**25,717**	**25,567**
Payable to suppliers		20,275	17,768
Payable to suppliers—Group companies and associates	**17-b**	—	22
Sundry accounts payable		1,049	1,776
Remuneration payable		2,927	2,959
Other accounts payable to public authorities		1,237	2,605
Customer advances		229	437
TOTAL EQUITY AND LIABILITIES		**171,994**	**195,558**

The accompanying Notes 1 to 19 are an integral part of the balance sheet as at 31 December 2017.

KERABEN GRUPO, S.A.U.

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2017

(Thousands of euros)

	Notes	2017	2016
CONTINUING OPERATIONS:			
Revenue—	**15**	**129,665**	**117,984**
Sales		129,338	117,644
Services		327	340
Changes in inventories of finished goods and work in progress		**940**	**775**
In-house work on non-current assets		**37**	**11**
Supplies—	**15**	**(30,674)**	**(30,753)**
Cost of goods held for resale sold		(2,363)	(4,420)
Cost of raw materials and other consumables used		(27,138)	(25,058)
Work performed by other companies		(1,187)	(1,324)
Write-down of goods held for resale, raw materials and other supplies	**9**	14	49
Other operating income—		**189**	**399**
Non-core and other current operating income		189	399
Staff costs—	**15**	**(26,144)**	**(23,752)**
Wages, salaries and similar expenses		(20,140)	(18,431)
Employee benefit costs		(6,004)	(5,321)
Other operating expenses—		**(30,974)**	**(31,171)**
Outside services	**15**	(28,732)	(28,810)
Taxes other than income tax		(831)	(854)
Losses on and write-down of trade receivables and changes in provisions for commercial transactions	**15**	(867)	(878)
Expenses relating to greenhouse gas emissions	**15**	(544)	(629)
Depreciation and amortisation charge	**5, 6 & 7**	**(9,045)**	**(8,934)**
Allocation to profit or loss of grants related to non-financial non-current assets and other gra10		**700**	**899**
Excessive provisions	**12**		**715**
Impairment and gains or losses on disposals of non-current assets—		**(869)**	**(841)**
Impairment and other losses	**7**	(504)	(1,268)
Gains or losses on disposals and other	**6 y 7**	(365)	427
Other gains or losses	**15**	**(64,702)**	**(4,065)**
PROFIT FROM OPERATIONS		**(30,877)**	**21,267**
Finance income—		**331**	**6,274**
From investments in equity instruments	**8**	319	6,230
From marketable securities and other financial instruments		12	44
Finance costs—	**13**	**(4,370)**	**(2,620)**
On debts with group companies and associated	**17-a**	(309)	—
On debts to third parties		(4,061)	(2,620)
Interest cost relating to provisions		—	—
Changes in fair value of financial instruments—		**(1)**	**—**
Held-for-trading financial assets/liabilities and other		(1)	—
Impairment and gains or losses on disposals of financial instruments—		**(949)**	**27,508**
Impairment and other losses		(335)	33
Gains or losses on disposals and other	**8**	(614)	27,475
Exchange differences	**11**	**(601)**	**15**
FINANCIAL PROFIT (LOSS)		**(5,590)**	**31,177**
PROFIT BEFORE TAX		**(36,467)**	**52,444**
Corporation tax	**14**	(6,741)	(4,277)
PROFIT FOR THE YEAR		**(43,208)**	**48,167**

The accompanying Notes 1 to 19 are an integral part of the statement of profit or loss for 2017.

KERABEN GRUPO, S.A.U.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

A) STATEMENT OF RECOGNISED INCOME AND EXPENSES

(Thousands of euros)

	Notes	2017	2016
PROFIT PER STATEMENT OF PROFIT OR LOSS (I)		**(43,208)**	**48,167**
		—	
Income and expense recognised directly in equity		—	
—Grants, donations and legacies received	**10**	576	872
—Tax effect	**10**	(144)	(218)
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY (II)		**432**	**654**
		—	
Transfers to profit or loss		—	
—Grants, donations and legacies received	**10**	(700)	(899)
—Tax effect	**10**	175	225
TOTAL TRANSFERS TO PROFIT OR LOSS (III)		**(525)**	**(674)**
		—	
TOTAL RECOGNISED INCOME AND EXPENSE		**(43,301)**	**48,147**

B) STATEMENT OF CHANGES IN TOTAL EQUITY

(Thousands of euros)

	Share capital	Share premium	Reserves	Prior years' profits	Profit for the year	Grants, donations and legacies received	Total
2016 BEGINNING BALANCE	**5,291**	**74,372**	**(3,234)**	**—**	**5,321**	**611**	**82,361**
Total recognised income and expense	**—**	**—**	**—**	**—**	**48,167**	**(20)**	**48,147**
Transactions with shareholders	**—**	**(45,875)**	**—**	**—**	**—**	**—**	**(45,875)**
—Dividends paid (Note 10)	—	(45,875)	—	—	—	—	(45,875)
Other changes in equity—	**—**	**—**	**5,321**	**—**	**(5,321)**	**—**	**(45,875)**
—Transfer of 2015 profit	—	—	—	5,321	(5,321)	—	(45,875)
—Distribution of 2015 profit	—	—	5,321	(5,321)	—	—	—
2016 ENDING BALANCE	**5,291**	**28,497**	**2,087**	**—**	**48,167**	**591**	**84,633**
Total recognised income and expense	**—**	**—**	**—**	**—**	**(43,208)**	**(93)**	**(43,301)**
Other changes in equity—	**—**	**—**	**48,167**	**—**	**(48,167)**	**—**	**—**
—Transfer of 2016 profit	—	—	—	48,167	(48,167)	—	—
—Distribution of 2016 profit	—	—	48,167	(48,167)	—	—	—
2017 ENDING BALANCE	**5,291**	**28,497**	**50,254**	**—**	**(43,208)**	**498**	**41,332**

The accompanying Notes 1 to 19 are an integral part of the statement of changes in equity for 2017.

KERABEN GRUPO, S.A.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

(Thousands of euros)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES (I)		**(26,048)**	**36,696**
Profit for the year before tax		**(36,467)**	**52,444**
Adjustments for—		**15,909**	**(21,686)**
—Depreciation and amortisation charge	**5, 6 & 7**	9,045	8,934
—Impairment losses		2,027	2,097
—Changes in provisions		(83)	(215)
—Recognition of grants in profit or loss	**10**	(700)	(899)
—Gains/Losses on derecognition and disposal of non-current assets	**5, 6 & 7**	365	(427)
—Gains/Losses on derecognition and disposal of financial instruments	**8**	614	(27,508)
—Finance income		(331)	(6,274)
—Finance costs		4,370	2,620
—Exchange differences	**11**	601	(14)
—Changes in fair value of financial instruments		1	
Changes in working capital—		**(456)**	**5,657**
—Inventories	**9**	(1,401)	(323)
—Trade and other receivables		(414)	443
—Other current assets		3,008	(2,933)
—Trade and other payables		150	8,193
—Other current liabilities		(1,620)	—
—Other non-current assets and liabilities		(179)	277
Other cash flows from operating activities—		**(5,034)**	**281**
—Interest paid		(1,189)	(2,620)
—Dividends received	**8**	319	6,230
—Interest received		12	44
—Income tax recovered (paid)		(4,176)	(3,373)
CASH FLOWS FROM INVESTING ACTIVITIES (II)		**(3,639)**	**30,606**
Payments due to investment—		**(6,964)**	**(11,665)**
—Intangible assets	**5**	(273)	(80)
—Property, plant and equipment	**6**	(6,573)	(11,442)
—Other financial assets		(118)	(143)
Proceeds from disposals—		**3,325**	**42,271**
—Property, plant and equipment	**6**	300	134
—Investment property	**7**	2,732	8,001
—Group companies and associates	**8**	293	33,179
—Other financial assets	**8**	—	957
CASH FLOWS FROM FINANCING ACTIVITIES (III)		**20,051**	**(56,487)**
Proceeds and payments relating to equity instruments—		**393**	**359**
—Grants, donations and legacies received	**10**	393	359
Proceeds and payments relating to financial liability instruments—	**13 & 17**	**16,658**	**(10,971)**
—Repayment of bank borrowings		(70,129)	(10,786)
—Payable to Group companies and associates		89,787	—
—Other borrowings			(185)
Dividends and returns on other equity instruments paid		**—**	**(45,875)**
EFFECT OF FOREIGN EXCHANGE RATE CHANGES (IV)		**(601)**	**14**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III+IV)		**(10,237)**	**10,829**
Cash and cash equivalents at beginning of year		17,228	6,399
Cash and cash equivalents at end of the year		6,991	17,228

The accompanying Notes 1 to 19 are an integral part of the statement of cash flows for 2017.

Keraben Grupo, S.A.U.

Report on the financial year ending 31st December 2017

1. Company Business

Keraben Grupo, S.A.U. (hereinafter, the Company) was incorporated on 2nd March 1974 for an indefinite time. Its registered office is at Carretera Valencia—Barcelona, Km. 44.3, in the town of Nules (Castellon), where its main production facilities and the place in which it engages in its business is located.

According to its Articles of Association, the Company's corporate purpose comprises the following activities:

- The manufacture, through all stages and processes, and the commercialization, including the purchase, sale, import, export, representation, wholesale and retail distribution, directly or on commission, and the transportation of all kinds of ceramic goods and products and their derivatives, supplementary or accessory items, especially floor tiles, wall tiles, bricks, clays, frits, colours, varnishes, bisques and similar items of all kinds, along with chemical ceramic items for the said industrial processes and any other article or material that is manufactured with the use of fire and that either serves as a raw material for the ceramic industry in the broadest sense or is itself a completely or partially finished product in the said industry.
- The provision of all kinds of services, advice and technical assistance in relation to the industries and products listed above.
- The trading and the leasing (excluding financial leasing) of any properties belonging to the Company itself or to third parties.
- The production and sale of electrical and thermal energy through co-generation.
- The possession, direction and management of holdings in other companies through the corresponding organisation of material and human resources.

The main activity engaged by the Company during the financial year 2017 consisted on the manufacture and marketing of ceramic floor and wall tiles.

The Company is the parent of a group of companies at 31st December 2017, but has not elaborated the consolidated annual accounts, for being exempt from this obligation, in accordance with current regulations, since they have direct shareholding on subsidies which do not possess a significant interest, neither, individually nor as a whole, for the faithful image of its net equity value, its financial situation and the group's results, and since it is integrated within a group of superior consolidation, according to what is indicted in the following section of this note. On the other hand, the consolidated annual accounts of Keraben Grupo, S.A.U. and its dependent companies for the 2016 financial year were approved in the General Meeting of Shareholders of Keraben Grupo, S.A.U. on the 30th of June 2017 and filed at Castellon Mercantile Registry.

Changes in Company's Shareholders in the year 2017

At 31st of December 2016, the Company belonged to a group of companies whose direct parent was Tensile-Keraben Holdings, S.à.r.l., which is domiciled in Luxembourg, and the group's ultimate parent company was Tensile Capital GP LLC, which is domiciled in the USA.

With date 16th November 2017, the sale's agreement of 100% of the Company's shares was formalized in public deed. After the formalization of this event, the actual sole shareholder of the Company is Kinsan Trade, S.L. The Company, therefore, is subjected to the sole shareholder regime, having communicated this circumstance to the Mercantile Registry. Such regime, establishes the obligation of the Company, among other issues, to show the memorandum, a breakdown of all the contracts or agreements maintained with its sole shareholder. (See Note 17).

As a consequence, at 31st of December 2017, the Company is integrated inside Kinsan Trade Group, whose parent company is Kinsan Trade, S.L., and domiciled in Barcelona. The consolidated annual accounts of Kinsn Trade Group will be filed in at Barcelona Mercantile Registry, and its elaboration is planned to be performed within the legal established period of time. The annual consolidated accounts of Kinsan Trade Group for 2017 will be the first one to be ever elaborated. At the same time, Kinsan Trade Group,

1. Company Business (Continued)

integrates within a group of companies whose ultimate parent company is Victoria PLC, domiciled in United Kingdom and listed in Lomdon's Alternative Investment Market.

This sale of the Company's shares agreement has supposed, fundamentally, the following implications:

- Previous disinvestment process of financial and real estate assets not linked to the Company's core business activity during the years 2016 and 2017 (See notes 7 and 8).
- Accounting of several non-recurrent expenses linked to the sale transaction (See noted 15 and 18).
- Early debt repayment the Company maintained with Financial Entities (See note 13).
- Formalization of a new financing contract with the ultimate parent company on which the Company integrates into (See note 17-b).

Corporate restructuring processes during previous financial years

Merger processes

Keraben, S.A. was the result of a merger between the companies Gres de Nules, S.A., as dominant company, and Keraben, S.A., as target company, which was registered on 18th March 2002, in accordance with the merger project published on 4th January 2002 and approved by the respective General Meetings of Shareholders of Keraben, S.A. and Gres de Nules, S.A., held in extraordinary fully-attended session on 27th November 2001, pursuant to Article 250.2 of the Consolidated Text of the Spanish Limited Companies Act. The merger was registered for accounting effects on 1st January 2001. In this merger, the dominant company adopted the name of the target company: Keraben, S.A.

Keraben Grupo, S.A.U. was the result from a simplified reverse merger registered on 15th October 2009, by means of the takeover by Keraben Grupo S.A.U.U., as dominant company, of the companies Kanban, S.L., Metropol Cerámica, S.L. and Keratrim, S.A., as target companies, in accordance with the merger project published on 7th July 2009 and approved by the General Meetings of Shareholders of Keraben S.A.U., Kanban, S.L., Metropol Cerámica, S.L. and Keratrim, S.A., held in extraordinary fully-attended session on 29th June 2009, pursuant to Article 250.2 of the Consolidated Text of the Spanish Limited Companies Act. The merger was registered for accounting effects on 1st January 2009.

On 26th October 2010, a reverse merger was registered at the Mercantile Registry, in which Industrias Químicas Benavent, S.L. was taken over by its fully-owned subsidiary Keraben Grupo S.A.U.U., in accordance with the merger project published on 6th July 2010 and approved by the General Meetings of Shareholders of Industrias Químicas Benavent, S.L. and Keraben Grupo, S.A.U.U., held in extraordinary fully-attended session on 29th June 2010, pursuant to the contents of Section 8, Chapter I, Title II of Act 3 of 3 April 2009, on the structural modification of commercial companies. This merger operation was completed by virtue of the special procedure provided for in Articles 49.1 and 52.1 of Act 3 of 3rd April 2009. The merger was registered for accounting effects on 21st June 2010.

On 8th November 2011, a merger was registered in which Keraben Tiendas, S.L.U. was absorbed by Keraben Grupo, S.A.U. Specifically, a public deed dated 30th September 2011 recorded a merger in which the company Keraben Grupo, S.A.U. (hereinafter, the dominant company) absorbed Keraben Tiendas, S.L.U. (hereinafter, the target company), in accordance with the merger project published on 13th July 2011, approved by the General Meetings of Shareholders of Keraben Grupo, S.A.U. and Keraben Tiendas, S.L.U. held in extraordinary fully-attended session on 10thAugust 2011. This merger operation was completed by virtue of the special procedure provided for in Article 49 of Act 3 of 3rd April 2009. The merger was registered for accounting effects on 1st January 2011.

On the described mergers, it was agreed to adopt the fiscal rules set out in the Spanish Company Tax Act. Specifically, the executed mergers were implemented under the tax rules set out in Chapter VIII of Title VII of Royal Legislative Decree 4 of 5th March 2004, which approved the consolidated text of the Spanish Company Tax Act. Pursuant to Eighth Additional Disposal of the Law 43/1995 of the

1. Company Business (Continued)

27th December Spanish Company Tax Act The compulsory information relating to the above merger operations was included in the annual accounts of the dominant companies in the relevant financial year.

Demerger processes

The Company held a General Meeting of Shareholders on 3rd November 2014, at which it approved the partial demerger project for the splitting off of the part of its equity comprising the elements attached to its agricultural business division and their allocation to a newly-created company. This demerger was implemented with a share capital and voluntary reserves. The merger was registered for accounting effects on 23rd December 2014, the date on which the said decision was publicly recorded. The operation was also registered with the Mercantile Registry on 19th January 2015.

2. Bases for presentation

a) Regulatory framework applicable to the Company as regards financial reporting

These annual accounts have been prepared by the Directors in accordance with the regulatory framework applicable to the Company as regards to financial reporting, as set out in:

- The Spanish Commercial Code and other mercantile legislation.
- The Spanish General Chart of Accounts approved by Royal Decree 1,514/2007, which was modified by Royal Decree 602/2016.
- The compulsory rules approved by the Spanish Institute of Accounting and Accounts Auditing for the implementation of the General Chart of Accounts and its supplementary regulations.
- All other applicable Spanish accounts regulations.

b) Faithful Image

These present annual accounts have been prepared from the Company's accounts records, and they are presented in accordance with the regulatory framework governing financial reporting that applies to the Company, particularly the accounting principles and criteria set down in the said regulatory framework. They thus show a faithful image of the Company's worth, financial situation, results and cash flow movements during the financial year. In particular, preparing these annual accounts, the Company's Directors applied the principles governing a company that is currently trading, since in their opinion there is no significant question regarding the continuity of its business activities. Furthermore, the Directors have neither taken nor do they plan to take any decision that could significantly alter the value of the asset and liability items entered in the accounts, or the time periods over which assets will be realised and liabilities settled.

These annual accounts, which have been prepared by the Company's Directors, shall be submitted for approval by the General Meeting of Shareholders, and it is expected that they will be approved without any changes. Meanwhile, the annual accounts for the 2016 financial year were approved by the General Meeting of Shareholders at date 30th June of 2017 and are held on file at Castellon Mercantile Registry.

The Directors of the Company are responsible for the information contained in these annual accounts.

c) Accounting principles

The accounting principles and criteria applied during the preparation of these annual accounts are summarised in note 4 of the accounts' memorandum. No non-compulsory accounting principles have been applied. In addition, the Directors have prepared these annual accounts taking account of all the accounting principles and regulations that must be applied and that have a significant effect on the said annual accounts. Where an accounting principle is compulsory, there is no instance in which it has not been applied.

2. Bases for presentation (Continued)

d) Critical aspects relating to the valuation and assessment of uncertainty

While preparing these annual accounts, estimates made by the Company's Directors have been used in order to place a value on some of the assets, liabilities, income, expenses and undertakings shown in the accounts themselves. These estimates basically refer to the following:

- The assessment of potential losses due to the impairment of certain assets (see notes 4-d, 4-f and 4-g).
- The useful life of intangible assets, tangible assets and real estate investments (see notes 4-a, 4-b and 4-c).
- The fair value of certain financial instruments (note 4-f).
- The forecast future taxable profits that make it probable that deferred tax assets will be recovered (note14)
- The calculation of certain allowance coverage amounts (see note 4-l).

Despite the fact that these estimates have been made on the basis of the best information available at the end of the financial year 2017, it is possible that events occurring in the future may make it necessary to modify them (either upwards or downwards) in coming years. This will be carried out, where necessary, in the form of a prospective analysis.

In the year 2017, the Company has incurred losses as a consequence, fundamentally, to the accrual of specific non-recurrent expenses linked the sale of shares agreement stated in note 1. Notwithstanding the foregoing, the Company's profit and loss accounts of the last years show positive operating margins and net profit. Additionally, the operating margin of the year 2017, without considering non-recurrent expenses, raises to a positive amount of 33.825 thousand of euros.

Likewise, At 31st of December 2017, the balance sheet shows a positive working capital by an amount of 30,747 thousand euros, and a net equity of 41,332 thousand euros. The company has all the financial support of the Group in which is integrated and that is materialized in the financing received (see note 17-b).

In this respect, the business plan developed by the company's managers foresees that it will continue to reach increasing levels of activity in the coming years, obtaining levels of profitability from its stable operations and generating the necessary financial resources to attend its liabilities. As a consequence, the administrators of the company consider that it will be able to fulfil all its commitments in the coming years so that these current accounts have been prepared according to the operating company principle.

e) Comparison of information

The information in these annual accounts relating to the 2016 financial year is presented solely for the purposes of comparison with the information financial year 2017.

f) Grouping of entries

Certain entries in the balance sheet, the profit and loss account, the statement of changes to net equity value and the cash flow statement are grouped together in order to facilitate understanding, though where information is particularly significant it is shown in broken down form in the corresponding notes to the accounts.

g) Changes to accounting criteria

There were no significant changes to accounting criteria during 2017 in comparison with the criteria applied during 2016.

2. Bases for presentation (Continued)

h) Correction of errors

During the preparation of these annual accounts, no significant errors were detected that involved re-entering the amounts included in the annual accounts for the 2016 financial year.

3. Application of the result

The proposal for the application of the result, which has been drawn up by the Company's Directors for the fiscal year 2017, pendant of approval of the General Meeting of Shareholders, is the allocation of the losses incurred in the year to the entry "Negative Results from previous years".

4. Entry and valuation rules

The main entry and valuation rules used by the Company when preparing its annual accounts for the financial year 2017, pursuant to the rules set out in the Spanish General Chart of Accounts, were as follows:

a) Intangible fixed assets

As a general rule, intangible fixed assets are initially valued at cost of acquisition or production cost. Subsequently, they are valued at cost minus the corresponding accumulated depreciation and, where applicable, minus losses incurred as a result of impairment, pursuant to the criteria explained in note 4-d. These assets are depreciated on the basis of their useful life.

The Company enters any loss that may have occurred in the registered value of these assets as the result of their impairment in the accounts, using the entry headed "Impairment and income from the disposal of fixed assets" in the profit and loss account as a contra entry. The criteria used to recognise losses due to the impairment of these assets and, where applicable, the recovery of any losses due to impairment entered in previous financial years are similar to those applied to tangible fixed assets, as explained in section d) of this note.

Research and development costs

The Company adheres to the criterion of entering the research and development costs that it has incurred over the course of the year in the profit and loss account. However, research and development costs become active when the following requirements are met:

- They are specifically individually defined by project and the cost can be clearly established.
- There are justifiable reasons to trust in the technical success and financial and commercial profitability of the project.

Any assets generated in this way are depreciated using the straight-line method over the course of their useful life (a maximum of five years). In addition, where there are doubts regarding the technical success or economic viability of the project, the amounts entered on the assets side of the balance sheet are attributed directly to the profit and loss account for the financial year.

Patents, licences, trademarks and similar

This heading includes the amounts paid to acquire patents and register the Company's trademarks, and items are valued initially at cost of acquisition or production cost, including registration and formal certification costs. They are depreciated using the straight-line method over 10 years.

This also includes the valuation of identifiable commercial trademarks that have emerged from the combination of businesses during previous financial years. Trademarks are valued at their fair value on the date of acquisition, minus the amount of the negative difference emerging from the said combination.

4. Entry and valuation rules (Continued)

IT applications

IT applications include software acquired from third parties, and they are entered at their acquisition price, which includes all the costs incurred until their effective entry into operation. These assets are depreciated using the straight-line method over a five-year period, from the moment that each application enters operation.

Repair and maintenance costs incurred during the financial year are charged to the profit and loss account. In this regard, charges in the form of maintenance services are entered as a cost in the profit and loss account in the financial year in which they are incurred.

b) Tangible fixed assets

Tangible fixed assets are initially valued at their cost of acquisition or production cost, and subsequently valued at cost minus the corresponding accumulated depreciation and, where applicable, minus losses incurred as a result of impairment, pursuant to the criteria explained in note 4-d.

The cost of replacing or refurbishing complete items and the cost of extending, modernising or improving items in order to extend their useful life, productivity or economic yield are entered as a higher cost of the tangible fixed asset in question, with the corresponding removal of the replaced or refurbished items.

Regular maintenance, conservation and repair costs are entered against the results, using the accrual principle, as a cost in the year in which they are incurred.

Any work carried out by the Company in relation to its own fixed assets is entered at the accumulated cost that results from adding external costs to internal costs, calculated on the basis of the materials used, direct labour costs and general manufacturing costs, based on rates of absorption similar to those applied for the purposes of making stock valuations.

Where applicable, if a fixed asset requires a period of more than one year in order to reach operational condition, capitalised costs will include any financial costs that have accrued prior to the item coming into operation and have been charged by the supplier or result from loans or other forms of outside financing, either specific or general, that are directly attributable to the acquisition or manufacture of the item in question. The Company did not capitalise any amount in this regard during the financial years 2017 and 2016.

The Company depreciates tangible fixed assets by applying annual depreciation percentages calculated on the basis of the estimated length of the useful life of such assets, as set out below:

Asset Type	Estimated Useful Life (years)	Method
Constructions	30–65	Straight line
Technical equipment and machinery	10–16	Straight line and declining balance
Other facilities, tools and furnishings	3–25	Straight line
Other fixed assets	3, 12–6, 25	Straight line

Useful life and amortization method are regularly reviewed in order to ensure that the method and term used to calculate depreciation are consistent with the expected pattern of profit generation relating to the intangible fixed asset element in question, and this is adjusted prospectively in the profit and loss account.

Investments that cannot be separated from items used under leasing arrangements classified as operational leases are entered as tangible fixed assets when they meet the requirements for definition as assets. These investments are depreciated on the basis of their useful life, which will be the length of the lease or assignment agreement, including any renewal term when there is evidence to support the fact that such a renewal is going to occur, and when this is shorter than the economic life of the asset.

Any profit or loss resulting from the disposal or withdrawal of an asset is calculated as the difference between the sale price and the book value of the asset, and this is entered in the profit and loss account.

4. Entry and valuation rules (Continued)

c) Real estate investments

This section includes the values of land, buildings and other constructions that are maintained either for exploitation under lease or to obtain a capital gain upon their sale, as a consequence of any increase in their respective market prices that may apply in the future. For these assets, the Company applies the valuation rules relating to tangible fixed assets.

d) Value impairment of intangible fixed assets, tangible fixed assets and real estate investments

At the end of each financial year, whenever there are signs of a fall in value, the Company uses the so-called impairment test to estimate the possible existence of a fall in value that may reduce the recoverable value of such assets to an amount that is lower than their book value. The recoverable value is calculated as either the fair value minus sale costs or the operational value, whichever is higher. In the event that the asset does not in itself generate cash flows independently from other assets, the Company calculates the recoverable value of the cash flow-generating unit to which the asset belongs.

During the financial years 2017 and 2016, the Company entered certain impairments in relation to some of its real estate assets (see note 7).

e) Leases

Leases are classified as financial leases whenever it can be concluded from the terms and conditions of the leases that the risks and benefits inherent in ownership of the asset forming the subject of the agreement are transferred substantially to the lessee. All other leases are classified as operational leases.

Financial leases

In the financial leasing transactions in which the Company acts as lessee, the cost of the leased assets is entered in the balance sheet on the basis of the nature of the item forming the subject of the agreement, and a liability in the same amount is simultaneously entered. This amount will be the lower of either the fair value of the leased asset or the present value of the minimum amounts agreed at the beginning of the lease, including any purchase option, when there is no reasonable doubt regarding the exercise of such an option. This calculation will not include fees of a contingent nature, service costs or taxes that are chargeable to the lessor. The total financial charge for the agreement is entered in the profit and loss account for the financial year in which it is accrued, applying the effective interest rate method. Fees of a contingent nature are entered as a cost in the year in which they are incurred.

Assets recorded for this kind of transaction are depreciated using criteria that are similar to the ones applied to tangible fixed assets as a whole, taking account of their nature.

The minimum amount of fees to be paid or received according to financial leasing contracts on which the Company appears as lessee or lessor, are not significant regarding the current annual accounts.

Operational leases

Operational leases are understood to be leases under which the lessor agrees to grant the lessee the right to use an asset over a specific period of time in return for a single payment or a series of payments or fees, so long as this is not a lease of a financial nature.

Any costs resulting from operational lease agreements are entered in the profit and loss account in the financial year in which they are incurred.

Any charge or payment that may be made when arranging an operational lease will be treated as an advance charge or payment and entered against the results over the term of the lease, as the benefits from the leased asset are assigned or received.

4. Entry and valuation rules (Continued)

The amount of the minimum fees to be paid and received in relation to operational lease agreements in which the Company is respectively named as either lessor or lessee is not significant in relation to these annual accounts.

f) Financial instruments

Financial assets

Classification and initial valuation

The financial assets owned by the Company are classified in the following categories:

a) Loans and accounts receivable: financial assets originating from the sale of goods or the provision of services as part of the company's normal business activities, or financial assets that, while not originating from commercial operations, are not equity instruments or derivatives; any payments collected are of a fixed and quantifiable amount and they are not traded on the markets.

b) Investments in the equity of group and associate companies: group companies are understood to be those that are linked to the Company via a controlling relationship, while associated companies are those over which the Company exercises a significant influence.

c) Guarantee bonds and deposits: these are entered in the amounts in which they were originally put in place, which do not significantly differ from their fair value.

The financial assets included in the various categories indicated above are initially entered, in general terms, at the fair value of the consideration handed over in payment plus any costs that can be directly attributed to the transaction.

Subsequent valuation

Loans and accounts receivable are valued at their depreciated cost.

Investments in group and associated companies are valued at cost, minus, where applicable, the accumulated value of any adjustments for impairment. These adjustments are calculated as the difference between their book value and their recoverable value, which is understood to be either their fair value minus sale costs, or the present value of future cash flows earned from the investment, whichever is higher. In the absence of better evidence of the amount that may be recoverable, account is taken of the net equity value of the subsidiary company, corrected by any unrealised capital gains that exist on the valuation date (including goodwill, where it exists).

The Company is the main shareholder of various companies (see note 8). The Company has not applied consolidation criteria in the current annual accounts as, in accordance with current regulations, it is exempt of the elaboration of consolidated annual accounts as indicated in note 1.

The Company carries out an impairment test, at least at the end of each financial year, on any financial assets that are not entered at their reasonable value. It is considered that there is objective evidence of impairment if the recoverable value of the financial asset is lower than its book value. When such impairment occurs, this is entered in the profit and loss account. In particular, as regards value adjustments relating to commercial debtors and other accounts receivable, the rule used by the Company to calculate the relevant value adjustments is to classify the amounts owing as doubtful debts.

Financial liabilities

Financial liabilities are debts and accounts payable that are owed to the Company and that have originated from the purchase of goods or services during the company's ordinary business operations, along with any liabilities that do not have a commercial origin and cannot be regarded as derivative financial instruments. At 31 December 2017 and 2016, the Company classified all of its short-term financial liabilities as debts and accounts payable.

4. Entry and valuation rules (Continued)

Debts and accounts payable are initially valued at the fair value of the consideration received, adjusted to take account of directly attributable transaction costs. Subsequently, these liabilities are valued according to their depreciated cost.

The Company removes financial liabilities when the obligations that gave rise to them disappear.

Net Equity Instruments

A Net Equity Instrument represents a residual shareholding in the equity of a Company, once all its liabilities have been deducted.

The Net Equity Instruments emitted by the Company are registered in the net equity by the amount received, net from expenses linked to its emission.

g) Stocks

Stocks are valued at their acquisition price, production price or net realizable value, whichever is the lowest. Commercial discounts, lower prices obtained, other similar amounts and the interest included in the base number of debited items are deducted when calculating the acquisition price. Discounts for prompt payment are also included as a lower purchase price, whether shown in the invoice or not.

The production cost includes direct material costs and, where applicable, direct labour costs and general manufacturing costs.

The net realizable value represents an estimate of the sale price minus all the costs that are estimated in order to complete manufacture, plus any costs that will be incurred during the course of the marketing, sales and distribution processes.

When allocating value to its inventories, the Company uses the FIFO method.

The Company makes the appropriate value adjustments, entering them as a cost in the profit and loss account, when the net realisable value of stocks is lower than their cost of acquisition (or production cost).

h) Subsidies, donations and bequests received

When accounting subsidies, donations and bequests received, the Company applies the following rules:

a) Non-repayable subsidies, donations and bequests: These are valued at the fair value of the amount granted or item received, depending on whether or not it is in monetary form, and they are entered in the results in proportion to the amount allocated to depreciation of the item benefiting from the subsidy over the period or, where applicable, when it is disposed of or a value adjustment is made for its impairment, with the exception of amounts received from members or owners, which are entered directly as shareholder equity and do not constitute any kind of income.

b) Repayable subsidies: While they remain repayable, they are entered as liabilities.

c) Operating subsidies: These are entered in the results at the time at which they are awarded, unless they are used to finance operational deficits in future years, in which case they are entered in the relevant financial year. If they are awarded in order to finance specific costs, they are entered as the costs being financed accrue.

i) Transactions in foreign currency

The operational currency used by the Company is the euro. Consequently, all transactions in currencies other than the euro are regarded as being denominated in foreign currency and entered according to the rates of exchange that apply on the transaction date.

At the end of the financial year, monetary assets and liabilities denominated in foreign currency are converted at the rate of exchange on the date of the balance sheet. Any profit or loss that emerges is entered directly in the profit and loss account for the financial year in which it occurs.

4. Entry and valuation rules (Continued)

j) Tax on profits

The cost or income from tax on profits comprises the part that relates to the cost or income from current tax and the part that corresponds to the cost or income due to deferred tax.

Current tax is the amount that the Company pays as a consequence of the tax payable on the income it has earned during the financial year. Any deductions or other tax advantages that apply to the tax amount, excluding withheld taxes and payments on account, plus any tax losses that can be offset from previous financial years and that can be applied during the current year, lead to a decrease in the current tax amount.

The cost or income from deferred tax corresponds to the recognition and cancellation of assets and liabilities resulting from deferred taxes. These include the time-period differences identified as amounts that are expected to be payable or recoverable due to the difference between the asset and liability amounts shown in the books and their taxable value, together with any negative tax bases that are pending offset and credits due as the result of deductions against tax that are not fiscally applied. These amounts are entered by applying the time-period difference or corresponding credit to the tax rate at which they are expected to be recovered or paid.

All time-period differences are entered as deferred tax liabilities, except for those that originate from the initial entry of goodwill or other assets and liabilities in operations that do not affect either the tax result or the book result and do not constitute a combination of businesses.

Meanwhile, deferred tax assets are only entered to the extent that it is considered probable that the Company will earn sufficient tax profits in the future for them to be offset.

Deferred tax assets and liabilities arising from operations that lead to direct charges or payments being entered as asset entries are also accounted for with a contra entry in net equity value.

Upon closing each set of accounts, the deferred tax assets recorded are reappraised and the relevant adjustments are made in the event that there are any doubts regarding their future recovery. Any deferred tax assets not recorded in the balance sheet are also appraised at the close of each year, and these are entered in the accounts whenever it becomes probable that they could be recovered against future taxable profits.

k) Income and expenses

Income and expenses are entered on the basis of accrual criteria, i.e. at the time of the actual flow of goods and services that they represent, regardless of the time at which the monetary or financial flow resulting from such goods and services occurs. Income is valued at the fair value of the payment received minus discounts and taxes.

Income from sales is entered at the moment that all significant risk and benefit inherent in ownership of the item being sold is transferred to the purchaser, and neither current management of that item nor effective control there over are subsequently maintained.

As regards income from the provision of services, this is recognised on the basis of the degree to which such services have been completed on the date of the balance sheet, provided that the results of the transaction can be reliably estimated.

Interests received from financial assets are entered on the basis of the effective interest rate method, while dividends are entered when the shareholders' right to receive them is announced. In any case, any interest or dividends accruing on financial assets subsequent to their acquisition are entered as income in the profit and loss account.

4. Entry and valuation rules (Continued)

l) Provisions and contingencies

When preparing these annual accounts, the Company's Directors have differentiated between the following:

- Provisions: liabilities covering obligations that remained outstanding on the date of the balance sheet as a consequence of past events that are likely to emerge and could result in damage to the Company's assets of an unknown value and over an unknown time. These amounts are entered on the balance sheet in the form of allowance provisions in the current most probable value that the Company estimates it would have to pay in order to be released from the obligation, and
- Contingent liabilities: potential obligations arising as a consequence of past events, the emergence of which is conditional upon whether or not one or more future events arise that are beyond the control of the Company.

These annual accounts record all the significant provisions in respect of which it is estimated that there is a probability that the obligation will need to be covered. Contingent liabilities are not entered in the annual accounts, though information on such liabilities is given insofar as they are not classified as remote.

Provisions are valued at the current value of the best possible estimate of the amount that will be required to cancel or transfer the obligation, bearing in mind all available information relating to the event and its consequences, and any adjustments arising as a result of the updating of such provisions are entered as a financial cost as they accrue.

Any compensation to be received from a third party at the time at which the obligation is settled, provided that there is no doubt that such compensation will be received, is entered as an asset, except in the event there is a legal connection through which part of the risk has been outsourced, under which the Company will not be obliged to assume liability; in this situation, the compensation will be taken into account when estimating the amount that is to be recorded, where applicable, for the provision in question.

m) Asset items of an environmental nature

Asset items of an environmental nature are understood to be lasting assets that are used during the course of the Company's activities for the main purpose of minimising environmental impact, protecting and improving the environment, including the reduction or elimination of future contamination.

The tangible fixed asset items designed to minimise any environmental impact that could result from the activities engaged in by the Company are valued at cost price, adjusted by their accumulated depreciation.

Any extension, modernisation and improvement costs are capitalised when they represent an extension of the estimated useful life of the assets in question. Otherwise they are treated as costs for that financial year, along with repair and maintenance costs.

Any costs that are incurred in relation to the protection and improvement of the environment and that do not represent an investment in tangible fixed assets are entered in the results for the year in which they are incurred, regardless of the time at which the cash or financial stream resulting from such costs materialises.

Amounts incurred in the management of environmental effects resulting from the business activities engaged in by the company are classified as environmental costs, as are the costs that result from the Company's existing environmental undertakings. These include the costs incurred as a result of preventing pollution in relation to the Company's current operational activities, the treatment of residue and waste, decontamination, restoration, environmental management and environmental auditing.

The Company follows the rule of accounting for any potential undertakings at the moment at which it becomes aware of them.

Allowance provision for probable or certain environment-related liabilities, on-going lawsuits and pending compensation and obligations of an undetermined amount, where not covered by the insurance policies

4. Entry and valuation rules (Continued)

that have been taken out, is set aside at the moment that the liability or obligation that will result in compensation or payment arises.

n) Greenhouse gas emission rights

Greenhouse gas emission rights, which are used for the cancellation of the obligation derived from the emissions developed by the company, were reclassified as stocks. In the same way, emission rights hold to be sold were registered.

Any profit or loss resulting from the disposal or withdrawal of a right is calculated as the difference between the sale price and the book value of the asset, and this is entered in the profit and loss account.

"Greenhouse gas emission rights" are entered in the balance sheet when the company becomes eligible for such rights. When such rights are acquired free of charge or at a price that is substantially lower than their market value, the acquisition price is considered to be their market price at the time of acquisition or at the beginning of the calendar year. In this case, they will be entered with a contra entry under "Subsidies, donations and bequests received" in the Net Equity Value section of the balance sheet, once any deferred tax associated with them has been deducted.

After being entered as an asset, emission rights are valued at their acquisition price or production price under stocks. The necessary provisions are set aside in order to give them their lower market value at the end of each financial year, whenever their book value may not be recoverable from the generation of sufficient income to cover all costs and expenses.

Costs attached to the emission of greenhouse gases require the corresponding provision to be made for risks and costs, and this provision is maintained until the moment that the Company has to cancel the obligation in question by handing over the corresponding emission rights.

Costs accrue as greenhouse gases are emitted, and they are entered under "Other operating costs-Costs from emission of greenhouse effect gasses" in the attached profit and loss accounts for 2017 and 2016, calculated according to the emission rights that have been transferred.

Subsidies of a non-repayable nature associated with emission rights acquired free of charge or at a price that is substantially below their market price are entered as "Subsidies, donations and bequests received" and charged to the profit and loss account in the same proportion as the costs incurred from the gas emissions relating to the subsidised emission rights.

o) Severance Payment

According to current legislation, the Company has the obligation to pay a compensation to those employees, which, under specific conditions, rescind their labour relationship. Therefore, the severance payments susceptible of reasonable quantification, will be registered as an expense of the year on which the decision of dismissal is communicated and adopted. In the current annual accounts, no provisions under this concept have been registered, as situations of this nature are not predicted to occur.

p) Related party transactions

The Company carries out all related party transactions at market prices. In addition, its transfer pricing policy is properly supported on the basis of the requirements set out in current tax legislation, and the Company's Directors therefore believe that there are no significant risks in this regard that could give rise to liabilities worthy of consideration in the future.

q) Classification of Current and non-current balances

Current assets are understood to be assets that are linked to the normal business cycle, which is generally regarded a one-year period, and the term is also understood to apply to assets that are due to maturity or be disposed of or realised in the short term following the end of the financial year, financial assets

4. Entry and valuation rules (Continued)

maintained for negotiation and cash and other equivalent liquid assets. Assets that do not meet these requirements are classified as non-current.

Similarly, current liabilities are liabilities that are linked to the normal business cycle, financial liabilities maintained for negotiation (excluding financial derivatives with a settlement term of more than one year) and, in general, all obligations that are due to mature or be cancelled in the short-term. Otherwise they are classified as non-current.

5. Intangible Fixed Assets

The movements that occurred during the financial years 2017 and 2016 under the heading "Intangible fixed assets", were as follows:

2017

	Thousands of euros			
	Opening Balance	Added	Removed	Closing Balance
Cost:				
Research and development	4,777	—	—	4,777
Patents, licences, trademarks and similar	14,367	18	—	14,385
IT applications	1,930	255	(260)	1,925
Total Cost	**21,074**	**273**	**(260)**	**21,087**
Accumulated Amortization:				
Research and development	(4,678)	(99)	—	(4,777)
Patents, licences, trademarks and similar	(9,393)	(1,423)	—	(10,816)
IT applications	(1,697)	(92)	260	(1,529)
Total Accumulated Amortization	**(15,768)**	**(1,614)**	**260**	**(17,122)**
Net Book Value	**5,306**			**3,965**

2016

	Thousands of euros			
	Opening Balance	Added	Removed	Closing Balance
Cost:				
Research and development	4,777	—	—	4,777
Patents, licences, trademarks and similar	14,315	52	—	14,367
IT applications	1,905	26	(1)	1,930
Total Cost	**20,997**	**78**	**(1)**	**21,074**
Accumulated Amortization:				
Research and development	(4,428)	(250)	—	(4,678)
Patents, licences, trademarks and similar	(7,972)	(1,421)	—	(9,393)
IT applications	(1,606)	(91)	—	(1,697)
Total Accumulated Amortization	**(14,006)**	**(1,762)**	**—**	**(15,768)**
Net Book Value	**6,991**			**5,306**

5. Intangible Fixed Assets (Continued)

The gross value of items that remain in use and were fully depreciated at the year-end 2016 and 2017 is as follows:

	Thousands of euros 2017	Thousands of euros 2016
Research and Development	4,777	4,214
Patents, licences, trademarks and similar	185	162
IT applications	1,289	1,503
Total	**6,251**	**5,879**

Patents, licences, trademarks and similar

The amount of 14,008 thousand of euros has been entered under "trademarks" in the section headed "Patents, licences, trademarks and similar", as the result of a valuation made by the Company's directors during the 2010 financial year in the context of the amalgamation of businesses that occurred in that year (see note 1).

The Company's directors cannot reliably estimate a foreseeable limit to the period during which this trademark can be expected to generate net cash revenues for the Company, and the trademark has been therefore amortized, pursuant to the applicable accounting regulations, over a ten-year period, applying, (in the event that there are signs of any impairment), an "impairment" test will be applied, in accordance with the methodology described in note 2-d.

6. Tangible Fixed Assets

The movement that occurred during the financial years 2017 and 2016 under the heading "Tangible fixed assets", was as follows:

2017

	Thousands of euros				
	Opening Balance	Added and Allocated	Removed	Transferred	Closing Balance
Cost—					
Land and Constructions	74,754	627		569	75,950
Technical equipment and other tangible fixed assets.	58,108	5,499	(1,266)	210	62,551
Advances and fixed assets under construction	210	447		(210)	447
Total Cost	**133,072**	**6,573**	**(1,266)**	**569**	**138,948**
Depreciation—					
Constructions	(4,579)	(1,089)			(5,688)
Technical equipment and other tangible fixed assets	(27,512)	(6,321)	952		(32,881)
Total depreciation	**(32,091)**	**(7,410)**	**952**	**—**	**(38,549)**
Impairment on Land and Buildings	**(543)**			**(367)**	**(910)**
Net Book Value	**100,438**				**99,489**

6. Tangible Fixed Assets (Continued)

2016

	Thousands of euros				
	Opening Balance	Added and Allocated	Removed	Transferred	Closing Balance
Cost—					
Land and Constructions	74,639	115	—	—	74,754
Technical equipment and other tangible fixed assets.	50,258	7,998	(1,908)	1,760	58,108
Advances and fixed assets under construction	1,760	210	—	(1,760)	210
Total Cost	**126,657**	**8,323**	**(1,908)**	**—**	**133,072**
Depreciation—					
Constructions	(3,500)	(1,079)	—	—	(4,579)
Technical equipment and other tangible fixed assets	(23,294)	(6,011)	1,793	—	(27,512)
Total depreciation	**26,794**	**(7,090)**	**1,793**	**—**	**(32,091)**
Impairment on Land and Buildings	**(543)**	**—**	**—**	**—**	**(543)**
Net Book Value	**99,320**				**100,438**

Information relating to additions and transfers

The majority of the additions in 2017 and 2016, along with the balance shown under the heading "Advances and fixed assets under construction", correspond to improvements to the Company's production facilities, which are scheduled to be completed over the coming years, as part of the investment plan approved by the Board of Directors.

In the year 2017, transfers have taken place whose net book value has raised up to 202 thousand of euros under the heading "Real Estate Investments", as the Company has started using the assets transferred within its recurrent operations.

Information relating to removals

The removals during 2017 and 2016, correspond to some items that have been sold during the financial period by a total amount of 300 thousand of euros (134 thousands of euros in 2016), and others that have been deregistered. The net result of these deregistration is a loss of an amount of 14 thousand of euros, which is entered under the heading "Impairment and income from the disposal of fixed assets—Results from sale of assets and other" on the attached profit and loss account for the financial year 2017 (profit of an amount of 12 thousand of euros in 2016).

Other information

As of 31st December 2017, and 2016, the Company had fixed asset items that had been fully depreciated as shown in the following breakdown (referring to the cost value recorded in the books):

	Thousands of euros	
	2017	2016
Technical equipment and machinery	4,317	3,838
Other facilities, tools and furnishings	7,078	6,046
Other tangible fixed assets	482	539
Total	**11,877**	**10,423**

6. Tangible Fixed Assets (Continued)

The totality of tangible assets is used by the company itself, not existing at the year-end of 2017 and 2016, any element ceded to third parties under lease.

At year-end of 2017 and 2016 there are no firm commitments of tangible asset purchases.

At year-end of 2017 and 2016, tangible assets do not include assets acquired to group companies by significant amounts.

It is the Company's policy to take out the insurance policies necessary to cover any potential risk to which its fixed asset items may be exposed. At the end of the 2017 and 2016 financial years, the net book value of its fixed assets was completely covered by these insurance policies.

At 31st December 2016, the Company's land and constructions were mortgaged in guarantee of the Company's compliance with its obligations and liabilities under several financing agreements.

According with the early repayment and cancellation of such financing contracts taken place in 2017, the mortgage over these assets has been cancelled (see note 13).

7. Real estate investments

The movements that occurred during the 2017 and 2016 financial years under the heading "Real estate investments", were as follows:

2017

	Thousands of euros				
	Opening Balance	Added	Removed	Transfers	Closing Balance
Cost—					
Land	7,929		(3,667)	(569)	3,693
Constructions	4,007		(3,822)		185
Total Cost	**11,936**		**(7,489)**	**(569)**	**3,878**
Depreciation—					
Constructions	(394)	(22)	390		(26)
Total Depreciation	**(394)**	**(22)**	**390**		**(26)**
Impairment	**(7,114)**	**(504)**	**4,134**	**367**	**(3,117)**
Net Book Value	**4,428**				**735**

7. Real estate investments (Continued)

2016

	Thousands of euros			
	Opening Balance	Added	Removed	Closing Balance
Cost—				
Land	22,948	—	(15,019)	7,929
Constructions	11,500	95	(7,588)	4,007
Total Cost	**34,448**	**95**	**(22,607)**	**11,936**
Depreciation—				
Constructions	(1,068)	(82)	752	(394)
Total Depreciation	**(1,068)**	**(82)**	**748**	**(394)**
Impairment	**(17,558)**	**(1,268)**	**11,712**	**(7,114)**
Net Book Value	**15,822**			**4,428**

Real estate investments refer to buildings and land allocated for exploitation under lease and/or maintained for the purposes of obtaining a capital gain on their sale.

The income obtained as the result of rents earned from real estate investments let out under lease during the financial year 2017, amounted to 49 thousand of euros in the year 2017 (74 thousands of euros in 2016), while the operating costs recorded in relation to these investments were 14 thousand of euros (19 thousands of euros in 2016).

During the financial years 2017 and 2016, the Company's Directors assessed the potential impairment of these assets. Their analysis revealed the need to record in the year 2017, an impairment in the amount of 504 thousand of euros, taking account of the expected sale price of these assets (1,268 thousands of euros in 2016). This amount was entered as a charge under the heading "Impairment and results from the disposal of fixed assets—Impairment and losses" in the attached profit and loss account.

In addition, during the 2017 financial year the Company has disposed of some of its real estate investments for a total sale price of 2,732 thousand of euros (8,001 thousands of euros in 2016), generating net losses of 351 thousand of euros, which are entered under the heading "Impairment and results from the disposal of fixed assets—Income from disposals and others" in the attached profit and loss account for 2017 (net profit of 415 thousands of euros in 2016).

Similarly, to the land and constructions included under tangible fixed assets, at 31st December 2016, some of the Company's real estate investments were mortgaged in guarantee of the Company's compliance with its obligations and liabilities under several financing agreements.

According with the early repayment and cancellation of such financing contracts performed in the year 2017, the mortgage over these assets has been cancelled.

8. Financial investments

Long-term Investments in group and associate companies

The movement under the heading "Long-term investments in group and associate companies" during the 2017 and 2016 financial years is as follows:

2017

	Thousands of euros			
	Opening Balance	Added	Removed	Closing Balance
Instruments on Equity Value	3,552	—	(1,998)	1,554
Long-term financial investments	**3,552**	**—**	**1,046**	**(473)**
Impairment of Instruments on Equity	**(1,184)**	**(335)**	**—**	**(473)**
Total long-term financial investments	**2,368**			**1,081**

2016

	Thousands of euros			
	Opening Balance	Added	Removed	Closing Balance
Instruments on Equity Value	8,260	67	(4,775)	3,552
Long-term financial investments.	**8,260**	**67**	**(4,775)**	**3,552**
Impairment of Instruments on Equity	**(1,443)**	**—**	**259**	**(1,184)**
Total long-term financial investments	**6,817**			**2,368**

At the close of the 2017 and 2016 financial years, the shares that the Company continued to hold, which corresponded in all cases to unlisted companies, were as follows:

	Thousands of euros					
	2017			2016		
	Cost	Impairment	Net Book Value	Cost	Impairment	Net Book Value
Expocerámica, S.A.	—	—	—	1,748	(1,006)	742
Cerámicas Navagrés, S.A.	1,045	(156)	889	1,045	(137)	908
Other related companies(*)	509	(317)	192	759	(41)	718
Total	**1,554**	**(473)**	**1,081**	**3,552**	**(1,184)**	**2,368**

(*) Companies not currently trading and/or of little relative importance.

During the 2017 financial year, the Company sold Expocerámica S.A., along with other shares included under the heading "Other related companies" shown in the above table, for a total price of 293 thousand of euros. As a result of the sale of these companies in which the Company held a shareholding, a loss of 614 thousand of euros was obtained, entered under the heading "Impairment and results from the disposal of financial instruments—Income from disposals and others" in the attached profit and loss account for 2017. As part of the agreements reached on the sale of Expocerámica, S.A., it has been established a minimum and obligated quantity of stock to be supplied by the Company to this other company (see note 9).

During the year 2016, the Company sold its shares on Construplas, S.L. and Nuevos Productos Cerámicos, S.A., along with other less relevant shares included under the heading "Other related Companies", by an aggregated amount of 35.524 thousands of euros, from which a profit of 27.475 thousands of euros was obtained, registered under the heading "Impairment and results from the disposal of financial instruments—Income from disposals and others" in the profit and loss account of the

8. Financial investments (Continued)

year 2016. A part of the sale's price was deferred until March 2017, so that at the year-end of 2016, an account receivable of an amount of 3.000 thousand euros was registered under the heading "Short-term Financial Investments", which has been liquidated during the current year.

The following section shows financial information over the most significant holdings to provide a faithful image in these annual accounts. This information remains provisional, as it does not relate to annual accounts that have already been prepared (or, where appropriate, audited), but the Company's Directors believe that this financial information will not undergo any significant changes (it also includes information from 2016 for the purposes of comparison):

2017

				Thousands of euros			
Name	**Address**	**Activity**	**% Holding**	**Share capital**	**Reserves**	**Result for the Year[c]**	**Operating Result**
Cerámicas Navagrés, S.A.[a] . . .	Noaín (Navarra)	Commercialization of construction materials	40	141	2.040	109	174

(a) Obtained from its annual accounts as of 31st December 2017, which are scheduled to be audited by other auditors.

(b) Does not include results from discontinuous operations by a significant amount.

2016

				Thousands of euros			
Name	**Address**	**Activity**	**% Holding**	**Share capital**	**Reserves**	**Result for the Year[c]**	**Operating Result**
Expocerámica, S.A.[a] . .	Valladolid	Commercialization of construction materials	75.53	90	925	(12)	(4)
Cerámicas Navagrés, S.A.[b] . . .	Noaín (Navarra)	Commercialization of construction materials	40	141	2,032	12	271

(a) Obtained from its annual accounts as of 31st December 2016, Deloitte, S.L.

(b) Obtained from its annual accounts as of 31st December 2016, audited by other auditors.

(c) Does not include results from discontinuous operations by a significant amount.

During the financial year 2017, the Company received dividends in the amount of 319 thousand of euros that had been totally liquidated by the end of the financial year. They are entered under the heading "Financial income—From shares in asset instruments" in the attached profit and loss account of 2017 (6.230 thousands of euros in 2016).

Cash and other equivalent liquid assets

At the year-end 2017 and 2016 the balance amount of the heading "Cash and other equivalent liquid assets" in the balance sheet, corresponds in its totality, with the bank account balances maintained by the Company with recognized prestige Financial Entities, accounting during both fiscal years, interests according to market interest rates, which are not significant in comparison with the current annual accounts.

8. Financial investments (Continued)

Information on the nature and level of risk of financial instruments

The management of the Company's financial risk is centralised in its financial department, which has the necessary mechanisms in place to control exposure to variations in both interest rates and exchange rates, along with exposure to credit and liquidity risk. The following are the main financial risks that have an impact on the Company:

a) Credit risk

The Company keeps its cash and equivalent liquid assets with recognized prestige Financial Entities. In addition, a significant proportion of its turnover and accounts receivable from non-related clients are guaranteed by means of credit insurance policies.

Furthermore, it should be mentioned that there is no significant concentrated third-party credit risk, since no client represents more than 10% of the Company's total accounts receivable. Individual credit limits are established on the basis of both internal and external ratings, in accordance with the limits set by the Company. The use of these credit limits is regularly monitored.

b) Liquidity risk

In order to ensure liquidity and be able to attend to all the payment undertakings resulting from its business activities, the Company disposes treasury by the amount shown in the balance sheet, as well as the financing supplied by the ultimate parent company from the group in which it is integrated. As a consequence, the Company's directors believe that the Company has sufficient financial resources to engage in its normal business activities.

c) Market risk (including interest rate risk, exchange rate risk and other price-related risk)

The Company's cash and its financial debt are exposed to interest rate risk, which could have a significant effect on its financial results and cash flow, in the case a significant variation of such interest rate takes place, although this variation is not considered to be relevant by the Company's Directors. At the same time, the formalized debt by the Company with the ultimate group parent company, is not exposed to risks from interest rate variations, as a fixed interest rate is accounted (see note 17).

As regards exchange rate risk, this is mainly concentrated in the sale of finished product to countries in America and Asia, which are priced in US dollars. The Company has specific and adequate policies in place to monitor and manage exchange rate risk in the different currencies in which it operates.

9. Stocks

The movements in value adjustments due to impairment entered under the heading "Stocks" in 2017 and 2016 were as follows:

	Thousands of euros	
	2017	**2016**
Opening balance	997	1,100
Added (note 16)	1,318	997
Reversed (note 16)	(997)	(1,100)
Final balance	**1,318**	**997**

At 31st December 2017, the Company maintains sales commitments of stock by a total amount of 3.000 thousand of euros for the next four years (no amount at 31st December 2016).

At 31st December 2017 and 2016, there were no stocks held by third parties by a significant amount. Also, the Company does not maintain purchase commitments of stock by a significant amount at the year-end of 2017 and 2016.

9. Stocks (Continued)

The Company's policy consists on contracting insurance policies to cover any potential risk to which its stocks may be subject. At the end of the 2016 and 2017 financial years, these insurance policies almost entirely covered the value of the Company's stocks.

Greenhouse gas emission rights

The balance amount shown under "Greenhouse gas emission rights" in the balance sheet corresponds to a valuation of the rights purchased in previous financial years and assigned free of charge to the Company for the 2017 financial year, pursuant to the 2013-2020 National Allocation Plan. Under this Plan, 62,508 rights were allocated to the Company for the 2017 financial year (63,714 rights allocated in 2016).

93,177 rights were used up during this financial year (85,485 rights during 2016), each corresponding to one metric tonne of CO2, and the Company has therefore set aside a provision amounting to 546 thousand of euros during this financial year (629 thousands of euros in 2016), entered under the heading "Other Operating Costs—Costs due to greenhouse gas emission" in the attached profit and loss account for the 2017 financial year. Similarly, during 2017, the Company charged the amount of 382 thousand of euros to "Subsidies, donations and bequests received", entering a credit in the attached profit and loss account, corresponding to the subsidies associated with the emission rights consumed (512 thousands of euros during 2016).

During the 2017 and 2016 financial years the Company did not acquire any emission rights on the secondary markets.

At the end of each financial year, the Company assesses the market value of any rights not consumed, comparing their book value with the last available valuation, and it was not necessary to enter any value adjustment in this regard at the end of the 2017 or 2016 financial years.

10. Equity Value

Share capital

At the end of the financial years 2017 and 2016, the share capital was represented by 880,412 shares, each with a nominal value of 6.01 euros, all of them totally subscribed and paid up. All the shares representing the share capital grant the same rights, and they are not admitted for trading on the Stock Market.

At the close of the 2017 financial year, the sole shareholder of the Company is Kinsan Trade, S.L. (see note 1). At the year-end of 2016, the only companies with a holding of more than 10% in the Company's share capital were Tensile-Keraben Holdings S.à.r.l, S.L., which hold a share of 77.3%, and Modernas Iniciativas Empresariales, S.L., with a share of 22.7%.

At 31st December of 2016, a right of pledge over the 100% of the Company's shares kept constituted, as a guarantee of certain financing operations, which have been cancelled during 2017 (see note 13).

Share issue premium

The balance amount of the heading "Share issue premium", originated as the consequence of corporate operations performed on previous years. The mercantile regulations in force, expressly allows the utilization of the balance in amount for capital increases and does not establishes any specific restrictions on its availability.

Legal reserve

Pursuant to the Spanish Capital Companies Act, limited companies must allocate an amount equal to 10% of their profits for the year to the legal reserve, until this reserve is equal to at least 20% of the share capital figure. The legal reserve may be used to increase the share capital using the portion of the reserve that exceeds 10% of the increased share capital figure. Except as mentioned above, and provided that it does not exceed 20% of the share capital figure, this reserve may only be used to offset losses, provided that there are no other reserves available for this purpose.

10. Equity Value (Continued)

At the year-end of 2017 and 2016, this reserve was totally constituted, by an amount of 1,058 thousands of euros.

Reserve under Article 80.4 of Act 2/1995

This reserve, included under the headline "Other reserves", amounting up to 28 thousand euros at the end of the financial years 2017and 2016, correspond to a capital share reduction performed by Kanban, S.L., an acquired company in the fiscal year 2009 (see note1).

Dividend distribution

Due to the fact that the account of expenses on research and development have not been totally amortized by the year-end of 2016, it was prohibited any dividend distribution from profits, unless the amount of the available reserves, were minimum as the same amount of the non-amortized balance. As a consequence, at the close of the 2016 financial year, the balance shown under "Other reserves" was unavailable in the amount of 99 thousand of euros. In the year 2017, the balance amount of research and development expenses, has been totally amortized, and therefore, exists no limitation on the distribution of dividends.

On the last 5 years the Company has not distributed dividends, with the exemption to the one distributed with charge to the issue premium in the year 2016, by an amount of 45,875 thousand of euros, which was fully settled prior to the close of that financial year.

Subsidies, donations and legacies received

The information relating to the subsidies received by the Company, which form part of its net worth, along with the information on the income entered in the profit and loss account that has resulted from such subsidies, is as follows:

	Thousands of euros	
	2017	2016
Opening balance	591	611
Added	576	872
Tax effects	(144)	(218)
Transferred to results	(700)	(899)
Fiscal effects	175	225
Final balance	**498**	**591**

At the 31st of December 2017, a portion of these subsidies, by an amount of 382 thousand of euros, received from the Environment Ministry, relates to greenhouse gas emission rights (see Note 19) (this amounted to 512 thousands of euros at year-end 2016).

The other subsidies were mainly granted for the purposes of financing the completion of research and/or development projects and the acquisition of tangible fixed assets

In opinion of its directors, at the end of the financial years 2017 and 2016, the company had complied with all the requests necessary in order to receive and benefit from the subsidies mentioned above.

11. Foreign currency

The Company's operating currency in 2017 and 2016 has been the euro.

11. Foreign currency (Continued)

The following table shows a breakdown of the most important balances and transactions performed in foreign currency, valued respectively at the exchange rate on the closing date and the average exchange rate.

	Thousands of euros			
	2017		2016	
	US Dollar	Other currencies	US Dollar	Other currencies
Fixed assets	294	—	282	—
Investments in group companies	—	—	317	210
Accounts receivable	923	2,169	1,338	1,787
Cash and other equivalent liquid assets.	294	2	279	5
Accounts payable	—	—	(133)	—
Purchases	(57)	—	(40)	—
Sales	3,275	1,844	3,715	1,766
Services received	(422)	(3)	(342)	(18)
Services provided	14	—	45	—
Dividends received	319	—	298	—

There were no other relevant transactions during 2017 and 2016, nor were there significant balances on 31st December 2017 and 2016 in currencies other than the euro.

The exchange rate differences recorded in the results for the financial year 2017 represented a net loss of 601 thousand euros entered under the heading “Exchange rate differences” in the attached profit and loss account (14 thousands of euros net profit in the year 2016.)

12. Provisions and contingencies

El balance amount under the heading “Short-term Provisions” in the attached balance sheet of 2017, correspond principally, to the provision for rights on emissions of greenhouse gas effect by an amount of 546 thousand of euros (629 thousands of euros at year-end of 2016) (see note 9).

13. Long- and short-term debts

Debts with credit institutions

At date 16th November 2017, the Company has early amortized and entirely cancelled, the pendant amounts due to be paid with Financial Entities, leaving the current financing contract totally reimbursed, cancelled and extinguished to all of its effects, by which from that moment onwards, no other obligations are pendant to be fulfilled by the Company. By this means, that at 31st of December 2017, no balance amount under the heading “Long-term Debts with Financial Entities” exist, and “Short-term debts—Debts with Financial Entities” (60.250 and 7.007 thousands of euros in 2017 and 31st of December 2016, respectively).

The funds needed to carry out the early repayment previously described, have been obtained by the Company throughout a loan granted by the ultimate parent company from the group of companies in which it is integrated (see note 17-b).

As a consequence of the early repayment of the previously mentioned debt, the balance amount of the heading “Financial Expenses-Due to debt with third parties” in the attached profit and loss account from the year 2017, includes an amount of 2,872 thousand of euros, which correspond to the allocation to the result of the amortization cost of financing, as well as specific cancellation expenses related to it.

13. Long- and short-term debts (Continued)

The breakdown of debt with credit institutions at the close of 2016 was as follows:

	Thousands of euros		
	Short-Term	Long-Term	Total
Bank loans	7,007	60,250	67,257
Financial leases	143	—	143
Other financial liabilities.	3,105	977	4,082
Total	**10,255**	**61,227**	**71,482**

Additionally, the maturity dates of the long-term debts with credit institutions at 31st December 2016 break down was follows:

2016

	Thousands of euros					
	2018	2019	2020	2021	2022 and later	Total
Bank loans	7,797	7,831	8,266	36,356		60,250
Other financial liabilities	173	184	150	150	320	977
Total	**7,970**	**8,015**	**8,416**	**36,506**	**320**	**61,227**

The balance entered under "Bank loans" in 2016 corresponded almost entirely to a syndicated loan granted to the Company in previous financial years, the final maturity date of which was set for the year 2021, and within its principal characteristics there were a number of guarantees in favour of credit entities that have been put in place.,

- First-rank real estate mortgage over various properties (the net book value of which at the close of the financial year 2016 amounted to 66,543 thousand of euros): a first-rank asset mortgage established over the "Keraben" trademark, pledge over all the shares in Keraben Grupo, S.A.U.
- First-rank real estate mortgage over various real estate assets, whose net book value at the close of the financial year 2016 amounted to 4,312 thousand of euros.
- Certain obligations relating to a compulsory early repayment of the senior tranche, by way of a cash sweep, depending on compliance with certain financial ratios which its compliance was not achieved at the year-end of 2016.
- Restriction on the distribution of dividends while all of the financing operations described above remained pending of cancellation, though the Company obtained express authorisation from the financing institutions to make the dividend distribution mentioned in note 10.

In March 2017, the Company reached an agreement for refinancing its debt with the financing institutions on which the conditions of the said financing were modified, releasing at the stated date of practically all of the guarantees described above.

The main characteristics of such financing were, fundamentally, the following:

- Syndicated Loan of 70 million euros, in a unique tranche.
- Amortization Period of 7 years.
- Interest Rate referenced to Euribor plus a market spread, which would change depending on the evolution of specific financial ratios of the Company.
- Limitations to dividends distribution and additional indebtedness from the Company were eliminated, only if certain financial ratios were below certain established limits.

13. Long- and short-term debts (Continued)

The limits and amounts drawn down from the existing credit facilities at the year-end of 2016 and 2017, according to its nature, are the following.

Falta por incluir y traducir estos cuadros (ojo con las comas para indicar los miles de euros):

2017

	Thousands of euros		
	Limit	Drawn Down	Available
Domestic Discount Credit Lines	7,480	—	7,480
Export Discount Credit Lines	14,250	—	14,250
Total	**21,730**	**—**	**21,730**

2016

	Miles de euros		
	Limit	Drawn Down	Available
Domestic Discount Credit Lines	4,689	—	4,689
Export Discount Credit Lines	16,492	—	16,492
Total	**21,181**	**—**	**21,181**

Other Financial Liabilities

The amount entered under “Other financial liabilities” in the current and non-current liabilities section of the balance sheet at year-end 2017 and 2016 correspond to loans granted by various Public Entities, and other debts maintained with asset suppliers. These loans do not accrue any kind of interest expense, and the implicit interest is not significant for the current annual accounts. In order to calculate the fair value of this debt, the Company has taken its par value, which does not differ significantly from its current net value.

Deposits and guarantees

At 31 December 2017, the Company is a guarantor throughout guarantees put in place through financial institutions by an amount of 5 thousand of euros (1,930 thousands of euros at 31st of December 2016). Moreover, at the 31st December 2017, the Company was guaranteed by Financial Institutions by an amount of 2,342 thousand of euros (2,816 thousands of euros at the 31st of December 2016). The Company’s directors believe that any liabilities that might emerge as a result of the bonds that remained in place at the close of the 2017 financial year, where applicable, would not be significant.

14. Government Bodies and tax situation

Reconciliation between accounting income and taxable income

Company Tax is calculated on the basis of financial or accounting income, which is obtained in accordance with generally accepted accounting principles and which does not necessarily have to coincide with taxable income, this being understood to mean the tax base.

14. Government Bodies and tax situation (Continued)

Accounting income and taxable income for Company Tax purposes in the financial years 2017 and 2016 were reconciled as follows:

2017

	Thousands of euros		
	Increase	**Reduction**	**Total**
Book income after taxes			**(43,208)**
Tax on profits	6,741	—	6,741
Permanent Differences:			
Non-deductible expenses	64,620	—	64,620
Non-Taxable Income	—	(232)	(232)
Temporary differences:			
Originating during the financial year	4,216	(894)	3,322
Originating in previous years	748	(1,354)	(606)
Preliminary tax base			**30,637**
Offset of negative tax bases			(7,659)
Tax base			**22,978**

2016

	Thousands of euros		
	Increase	**Reduction**	**Total**
Book income after taxes			**48,167**
Tax on profits	4,277	—	4,277
Permanent differences:			
Non-deductible expenses	505	—	505
Non-qualifying income	—	(32,196)	(32,196)
Temporary differences:			
Originating during the financial year	5,079	(5,954)	(875)
Originating in previous years	974	(1,932)	(958)
Preliminary tax base			**18,920**
Offset of negative tax bases			(4,730)
Tax base			**14,190**

Information on permanent differences

Increases in the tax base due to permanent differences for the 2017 financial year correspond, mainly, with non-recurrent expenses linked to the sale of the Company's shares agreement and the business evolution, which were materialized with that sale agreement described in note 1. The Managers and its tax advisors, consider such expenses to be tax deductible, but want to confirm these criteria with the General Directorate of Taxation, and therefore, the Company together with tis tax advisors have formally presented a query to the General Directorate of Taxation regarding the deductibility of these expenses, which at the date of the elaboration of the current annual accounts, have not yet been resolved.

The rest of increases correspond to i) taxes paid abroad, ii) adjustment due to loss in sale of shares, iii) differences between accounting and fiscal amortization.

14. Government Bodies and tax situation (Continued)

Reductions in the tax base due to permanent differences for the 2016 financial year corresponded, mainly, to: i) the adjustment made to the tax benefit obtained by the parent Company in the sale of the companies in which it had a holding, as detailed in note 8, at a price of 26,101 thousands of euros, and ii) the adjustment made to the tax base due to the receipt of dividends in the amount of 5,932 thousands of euros (see note 17). On the other hand, the increases in the taxable amount due to permanent differences of the year 2016 corresponded, fundamentally, with taxes paid abroad, difference between accounting and fiscal amortization, and other non-deductible expenses in Law 24/2014 of Corporate Tax.

Information on temporary differences

The difference between the tax burden entered for the financial year and for previous financial years and the tax burden that has already been paid or is due to be paid for the same financial years is the result, in the main, of time period differences originating from the financial year itself in a net amount of 3,322 thousands of euros, which mostly corresponds to: i) the increases in the tax base as a result of the book depreciation of the trademark, in the amount of 1,401 thousands of euros, (same amount in 2016); ii) the increase of impairment of customer's bad debt registered during the year by an amount of 763 thousands of euros, charged to "Losses, impairment and variation of provisions of commercial operations" in the profit and loss account (1,268 thousands of euros in 2016); iii) the increase in the impairment of real estate investments entered during the financial year in the amount of 504 thousands of euros, under the heading "Impairment and income from the disposal of fixed assets—Impairment and losses" in the attached profit and loss account for the 2017.

At the same time, in the years 2016 and 2017, the Company has adjusted to the accounting result, temporary differences with its origin on previous fiscal years, which correspond mainly with: i) the partial reversal of the adjustment performed to the impairment endowment of tangible and intangible assets, due to fiscal limitation on the deduction of such expense, introduced on Act 16 of 27th December 2012, which implemented various tax-related measures aimed at consolidating the public finances and boosting economic activity, and ii) to the reversal of the accelerated amortization applied on previous fiscal years.

Reconciliation between accounting income and cost for Company Tax purposes

Book income and costs for Company Tax purposes in the financial years 2017 and 2016 were reconciled as follows:

	Thousands of euros	
	2017	**2016**
Book income before taxes	**(36,467)**	**52,444**
Tax at 25% (28% in 2015)	(9,117)	13,111
Impact of permanent differences	16,097	(7,923)
Deductions generated	(348)	(331)
Adjustments for changes on income tax rates and other adjustments	109	(580)
Total costs/(income) for tax purposes entered in the profit and loss account	**6,741**	**4,277**

The section headed "Deductions Generated" of the above table for the years 2017 and 2016 correspond to the deduction due to research & development and technological innovation, deduction due to double international taxation, donations to non-profit entities, reversal of temporary measures and employment creation for disabled people-year 2017-.

The section headed "Other adjustments" in the above table of the years 2017 and 2016, corresponds, mainly, to the difference in the book and tax valuations of the companies in which the Company had a shareholding at the time of their sale.

14. Government Bodies and tax situation (Continued)

Deferred tax assets.

The Company's tax assets, differentiating between temporary differences, negative tax bases and deductions pending application, can be broken down as of the end of 2017 and 2016 as follows:

	Thousands of euros			
	2017		2016	
	Taxe Base	Amount Payable	Taxe Base	Amount Payable
Temporary differences—				
Limitation on Amortization up to 70%	600	180	1,092	273
Value adjustaments in combinations of businesses	3,073	768	4,931	1,233
Impairment of financial investments	674	168	551	138
Impairment of plots of land	399	100	288	72
Non-deductible provisions	763	191	316	79
Other temporary differences	142	36	488	121
Credits from negative tax bases	11,230	2,807	18,889	725
Deductions pending application	—	3,623	—	4,911
Total	**16,881**	**7,873**	**26,555**	**11,552**

The deferred tax assets referred above have been recorded in the balance sheet because the Company's Directors believe that, according to estimates of the Company's future results, positive tax bases will be obtained in sufficient amounts to ensure that these assets will be able to be recovered within the term set out in law to this end.

Negative tax bases pending to be offset

In accordance with current legislation, negative tax bases from one financial year can be offset for tax purposes against positive tax bases from subsequent financial years, and there is no limit on the number of years in which they can be offset under the tax legislation currently in force. However, these negative tax bases can be modified as a consequence of an inspection relating to the financial years in which they were generated. For the financial year 2017, the implementation tax rate of 25% is maintained.

At the end of 2017, the Company retained negative tax bases pending application in the amount of 12,230 thousand of euros (18,889 thousands of euros at 31 December 2016), as broken down below.

	Thousands of euros	
Financial year in which they originated	2017	2016
2008	—	2,323
2009	11,230	16,566
Total	**11,230**	**18,889**

Deductions pending application

Legislation related to Corporate Tax establishes various fiscal incentives with the objective of encouraging the research and development and technological innovation, exports and training activities. At year-end 2017, the Company has deductions due to the above concepts described, pendant of usage on future corporate tax liquidations by an amount of 2,661 thousand of euros (3,939 thousands of euros in 2016), as well as by other concepts by an amount of 962 thousands of euros (936 thousands of euros in 2016).

According to the legislation in force, any deductions that remain pending application may be applied, basically, within a period of fifteen and eighteen years following the financial year in which they were generated, depending if the majority of deductions relate to research and development (18 years) or the remaining deductions (15 years).

14. Government Bodies and tax situation (Continued)

At the end of 2017 and 2016, deductions that remained pending application, shown by year in which they were generated, break down as follows:

Year generated	Thousands of euros 2017	Thousands of euros 2016
Previous to 2005	—	380
2005	1,007	602
2006	1,007	1,414
2007	586	587
2008	378	378
2009	264	264
2010	199	199
2011	278	278
2012	165	164
2013	256	255
2014	158	158
2015	91	135
2016	104	97
2017	137	—
Total	**3,623**	**4,911**

Deferred tax liabilities

The breakdown of deferred tax liability figures at the close of 2017 and 2016 is as follows:

	Thousands of euros			
	2017		2016	
	Tax Base	Amount Payable	Tax Base	Amount Payable
Subsidies	664	166	788	197
Value Adjustment on Business Combinations	42,880	10,720	45,924	11,481
Goods on financial leasing	626	156	1,272	318
Accelerated Amortization	3,062	765	3,616	904
Reinvestment of extraordinary profit	1,302	326	1,368	342
Other temporary differences	—	—	20	5
Total	**48,534**	**12,133**	**52,988**	**13,247**

The section "Value adjustments in combinations of businesses" included in the above table corresponds to the difference between the book value and the fiscal value of certain assets which were acquired by the Company as the result of the merger operation completed in 2010 (described in Note 1).

14. Government Bodies and tax situation (Continued)

The list of assets that were acquired during the course of the said merger process was included in the Company's accounts at a value that was different from the value recorded in the books of the transferring company, as broken down below:

	Thousands of euros				
Account	**Acquisition Price**	**Accumulated Amortization 20/06/2010**	**Net Book Value at 20/06/2010**	**New Tax Base**	**Difference**
200/201 Research and development	18,701	(15,886)	2,815	2,816	—
203 Patents and Trademarks	2,024	(1,786)	238	238	—
204 Goodwill	1	—	1	1	—
206 IT Applications	3,776	(3,662)	114	115	—
209 Advances on intangible fixed assets	1,541	—	1,541	1,541	—
210 Land	23,131	—	23,131	67,868	44,737
211 Constructions	33,309	(13,651)	19,658	28,123	8,466
212 Technical equipment and machinery	103,659	(77,744)	25,915	15,047	(10,868)
214 Tools	6,360	(5,331)	1,029	1,029	—
215 Other Facilities	2,047	(1,634)	413	412	—
216 Furniture	15,876	(12,164)	3,712	3,713	—
217 Information processing equipment	2,632	(2,507)	125	126	—
218 Transport items	1,219	(732)	488	479	(8)
220 Investments in land	8,272	—	8,271	22,126	13,854
221 Investments in construction	14,145	(2,355)	11,790	11,862	72
Total	**236,693**	**(137,452)**	**99,241**	**155,494**	**56,253**

The increase in value from this combination of businesses that was completed during the financial year 2010 under the terms of the accounting regulations in force did not have any fiscal effects, in other words, the increased value was not included in the tax base of the company obliged to pay tax, meaning that the items whose value had been increased in relation to their previous value in the books of the transferring Company were depreciated for tax purposes on the basis of this latter value. In addition, the reduced value was not included in the tax base, and the depreciation for tax purposes of the corresponding items, which was the same as the book depreciation, was calculated using the new base amount.

As regards to the assets and liabilities that were included in the described merger, a breakdown of the value adjustments made as a result of the combination of businesses is shown in the following table:

	Thousands of euros	
Account entries	**Increase**	**Reduction**
240/250 Equity instruments	1,873	2,090
141/142 Other provisions	1,212	—
172 Long-term debts	232	—
490/493 Value impairment of short-term commercial credits	—	1,441
295 Value impairment	—	812
Overall total	3,317	4,343

Other Information

In relation to other determined deductions performed by the Company on previous fiscal years, it is important to outstand the following:

i) On the fiscal year 2009, the Company opted to apply the deduction, in the portion that was not included in the deduction due to double imposition of capital gains from an internal source, due to

14. Government Bodies and tax situation (Continued)

reinvestment of the extraordinary profit obtained by Kanban, S.L., the company taken over in this year by Keraben Grupo, S.A.U. in the transfer of asset items, according to the following breakdown:

	Thousands of euros				
Year Transferred	**Sales Value**	**Year of Reinvestment**	**Amount of Reinvestment**	**Income qualifying for reinvestment**	**Tax deduction generated**
		2009	210	145	17
2008	22,882	2010	2,402	1,660	199
		2011	3,355	2,318	278
Total	**22,882**		**5,967**	**4,123**	**494**

Metropol Cerámica, S.L., a company that was also taken over in 2009, applied a deferral in 2001 for the reinvestment of income obtained, in the amount of 2,147,000 euros, and the method chosen to include this income in its tax base was the one defined in Article 34.1.b) of the Spanish Company Tax Regulation.

ii) This reinvestment was made in its entirety during the course of the 2000 and 2001 financial years in the construction of an industrial unit within the municipal boundaries of Villafamés, province of Castellón.

The breakdown by financial year of the income included in the tax bases and the income that remains pending inclusion is as follows:

	Thousands of Euros	
Taxable Year	**Income Included**	**Income pending Inclusion**
2001	50	—
2002	64	—
2003	64	—
2004	64	—
2005	43	—
2006	43	—
2007	43	—
2008	43	—
2009	43	—
2010	43	—
2011	43	—
2012	43	—
2013	43	—
2014	43	—
2015	43	—
2016	64	—
2017	64	—
2018 a 2037	—	1,289
2038	—	14
Total	**843**	**1,303**

The income to be included during the tax periods between 2017 and 2038 inclusive will be included at a rate of 64 thousand euros per year.

Financial years pending verification and inspection processes

Pursuant to the legislation currently in force, taxes may not be regarded as having been completely settled until the tax returns submitted have been inspected by the tax authorities, or until the time-bar period of

14. Government Bodies and tax situation (Continued)

four years has been exceeded. At the end of the 2017 financial year, the Company's operations of the last 5 years remained open for inspection in respect of Company Tax, while the last four years remained open for inspection in respect of all other applicable taxes. Given the different potential interpretations that can be made of the tax regulations, the results of any inspections that may be carried out by the tax authorities in the future in relation to years that remain subject to inspection could give rise to tax liabilities, the amount of which cannot currently be quantified in any objective way. However, the Company's Directors believe that the said taxes have been adequately settled, meaning that even in the event that differences arise in respect of the interpretation of the regulations in force as regards the fiscal approach applied to the Company's operations, any eventual liabilities, will not have a significant effect on these annual accounts.

15. Income and expenses

Net turnover figure

The distribution of the net turnover figure for the financial years 2017 and 2016 by business activity and by geographical market sector is as follows:

	Thousands of euros	
Activity	**2017**	**2016**
Sale of tiles and sub products	127,183	115,772
Technical Services	2,155	1,872
Provision of services	327	340
Total	**129,665**	**117,984**

	Thousands of euros	
Geographical market sectors	**2017**	**2016**
National	50,593	40,699
Export	79,072	77,285
Total	**129,665**	**117,984**

Supplies

The amount entered under "Supplies" in the profit and loss accounts for 2017 and 2016 breaks down as follows:

	Thousands of euros	
	2017	**2016**
Consumption of merchandise:		
Net purchases	2,758	3,934
Changes in stock levels	(142)	486
Subtotal	**2,386**	**4,420**
Consumption of raw materials and other consumables:		
Net purchases	27,347	25,145
Changes in stock levels	(231)	(87)
Subtotal	**27,116**	**25,058**
Work carried out by other companies	**1,187**	**1,324**
Impairment of goods, raw materials and others	**321**	**(49)**
Total Supplies	**31,010**	**30,753**

15. Income and expenses (Continued)

Almost all of the purchases made by the Company during the financial years 2016 and 2015 were made within Spain, and the cost of purchases made within the EU and imports made over the course of both financial years was not significant.

Personnel costs

The amount shown under "Personnel costs" in the profit and loss account breaks down as follows:

	Thousands of euros	
	2017	2016
Wages and salaries	20,140	18,432
Social Security	5,798	5,164
Other welfare charges	206	156
Total	**26,144**	**23,752**

The average number of employees during the financial years 2017 and 2016, broken down into categories, was as follows:

	Average Number of Employees	
	2017	2016
Management and Administration	57	55
Professional technicians and scientific staff	23	27
Sales / Logistics	150	141
Production	303	267
Technical staff	145	113
Total	**678**	**603**

The number of employees retained by the Company at year-end 2017 and 2016, broken down by category and gender, was as follows:

2017

	Average Number of Employees		
	Male employees	Female employees	Total
Management and Administration	19	39	58
Professional technicians and scientific staff	15	8	23
Sales / Logistics	141	9	150
Production	292	15	307
Technical staff	106	39	145
Total	**573**	**110**	**683**

15. Income and expenses (Continued)

2016

	Average Number of Employees		
	Male employees	Female employees	Total
Management and Administration	19	35	54
Professional technicians and scientific staff	16	11	27
Sales / Logistics	127	8	135
Production	266	13	279
Technical staff	83	33	116
Total	**511**	**100**	**611**

The average number of employees with disabilities greater or equal to 33%, during the years 2017 and 2016, broken down by category, is as follows:

2017

	Averagenumber of employees		
	Male Employees	Female Employees	Total
Management and Administration	—	1	1
Sales/Logistics	2	—	2
Production	4	—	4
Technical Staff	1	—	1
Total	**7**	**1**	**8**

2016

	Average Number of Employees		
	Male employees	Female employees	Total
Management and Administration	—	1	1
Production	4	—	4
Total	**5**	**—**	**5**

Other gains or losses

The heading "Other gains or losses" of the profit and loss account of the year 2017 includes, fundamentally, certain non-recurrent expenses accounted expenses linked to the sale of the Company's shares agreement and the business evolution, which were materialized with that sale agreement, as the consequence of the company's restructuration process performed in the year 2017 and described in note 1. Such expenses correspond, principally, on expenses external services from independent professional, financial expenses related to the cancellation of the previous financing (see note 13), as well as the amount accounted by certain incentive plans the Company took into consideration for specific Directors (see note 19), fundamentally, linked to certain profitability and/or liquidity parameters to be obtained by the Company, and that have finally accounted, with the formalization of the sale of 100% of the shares of the

15. Income and expenses (Continued)

Company. They are detailed below the diverse expenses registered by the Company under the heading "Other gains or losses" in the profit and loss account of the year 2017.

	Thousands of euros
Incentive Plans	58,620
Services provided by external agents	5,582
Financial expenses	130
Other expenses	370
	64,702

Impairment of current assets entered in the profit and loss account

The movements in allowance provisions for insolvencies and stocks in 2017 and 2016 were as follows:

	Thousands of euros	
	Provision for Insolvencies	Provision for Stocks
Balance at 1 January 2016	**3,384**	**1,100**
Allocation to provisions for the year	977	977
Total withdrawn—		
Withdrawn without effect on the results	(584)	—
Withdrawn with effect on the results	(148)	(1,100)
Balance at 31 December 2016	**3,629**	**997**
Allocation to provisions for the year	926	1,318
Total withdrawn—		
Withdrawn without effect on the results	(3,054)	—
Withdrawn with effect on the results	(69)	(997)
Balance at 31 December 2016	**1,432**	**1,318**

16. Environmental information

The Company aims to ensure that engagement in its industrial activity is compatible with preservation of the environment. To this end it has equipment and facilities among its tangible fixed assets that are exclusively and specifically designed to minimise the environmental impact of its production processes and the products that it places on the market, the net cost and net book value of which amount respectively to 5,207 thousands of euros and 3,971 thousands of euros respectively (4610 thousands of euros and 3,545 thousands of euros respectively in 2016). The provision for the depreciation of these assets amounted to 171 thousands of euros for the 2017 financial year (213 thousands of euros in 2016).

Furthermore, in the normal course of its business activity, and as part of its environmental protection processes, the Company incurred during the financial year 2016, costs relating to such processes amounting to approximately 616 thousands of euros (approximately 732 thousands of euros during 2015).

The Company's Directors do not believe that there are any risks or contingencies arising from environmental issues that could have a significant impact on these annual accounts, reason why they do not contain any allowance provision in this regard.

Information on greenhouse gas emission rights

European Parliament Directive 2003/87/EC was published in October 2003 and established undertakings to reduce the emission of greenhouse gases. European Parliament and Council Resolution 2009/29/EC of 23 April 2009 revised the rules for the period from 2013 to 2020. These Directives were enacted in Spanish

16. Environmental information (Continued)

law by means of Royal Decree 1,722 of 28 December 2012, which introduced aspects relating to the allocation of emission rights within the framework of Act 1 of 9th March 2005, which in turn regulated the rules governing the trading of greenhouse gas emission rights. The allocation of rights to facilities eligible to receive the free allocation of emission rights for the period from 2013 to 2020 was calculated by applying the allocation methodology set out in European Commission Decision 2011/278/EU.

In the individual allocation of rights for the period from 2013 to 2020, the Company was awarded 62,508 tonnes free of charge for the 2017 financial year. The issue of greenhouse gases during the 2017 financial year was estimated at 92,888 tonnes (see Notes 9 and 10) (85,485 tonnes during 2016), which meant a cost of 544 thousand of euros which is entered under the heading "Other Operating Costs—Costs due to the emission of greenhouse gases" in the attached profit and loss account for the 2017 financial year. (629 thousands of euros in financial year 2016)

There were no future agreements on emission rights at the close of the financial year. There were no contingencies for penalties and similar items under Act 1/2005 at the close of the financial year.

17. Related party transactions and balances

a) Related party transactions

Transactions—income/(expenses)—engaged in with related parties during the financial years 2017 and 2016 broke down as follows:

2017

	Miles de euros				
	Group Companies	Associate Companies	Other Related Parties	Shareholders	Total
Sales	943	2.629	58	—	3.630
Provisiono of services and leases	6	36	3	—	45
Services recived	(1)	(25)	(60)	(287)	(373)
Sale of real state	—	—	291	—	291
Deferred interest but don't payed or received	—	—	(309)	—	(309)
Dividends received	319	—	—	—	319

2016

	Thousands of euros				
	Group Companies	Associate Companies	Other Related Parties	Shareholders	Total
Sales	687	2,406	2		3,095
Purchases	(110)	(44)	—		(154)
Non-current asset purchases	(1)	—	—		(1)
Provision of services and leases	24	—	—		24
Services charged	105	131	8		244
Services received	(2)	(1)	(145)		(148)
Sale of real state	2,817			253	3,070
Dividends received	2,527	3,703	—		6,230

The services provided, shown on the above table, correspond, mainly, to leases and to services provided by the personnel, IT and administration departments to various group companies.

As mentioned in note 1, the Company is the dominant organisation in a corporate group. Additionally, at December 31 2017 it also belongs to a group of companies whose direct parent is Kinsan Trade S.L., and the group's ultimate parent company is Victoria PLC. To this end, all the companies that belong to the

17. Related party transactions and balances (Continued)

Victoria Group are regarded as group companies. At December 31 2016 the company belonged to the group Tensile-Keraben Holdings, S.à.r.l and whose parent company was Tensile Capital GP LLC.

b) Balances with related parties

The amounts of the balances held with related parties at 31st December 2017 and 2016 break down as follows:

2017

	Miles de euros			
	Group Companies	Associate Companies	Other related parties	Total
Instruments on equity value	—	189	892	1,081
Accounts receivable for sales and services	—	—	115	155
Commercial creditors and other accounts payable	—	—	—	—
Long term debts	89,787	—	—	89,787
Short term debts	309	—	—	309

The amount entered in the section headed "Grupo and associated long term debt" of the balance at December 31 2017 it appertains with the funding given by the last parent company in which the group integrate, by an initial amount of 89,787 thousand of euros that had been regularize at March 2018, it has been stablished its maturity date in 2033, with quarterly amortization from March 2023 and a fixed annual interest payment of 2,75%.

According to the conditions previously stablished in the contract, the Company has amortized, totally or partially, the pending amount of payment without any penalty. Likewise, the contract includes an early termination clause in case the Company no longer belongs to the group in which it is incorporated. In financial year 2017, the accrued interest amounted to 309 thousand euros which have been recorded under the heading "Financial expenses- For debts with group companies and associates" in the income statement. This amount is pending payment at December 31 2017 and recorded under the heading "Debts with group companies and associates in the short term" of the balance sheet at that date.

2016

	Thousands of euros			
	Group Companies	Associate Companies	Other related parties	Total
Instruments on Equity Value	931	1,437	—	2,368
Accounts receivable for sales and services	184	1,913	5	2,102
Commercial creditors and other accounts payable.	—	(22)	—	(22)

The amount entered in the section headed "Group and associate company customers" on the assets side of the balance sheet relates in its entirety to the accounts receivable from group companies as a consequence of commercial transactions.

18. Other information

Payments to Directors and Senior Managers

During the 2017 and 2016 financial years, the duties of the Company's senior management have been performed by its board of directors. The payments received during 2017 and 2016 by the members of the board of directors (which comprised three male members at 31st December 2017 and five male members at the 31st December 2016), in respect of all items, amounted to 40.355 thousand of euros and 4,082 thousand of euros respectively.

18. Other information (Continued)

The company had different incentive plans linked to the business evolution of the Company, related with certain financial and/or liquidity parameters which have been accounted and resolved in its entirety during the formalization of the sale agreement process of the Company described in Note 1. In this sense, incentive plans are figured inside the payment's received during the fiscal years 2017 and 2016 detailed before, it has been included the accrued amounts, which is entered under the heading "Other gains or losses" in the attached income statement

Of the amounts detailed above in respect of payments to the Company's directors, 5 thousand of euros related to the Company's payment of premiums for life insurance policies (the same amount as in 2016). In addition, the premium amount paid out in the 2017 financial year in the form of civil liability insurance for the directors amounted to 10 thousand of euros (same amount as 2016).

No compensation has been incurred as the result of the resignation or dismissal of any of the members of the board of directors during the 2017 and 2016 financial years. No advances or loans have been made to the senior management. The Company has not assumed any additional obligation on behalf of its directors. Furthermore, the Company has not assumed any obligation of any kind in respect of pensions or the payment of life insurance premiums in relation to the members of the board of directors.

During fiscal years 2017 and 2016 it has not been concluded, modified nor anticipated cancelled any contract between the Company and any shareholder, director nor person that acts on his own behalf because of operations aside the Company's normal trade under normal conditions, excluding contracts dependent to incentive plans attached in note 15, that the Company removed during 2017.

Finally, during December 2017, the Company's board of directors approved a new long-term variable incentive system for the Managers that is linked to specific financial figures during next fiscal years. The Company administrators considered that during 2017 no amount has been accrued because of this concept, that is why no liability has been registered in the accounting balance at December 31 2017.

Information on situations involving conflicts of interest among the Company's Directors

With regard to the contents of Article 229 of the Consolidated Text of the Spanish Capital Companies Act, the Directors have informed the Company that, during the financial year 2017, neither they nor the individuals or companies to which they are related, as defined in Article 231 of the said Act, were affected by situations involving a conflict of interest, as provided for in the aforementioned Article 229, and neither the Board of Directors nor the other Managers were sent any communication of the kind provided for in paragraph 3 of the said Article, with the exception of the Managers Philippe Marie Hamers and Michael Scott, that at date 30th March 2018, informed the Board of Directors the hold of the position of Managers in the company Ceramiche Serra, S.p.A., domiciled in Serramazzoni (Modena-Italy), whose business activity is the manufacture of floor and wall tiles.

Auditors' Fees

During the 2016 financial year, the fees relating to account auditing services provided by the Company's auditor, Deloitte, S.L., amounted to 47 thousand of euros (the same amount as in the 2016 financial year). In addition, fees were accrued for other services provided by the Company's auditor during the 2016 financial year in the amount of 120 thousand of euros (no amount was paid in this regard during 2015).

Off balance sheet resolutions

The Company's Directors believe that there are no Company resolutions that are not recorded in the balance sheet or not mentioned, where applicable, in the information contained in other Notes in these notes to the accounts that would have a significant effect in determining the Company's financial situation.

Financing structure

The Company forms part of the Tensile Group, the ultimate parent of which is Tensile Capital GP LLC. However, the Company acts independently from its group in terms of financial structure, obtaining directly

18. Other information (Continued)

the necessary financial resources from local financial entities, for the development of its activity as detailed in note 14. The Company's Directors believe that, both, the disposable discount credit lines, and the long-term financing, will allow the Company to adequately manage all their financing requirements.

Decision Unit

The Company's decision unit belongs to the Kinsan Trade, S.L., the parent company. That company prepare consolidate financial statements, which preparation date it's set to be under the normative terms. (see Note 1)

Information on deferred payments to suppliers.

Act 15 of 5th July 2010, which amended Act 3 of 29th December 2004, which established measures to combat late payment in commercial transactions, established that "Companies must expressly include information in the notes to their annual accounts regarding the payment terms they apply to suppliers". In addition, the ruling of 29 January 2016 by the Spanish Institute of Accounting and Accounts Auditing ("**ICAC**") sets out the information to be included in the notes in order to comply with the said Act, and this will apply to all annual accounts for financial years beginning from 1st January 2015 onwards.

The information required for the financial year 2017 under the third additional provision of the aforementioned ruling is as follows:

	2017	2016
	Days	Days
Average supplier payment term	90	88
Ratio of transactions paid	95	93
Ratio of transactions pending payment	67	66

	(Thousands of euros)	(Thousands of euros)
Total payments made	80,914	67,315
Total payments pending	21,324	19,566

The data shown in the above table regarding payments to suppliers refers to suppliers that are, by their very nature, commercial creditors as the result of debts with suppliers of goods and services, in such a way that this includes data relating to the entries "Suppliers", "Suppliers, group and associate companies" and "Miscellaneous creditors" in the current liabilities section of the balance sheet.

The maximum legal payment term applicable to the Company in the financial year 2017, pursuant to Act 11 of 26 July 2013, which implemented Act 3 of 29th December 2004, which in turn established measures to combat late payment in commercial operations, is 30 days, unless there is an agreement between the parties, in which case the maximum term would be 60 days (the same as the term for 2016).

Information required under Chapter VIII of Title VII of Royal Legislative Decree 4/2004, which approved the Consolidated Text of the Spanish Company Tax Act.

The General Meetings of Shareholders of Industrias Químicas Benavent, S.L. and Keraben Grupo, S.A.U., held in extraordinary fully-attended session on 29th June 2010, approved the reverse merger of a wholly owned company, the target company being its sole shareholder, in such a way that Keraben Grupo S.A.U. legally took over the company Industrias Químicas Benavent, S.L. The merger agreement was recorded in a public deed dated 6th October 2010, which was registered at Castellón Mercantile Registry on 26th October 2010.

It was agreed to adopt the fiscal rules set out in the Spanish Company Tax Act. Specifically, the planned merger was implemented under the tax rules set out in Chapter VIII of Title VII of Royal Legislative Decree 4 of 5th March 2004, which approved the consolidated text of the Spanish Company Tax Act. To

18. Other information (Continued)

this end, and pursuant to the contents of Article 96 of the aforementioned Royal Decree, the said operation was recorded in the resolutions adopted by the respective General Meetings of Shareholders of the companies involved in the merger.

During the financial year 2011, a merger was completed in which Keraben Tiendas, S.L. was absorbed by Keraben Grupo, S.A.U. Specifically, a public deed dated 30th September 2011 recorded a merger in which the company Keraben Grupo, S.A.U. (hereinafter, the dominant company) absorbed Keraben Tiendas, S.L.U. (hereinafter, the target company).

It was agreed to adopt the fiscal rules set out in the Spanish Company Tax Act. Specifically, the planned merger was implemented under the tax rules set out in Chapter VIII of Title VII of Royal Legislative Decree 4 of 5th March 2004, which approved the consolidated text of the Spanish Company Tax Act. To this end, and pursuant to the contents of Article 96 of the aforementioned Royal Decree, the said operation was recorded in the resolutions adopted by the respective General Meetings of Shareholders of the companies involved in the merger.

Keraben Grupo, S.A.U. was the prior result of the merger by takeover carried out in 2009 by the companies Keraben Grupo, S.A.U., as dominant company, and Kanban, S.L., Metropol Cerámica, S.L. and Keratrim, S.A., as target companies.

Likewise, Keraben Grupo, S.A.U. was the result of a merger between the companies Gres de Nules, S.A., as dominant company, and Keraben Grupo, S.A.U., as Target Company, which took place in accordance with the resolutions passed at the respective General Meetings of Shareholders on 27th November 2001. In this merger, the dominant company adopted the name of the target company: Keraben Grupo, S.A.U.

Subsequently, the General Meetings of Shareholders of the companies Keraben Grupo, S.A.U., as dominant company, and Creacer, S.A., as Target Company, gave their approval on 20th November 2003 for the vertical merger of the latter by the former.

In turn, Kanban, S.L. was the result of a merger by takeover between the companies Kanban, S.A. (the company's previous name), as dominant company, and Disacer, S.A., Iniciativas Patrimoniales Herben, S.L. and Starker, S.A., as target companies, which was completed in 1999, and a merger between Kanban, S.L., as dominant company, and Iniciativas Inmobiliarias Tiber, S.L., Proyectos y Desarrollos Cerámicos, S.L. and Desarrollos y Proyectos Benavent, S.L., as target companies, which was completed in 2008.

The first approved annual reports issued by Keraben Grupo, S.A.U. following the mergers carried out in 2011, 2010 and 2009, the first reports issued by Keraben Grupo, S.A.U., following the said mergers (corresponding to the financial years ending 31st December 2001 and 2003), and the reports issued by Kanban, S.L. for the financial years 1999 and 2008, contain the information required under the legislation in force.

As regards the target company, Kanban, S.L., this company made non-monetary contributions during the 2002 financial year during the subscription of shares in another group company. The share capital amount received was valued at the book value of the shares handed over, as this did not exceed the value attributed to them by the recipient company. Pursuant to the contents of Spanish Company Tax Act 43/1995, the company chose to apply the special regulations on mergers and demergers, allocations of assets and exchanges of securities regulated under Chapter VIII of Title VIII of the said Act.

During the financial year 2002, Kanban, S.L. also carried out a share capital increase, formally undertaken under the terms of Chapter VIII of Title VIII of Act 43/1995, by means of a share swap transaction in which it acquired a holding in the share capital of another company which allowed it to obtain a majority of voting rights, while the shareholders of the other company were in turn given a holding in the share capital of Kanban, S.L.

In addition, on 2nd August 2004, Kanban, S.L. increased its share capital in the amount of 794,507.95 euros through the issue of 26,439 company shares, each with a par value of 30.05060521 euros. The new shares were issued with an issue premium of 455.04939479 euros per share. The increase was subscribed and the shares and issue premium were fully paid up immediately by means of a non-monetary

18. Other information (Continued)

contribution of shares. The operation was performed under the tax rules set out in Royal Legislative Decree 4/2004, which approved the Consolidated Text of the Spanish Company Tax Act. Specifically, the planned non-monetary transaction, governed by Article 94 of the aforementioned Royal Legislative Decree, was carried out under the tax rules set out in Chapter VIII of Title VII.

On 30th December 2004, Kanban, S.L. increased its share capital in the amount of 219,098.96 euros through the issue of 7,291 company shares, each with a par value of 30.05060521 euros. The new shares were issued with an issue premium of 455.04939479 euros per share. The increase was subscribed and the shares and issue premium were fully paid up immediately by means of a non-monetary contribution of shares. The operation was performed under the tax rules set out in Royal Legislative Decree 4/2004, which approved the Consolidated Text of the Spanish Company Tax Act. Specifically, the planned non-monetary transaction, governed by Article 94 of the aforementioned Royal Legislative Decree, was carried out under the tax rules set out in Chapter VIII of Title VII.

Pursuant to the requirements set out in Article 253 of the Spanish Capital Companies Act and Article 37 of the Spanish Commercial Code, on 31st March 2016 the Directors of Keraben Grupo, S.A.U. have herewith prepared the consolidated annual accounts (consolidated balance sheet, profit and loss account, cash flow statement, statement of changes to net worth and notes to the accounts) and management report for the financial year ending on 31st December 2016, which comprise the attached documents that precede this written submission and are signed by the Managing Director and the Secretary to the Board of Directors of the Parent Companies on each page. This final page is signed by all of the Company's Directors of the Parent Company:

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain. In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Shareholders of Keraben Grupo, S.A.,

Report on the Financial Statements

We have audited the accompanying financial statements of Keraben Grupo, S.A., which comprise the balance sheet as at 31 December 2016, and the statement of profit or loss, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended.

Directors' Responsibility for the Financial Statements

The directors are responsible for preparing the accompanying financial statements so that they present fairly the equity, financial position and results of Keraben Grupo, S.A. in accordance with the regulatory financial reporting framework applicable to the Company in Spain (identified in Note 2-a to the accompanying financial statements) and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the audit regulations in force in Spain. Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the 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 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 accompanying financial statements present fairly, in all material respects, the equity and financial position of Keraben Grupo, S.A. as at 31 December 2016, and its results and its cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Company and, in particular, with the accounting principles and rules contained therein.

Report on Other Legal and Regulatory Requirements

The accompanying directors' report for 2016 contains the explanations which the directors consider appropriate about the Company's situation, the evolution of its business and other matters, but is not an integral part of the financial statements. We have checked that the accounting information in the directors' report is consistent with that contained in the financial statements for 2016. Our work as auditors was confined to checking the directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the Company's accounting records.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain. In the event of a discrepancy, the Spanish-language version prevails.

KERABEN GRUPO, S.A.

BALANCE SHEET AS AT 31 DECEMBER 2016

(Thousands of euros)

	Notes	2016	2015(*)
ASSETS			
NON-CURRENT ASSETS:		**124,249**	**143,433**
Intangible assets—	**5**	**5,306**	**6,991**
Research and development expenditure		99	349
Patents, licences, trademarks and other		4,974	6,341
Computer software		233	301
Property, plant and equipment—	**6**	**100,438**	**99,320**
Land and buildings		69,632	70,596
Plant and other items of property, plant and equipment		30,596	26,964
Property, plant and equipment in the course of construction and advances		210	1,760
Investment property—	**7**	**4,428**	**15,822**
Land		2,934	10,670
Buildings		1,494	5,152
Non-current investments in Group companies and associates	**9 & 18**	**2,368**	**6,817**
Equity instruments		2,368	6,817
Non-current financial assets	**9**	**157**	**14**
Deferred tax assets	**15**	**11,552**	**14,469**
CURRENT ASSETS:		**71,309**	**56,354**
Inventories—	**10**	**20,181**	**19,771**
Greenhouse gas emission allowances		1,128	1.144
Goods held for resale		898	1,350
Raw materials and other supplies		1,271	1,169
Work in progress		486	478
Finished goods		16,398	15,630
Trade and other receivables—		**30,707**	**28,968**
Trade receivables for sales and services		24,704	23,650
Trade receivables from Group companies and associates	**18**	2,097	2,196
Sundry accounts receivable		92	353
Employee receivables		44	50
Current tax assets		2,526	1,629
Other accounts receivable from public authorities		1,244	1,090
Current financial assets—	**9**	**3,005**	**1,054**
Equity instruments		1	1
Loans to companies		3,000	92
Other financial assets		4	961
Current prepayments and accrued income		**188**	**162**
Cash and cash equivalents	**14**	**17,228**	**6,399**
TOTAL ASSETS		**195,558**	**199,787**
EQUITY AND LIABILITIES			
EQUITY:		**84,633**	**82,361**
SHAREHOLDERS' EQUITY—	**11**	**84,042**	**81,750**
Share capital		**5,291**	**5,291**
Share premium		**28,497**	**74,372**
Reserves—		**2,087**	**(3,234)**
Legal and bylaw reserves		1,058	1,058
Other reserves		1,029	(4,292)
Profit for the year	**3**	**48,167**	**5,321**
GRANTS, DONATIONS AND LEGACIES RECEIVED	**11**	**591**	**611**
NON-CURRENT LIABILITIES:		**74,474**	**90,307**
Non-current payables—	**14**	**61,227**	**76,087**
Bank borrowings		60,250	74,597
Obligations under finance leases	**8**	—	319
Other financial liabilities		977	1,171
Deferred tax liabilities	**15**	**13,247**	**14,220**
CURRENT LIABILITIES:		**36,451**	**27,119**
Short-term provisions	**13**	**629**	**1,808**
Current payables—	**14**	**10,255**	**7,944**
Bank borrowings		7,007	3,047
Obligations under finance leases	**8**	143	223
Other financial liabilities		3,105	4,674
Trade and other payables—		**25,567**	**17,367**
Payable to suppliers		17,768	13,012
Payable to suppliers—Group companies and associates	**18**	22	348
Sundry accounts payable		1,776	852
Remuneration payable		2,959	1,763
Other accounts payable to public authorities		2,605	942
Customer advances		437	450
TOTAL EQUITY AND LIABILITIES		**195,558**	**199,787**

(*) Restated. See Note 2-e to the accompanying financial statements.

The accompanying Notes 1 to 21 are an integral part of the balance sheet as at 31 December 2016.

KERABEN GRUPO, S.A.

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2016

(Thousands of euros)

	Notes	2016	2015(*)
CONTINUING OPERATIONS:			
Revenue—	**16**	**117,984**	**107,155**
Sales		117,644	106,483
Services		340	672
Changes in inventories of finished goods and work in progress		**775**	**704**
In-house work on non-current assets		**11**	**12**
Procurements—	**16**	**(30,753)**	**(28,737)**
Cost of goods held for resale sold		(4,420)	(3,671)
Cost of raw materials and other consumables used		(25,058)	(22,879)
Work performed by other companies		(1,324)	(2,384)
Write-down of goods held for resale, raw materials and other supplies	**10**	49	197
Other operating income—		**399**	**307**
Non-core and other current operating income		387	251
Income-related grants transferred to profit or loss		12	56
Staff costs—	**16**	**(23,752)**	**(22,075)**
Wages, salaries and similar expenses		(18,431)	(17,190)
Employee benefit costs		(5,321)	(4,885)
Other operating expenses—		**(31,171)**	**(30,980)**
Outside services		(28,810)	(28,919)
Taxes other than income tax		(854)	(879)
Losses on and write-down of trade receivables and changes in provisions for commercial transactions	**16**	(878)	(654)
Expenses relating to greenhouse gas emissions	**10**	(629)	(528)
Depreciation and amortisation charge	**5, 6 & 7**	**(8,934)**	**(8,386)**
Allocation to profit or loss of grants related to non-financial non-current assets and other gra11		**899**	**894**
Excessive provisions	**13**	**715**	**349**
Impairment and gains or losses on disposals of non-current assets—	**5, 6 & 7**	**(841)**	**(11,413)**
Impairment and other losses		(1,268)	(11,276)
Gains or losses on disposals and other		427	(137)
Other gains or losses	**19**	**(4,065)**	**511**
PROFIT FROM OPERATIONS		**21,267**	**8,341**
Finance income—		**6,274**	**1,416**
From investments in equity instruments	**9**	6,230	1,361
From marketable securities and other financial instruments		44	55
Finance costs—	**14**	**(2,620)**	**(2,796)**
On debts to third parties		(2,620)	(2,603)
Interest cost relating to provisions		—	(193)
Changes in fair value of financial instruments—		**—**	**17**
Held-for-trading financial assets/liabilities and other		—	17
Impairment and gains or losses on disposals of financial instruments—		**27,508**	**(693)**
Impairment and other losses		33	(693)
Gains or losses on disposals and other	**9**	27,475	—
Exchange differences	**12**	**14**	**85**
FINANCIAL PROFIT (LOSS)		**31,177**	**(1,971)**
PROFIT BEFORE TAX		**52,444**	**6,370**
Income tax	**15**	(4,277)	(1,049)
PROFIT FOR THE YEAR		**48,167**	**5,321**

(*) Restated. See Note 2-e to the accompanying financial statements.

The accompanying Notes 1 to 21 are an integral part of the statement of profit or loss for 2016.

KERABEN GRUPO, S.A.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

A) STATEMENT OF RECOGNISED INCOME AND EXPENSES

(Thousands of euros)

	Notes	2016	2015(*)
PROFIT PER STATEMENT OF PROFIT OR LOSS (I)		**48,167**	**5,321**
Income and expense recognised directly in equity			
—Grants, donations and legacies received		872	821
—Tax effect		(218)	(223)
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY (II)		**654**	**598**
Transfers to profit or loss			
—Grants, donations and legacies received		(899)	(894)
—Tax effect		225	250
TOTAL TRANSFERS TO PROFIT OR LOSS (III)		**(674)**	**(644)**
TOTAL RECOGNISED INCOME AND EXPENSE		**48,147**	**5,275**

B) STATEMENT OF CHANGES IN TOTAL EQUITY

(Thousands of euros)

	Share capital	Share premium	Reserves	Prior years' losses	Prior years' profits	Profit for the year	Grants, donations and legacies received	Total
2015 BEGINNING BALANCE	**5,291**	**74,372**	**(19,271)**	**(1,692)**	**—**	**22,142**	**658**	**81,500**
Restatement (Note 2-e)	—	—	(3,012)	—	—	(1,401)	—	(4,413)
ADJUSTED 2015 BEGINNING BALANCE	**5,291**	**74,372**	**(22,283)**	**(1,692)**	**—**	**20,741**	**658**	**77,087**
Total recognised income and expense	**—**	**—**	**—**	**—**	**—**	**6,722**	**(47)**	**6,675**
Other changes in equity—	**—**	**—**	**19,049**	**1,692**	**—**	**(20,741)**	**—**	**—**
—Transfer of 2014 profit	—	—	—	—	20,741	(20,741)	—	—
—Distribution of 2014 profit	—	—	19,049	1,692	(20,741)	—	—	—
2015 ENDING BALANCE	**5,291**	**74,372**	**(3,234)**	**—**	**—**	**6,722**	**611**	**83,762**
Restatement (Note 2-e)	—	—	—	—	—	(1,401)	—	(1,401)
ADJUSTED 2015 ENDING BALANCE	**5,291**	**74,372**	**(3,234)**	**—**	**—**	**5,321**	**611**	**82,361**
Total recognised income and expense	**—**	**—**	**—**	**—**	**—**	**48,167**	**(20)**	**48,147**
Transactions with shareholders—	**—**	**(45,875)**	**—**	**—**	**—**	**—**	**—**	**(45,875)**
—Dividends paid (Note 11)	—	(45,875)	—	—	—	—	—	(45,875)
Other changes in equity—	**—**	**—**	**5,321**	**—**	**—**	**(5,321)**	**—**	**—**
—Transfer of 2015 profit	—	—	—	—	5,321	(5,321)	—	—
—Distribution of 2015 profit	—	—	5,321	—	(5,321)	—	—	—
2016 ENDING BALANCE	**5,291**	**28,497**	**2,087**	**—**	**—**	**48,167**	**591**	**84,633**

(*) Restated. See Note 2-e to the accompanying financial statements.

The accompanying Notes 1 to 21 are an integral part of the statement of changes in equity for 2016

KERABEN GRUPO, S.A.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

(Thousands of euros)

	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES (I)		**36,696**	**12,980**
Profit for the year before tax	**3**	**52,444**	**6,370**
Adjustments for—		**(21,686)**	**21,157**
—Depreciation and amortisation charge	**5, 6 & 7**	8,934	8,386
—Impairment losses		2,097	12,599
—Changes in provisions	**13**	(215)	(349)
—Recognition of grants in profit or loss	**11**	(899)	(894)
—Gains/Losses on derecognition and disposal of non-current assets	**5, 6 & 7**	(427)	137
—Gains/Losses on derecognition and disposal of financial instruments	**9**	(27,508)	—
—Finance income	**9 & 14**	(6,274)	(1,416)
—Finance costs	**14**	2,620	2,796
—Exchange differences	**12**	(14)	(85)
—Changes in fair value of financial instruments		—	(17)
Changes in working capital—		**5,657**	**(11,573)**
—Inventories	**10**	(323)	(992)
—Trade and other receivables		443	(3,453)
—Other current assets		(2,933)	—
—Trade and other payables		8,193	(7,186)
—Other current liabilities		—	(73)
—Other non-current assets and liabilities		277	131
Other cash flows from operating activities—		**281**	**(2,974)**
—Interest paid		(2,620)	(2,246)
—Dividends received	**9**	6,230	1,361
—Interest received		44	55
—Income tax recovered (paid)		(3,373)	(2,144)
CASH FLOWS FROM INVESTING ACTIVITIES (II)		**30,606**	**(7,908)**
Payments due to investment—		**(11,665)**	**(9,211)**
—Intangible assets	**5**	(80)	(204)
—Property, plant and equipment	**6**	(11,442)	(8,761)
—Other financial assets		(143)	(246)
Proceeds from disposals—		**42,271**	**1,303**
—Property, plant and equipment	**6**	134	92
—Investment property	**7**	8,001	201
—Group companies and associates	**9.1**	33,179	510
—Other financial assets	**9.2**	957	500
CASH FLOWS FROM FINANCING ACTIVITIES (III)		**(56,487)**	**(5,516)**
Proceeds and payments relating to equity instruments—		**359**	**325**
—Grants, donations and legacies received	**11**	359	325
Proceeds and payments relating to financial liability instruments—	**14 & 18**	(10,971)	(5,841)
—Repayment of bank borrowings		(10,786)	(5,229)
—Payable to Group companies and associates		—	(104)
—Other borrowings		(185)	(508)
Dividends and returns on other equity instruments paid		**(45,875)**	**—**
EFFECT OF FOREIGN EXCHANGE RATE CHANGES (IV)		**14**	**85**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III+IV)		**10,829**	**(359)**
Cash and cash equivalents at beginning of year		6,399	6,758
Cash and cash equivalents at end of the year		17,228	6,399

The accompanying Notes 1 to 21 are an integral part of the statement of cash flows for 2016

Keraben Grupo, S.A.

Report on the financial year ending 31st December 2016

1. Company Business

Keraben Grupo, S.A. (hereinafter, the Company) was incorporated on 2 March 1974 for an indefinite time. Its registered office is at Carretera Valencia—Barcelona, Km. 44.3, in the town of Nules (Castellon), where its main production facilities and the place in which it engages in its business is located.

According to its Articles of Association, the Company's corporate purpose comprises the following activities:

- The manufacture, through all stages and processes, and the commercialization, including the purchase, sale, import, export, representation, wholesale and retail distribution, directly or on commission, and the transportation of all kinds of ceramic goods and products and their derivatives, supplementary or accessory items, especially floor tiles, wall tiles, bricks, clays, frits, colours, varnishes, bisques and similar items of all kinds, along with chemical ceramic items for the said industrial processes and any other article or material that is manufactured with the use of fire and that either serves as a raw material for the ceramic industry in the broadest sense or is itself a completely or partially finished product in the said industry.
- The provision of all kinds of services, advice and technical assistance in relation to the industries and products listed above.
- The trading and the leasing (excluding financial leasing) of any properties belonging to the Company itself or to third parties.
- The production and sale of electrical and thermal energy through co-generation.
- The possession, direction and management of holdings in other companies through the corresponding organisation of material and human resources.

The main activity engaged by the Company during the financial year 2016 consisted on the manufacture and marketing of ceramic floor and wall tiles.

The Company is the parent of a group of companies, and pursuant to the legislation in force it is obliged to prepare separate consolidated accounts. The consolidated annual accounts of Keraben Grupo, S.A. and its dependent companies for the 2016 financial year were prepared by the directors on 31 March 2017 and will be filed at Castellon Mercantile Registry after they have been approved by the Company's General Meeting of Shareholders. For their part, the consolidated annual accounts for the 2015 financial year were approved by the shareholders of Keraben Grupo, S.A. at the Ordinary and Fully-Attended General Meeting of Shareholders held on 29 April 2016 and filed at Castellon Mercantile Registry. The Company also belongs to a group of companies whose direct parent is Tensile-Keraben Holdings, S.à.r.l., which is domiciled in Luxembourg, and the group's ultimate parent company is Tensile Capital GP LLC, which is domiciled in the USA.

Corporate restructuring processes during previous financial years

Merger processes

Keraben, S.A. was the result of a merger between the companies Gres de Nules, S.A., as dominant company, and Keraben, S.A., as target company, which was registered on 18th March 2002, in accordance with the merger project published on 4th January 2002 and approved by the respective General Meetings of Shareholders of Keraben, S.A. and Gres de Nules, S.A., held in extraordinary fully-attended session on 27th November 2001, pursuant to Article 250.2 of the Consolidated Text of the Spanish Limited Companies Act. The merger was registered for accounting effects on 1st January 2001. In this merger, the dominant company adopted the name of the target company: Keraben, S.A.

Keraben Grupo, S.A. was the result from a simplified reverse merger registered on 15th October 2009, by means of the takeover by Keraben Grupo S.A.U., as dominant company, of the companies Kanban, S.L., Metropol Cerámica, S.L. and Keratrim, S.A., as target companies, in accordance with the merger project published on 7th July 2009 and approved by the General Meetings of Shareholders of Keraben S.A.U., Kanban, S.L., Metropol Cerámica, S.L. and Keratrim, S.A., held in extraordinary fully-attended session on

1. Company Business (Continued)

29th June 2009, pursuant to Article 250.2 of the Consolidated Text of the Spanish Limited Companies Act. The merger was registered for accounting effects on 1st January 2009.

On 26th October 2010, a reverse merger was registered at the Mercantile Registry, in which Industrias Químicas Benavent, S.L. was taken over by its fully-owned subsidiary Keraben Grupo S.A.U., in accordance with the merger project published on 6th July 2010 and approved by the General Meetings of Shareholders of Industrias Químicas Benavent, S.L. and Keraben Grupo, S.A.U., held in extraordinary fully-attended session on 29th June 2010, pursuant to the contents of Section 8, Chapter I, Title II of Act 3 of 3 April 2009, on the structural modification of commercial companies. This merger operation was completed by virtue of the special procedure provided for in Articles 49.1 and 52.1 of Act 3 of 3rd April 2009. The merger was registered for accounting effects on 21st June 2010.

On 8th November 2011, a merger was registered in which Keraben Tiendas, S.L.U. was absorbed by Keraben Grupo, S.A. Specifically, a public deed dated 30th September 2011 recorded a merger in which the company Keraben Grupo, S.A. (hereinafter, the dominant company) absorbed Keraben Tiendas, S.L.U. (hereinafter, the target company), in accordance with the merger project published on 13th July 2011, approved by the General Meetings of Shareholders of Keraben Grupo, S.A. and Keraben Tiendas, S.L.U. held in extraordinary fully-attended session on 10thAugust 2011. This merger operation was completed by virtue of the special procedure provided for in Article 49 of Act 3 of 3rd April 2009. The merger was registered for accounting effects on 1st January 2011.

On the described mergers, it was agreed to adopt the fiscal rules set out in the Spanish Company Tax Act. Specifically, the executed mergers were implemented under the tax rules set out in Chapter VIII of Title VII of Royal Legislative Decree 4 of 5th March 2004, which approved the consolidated text of the Spanish Company Tax Act. Pursuant to Eighth Additional Disposal of the Law 43/1995 of the 27th December Spanish Company Tax Act The compulsory information relating to the above merger operations was included in the annual accounts of the dominant companies in the relevant financial year.

Demerger processes

The Company held a General Meeting of Shareholders on 3rd November 2014, at which it approved the partial demerger project for the splitting off of the part of its equity comprising the elements attached to its agricultural business division and their allocation to a newly-created company. This demerger was implemented with a share capital and voluntary reserves reduction of 816,000 euros and 14.529 euros respectively. The merger was registered for accounting effects on 23rd December 2014, the date on which the said decision was publicly recorded. The operation was also registered with the Mercantile Registry on 19th January 2015.

2. Bases for presentation

a) Regulatory framework applicable to the Company as regards financial reporting

These annual accounts have been prepared by the Directors in accordance with the regulatory framework applicable to the Company as regards to financial reporting, as set out in:

- The Spanish Commercial Code and other mercantile legislation.
- The Spanish General Chart of Accounts approved by Royal Decree 1,514/2007, the amendments approved by Royal Decree 1,159/2010, and by Royal Decree 602/2016.
- The compulsory rules approved by the Spanish Institute of Accounting and Accounts Auditing for the implementation of the General Chart of Accounts and its supplementary regulations.
- All other applicable Spanish accounts regulations.

2. Bases for presentation (Continued)

b) Faithful Image

These present annual accounts have been prepared from the Company's accounts records, and they are presented in accordance with the regulatory framework governing financial reporting that applies to the Company, particularly the accounting principles and criteria set down in the said regulatory framework. They thus show a faithful image of the Company's worth, financial situation, results and cash flow movements during the relevant financial year. In particular, preparing these annual accounts, the Company's Directors applied the principles governing a company that is currently trading, since in their opinion there is no significant question regarding the continuity of its business activities. Furthermore, the Directors have neither taken nor do they plan to take any decision that could significantly alter the value of the asset and liability items entered in the accounts, or the time periods over which assets will be realised and liabilities settled.

These annual accounts, which have been prepared by the Company's Directors, shall be submitted for approval by the General Meeting of Shareholders, and it is expected that they will be approved without any changes. Meanwhile, the annual accounts for the 2015 financial year were approved by the General Meeting of Shareholders held on 29th April 2016 and are held on file at Castellon Mercantile Registry.

The Directors of the Company are responsible for the information contained in these annual accounts.

c) Accounting principles

The accounting principles and criteria applied during the preparation of these annual accounts are summarised in note 4 of the accounts' memorandum. No non-compulsory accounting principles have been applied. In addition, the Directors have prepared these annual accounts taking account of all the accounting principles and regulations that must be applied and that have a significant effect on the said annual accounts. Where an accounting principle is compulsory, there is no instance in which it has not been applied.

d) Responsibility for information, critical aspects relating to the valuation and assessment of uncertainty

While preparing these annual accounts, estimates made by the Company's Directors have been used in order to place a value on some of the assets, liabilities, income, expenses and undertakings shown in the accounts themselves. These estimates basically refer to the following:

- The assessment of potential losses due to the impairment of certain assets (see notes 4-d, 4-f and 4-g).
- The useful life of intangible assets, tangible assets and real estate investments (see notes 4-a, 4-b and 4-c).
- The fair value of certain financial instruments (note 4-f).
- The forecast future taxable profits that make it probable that deferred tax assets will be recovered (note15)
- The calculation of certain allowance coverage amounts (see note 4-l).

Despite the fact that these estimates have been made on the basis of the best information available at the end of the financial year 2016, it is possible that events occurring in the future may make it necessary to modify them (either upwards or downwards) in coming years. This will be carried out, where necessary, in the form of a prospective analysis, and the effects of any change to the said estimates will be recognised in the relevant future profit and loss accounts.

e) Comparison of information

The information in these annual accounts relating to the 2015 financial year is presented solely for the purposes of comparison with the information from the 2016 financial year. In this regard, there have been certain changes to the comparative information in the 2016 financial year as a result of the entry into force of Royal Decree 602 of 2 December 2016, as indicated below.

2. Bases for presentation (Continued)

Royal Decree 602 of 2 December 2016

Royal Decree 602 of 2 December 2016 was approved in December 2016. This introduced amendments to the Spanish General Chart of Accounts approved by Royal Decree 1,514 of 16 November 2007, which became applicable from the financial year beginning on 1 January 2016.

The main amendments introduced by Royal Decree 602/2016 that affect the Company relate to the following:

- Amendment of the rules relating to the entry and valuation of intangible assets. In line with the amendments introduced in the Commercial Code under Act 22 of 20 July 2015, it was established that intangible fixed assets are assets with a fixed useful life, and they must therefore be the subject of systematic depreciation over the term that it is reasonably expected that the financial benefits inherent in the assets in question will generate a return for the company. When the useful life of such assets cannot be estimated in a reliable way, they will be depreciated over a maximum of ten years, regardless of the terms set out in the individual rules regarding the intangible asset. Previously, these intangible assets and goodwill were assets with an indefinite useful life and were not subject to systematic depreciation, merely to impairment.
- Greenhouse gas emission rights that used to be classified under the heading "Intangible fixed assets" will now be entered under the heading "Stocks".
- More detailed information is required in the notes in respect of some items, the most important of which are: i) the cost of the premiums paid for civil liability insurance to cover directors, and ii) the employees with a disability of 33% or more.

As regards the amortization of fixed asset items that would previously have been classified as having an indefinite useful life, and as permitted under the Sole Transitional Provision of Royal Decree 602/2016, the Company has retrospectively applied the new depreciation criteria set out in the regulations to the book value of the trademarks, opting to charge depreciation in the resulting amounts to the reserves, in accordance with the transitional rules. Under these rules, the amortization charged to reserves has been calculated on the basis of linear recovery criteria, on the basis of a useful life of ten years from the date of acquisition. For assets with an acquisition date of before 1 January 2008 (the date on which the current General Chart of Accounts was first applied), the rules were applied from this date.

According to the Second Additional Provision, if this option is chosen, comparative information must be presented that has been adjusted to these new criteria. Thus, the amounts corresponding to the financial year ending 31 December 2015 shown in these annual accounts have been amended from the amounts originally shown in the annual accounts for the financial year as a consequence of the amendments introduced by Royal Decree 602/2016. Therefore, the figures set against the reserve accounts from before 1 January 2015 have been restated. The following table contains a breakdown of the effects of applying the new depreciation criteria for the 2015 and previous financial years.

The accumulated effect on net worth as of 1 January 2016 was as follows:

	Thousands of euros
Impact on reserves in the opening balance of 1 January 2015	4,413
Impact on results for the 2015 financial year	1,401
Total	**5,814**

2. Bases for presentation (Continued)

As a result, the adjustments made to the comparative figures for each of the entries in the balance sheet and profit and loss account were as follows:

Balance at 31st December 2015

	Thousands of euros
	Assets/(Liabilities)
Reserves (reduction)	4,413
Results for the financial year (reduction)	1,401
Intangible fixed assets (reduction)	(7,752)
Deferred tax liabilities (reduction)	1,938

Profit and loss account for the financial year ending 31st December 2015

	Thousands of euros
	Income/(Expenses)
Results for the 2015 financial year before restatement	6,722
Amortization of trademark	1,401
Results for the 2015 financial year after restatement	**5,321**

In addition, the comparative figures for the statement of changes to net worth and the cash flow statement have been adjusted accordingly.

f) Grouping of entries

Certain entries in the balance sheet, the profit and loss account, the statement of changes to net equity value and the cash flow statement are grouped together in order to facilitate understanding, though where information is particularly significant it is shown in broken down form in the corresponding notes to the accounts.

g) Changes to accounting criteria

There were no significant changes to accounting criteria during 2016 in comparison with the criteria applied during 2015, except as set out in note 2-e above.

h) Correction of errors

During the preparation of these annual accounts, no significant errors were detected that involved re-entering the amounts included in the annual accounts for the 2015 financial year.

3. Application of the result

The proposal for the application of the result from the financial year 2016, which has been drawn up by the Company's Directors and will be submitted for approval by the General Meeting of Shareholders, involves allocating all profits for the year to the entry "Other reserves".

4. Entry and valuation rules

The main entry and valuation rules used by the Company when preparing its annual accounts for the financial year 2016, pursuant to the rules set out in the Spanish General Chart of Accounts, were as follows:

a) Intangible fixed assets

As a general rule, intangible fixed assets are initially valued at cost of acquisition or production cost. Subsequently, they are valued at cost minus the corresponding accumulated depreciation and, where applicable, minus losses incurred as a result of impairment, pursuant to the criteria explained in note 4-d. These assets are depreciated on the basis of their useful life.

The Company enters any loss that may have occurred in the registered value of these assets as the result of their impairment in the accounts, using the entry headed "Impairment and income from the disposal of fixed assets" in the profit and loss account as a contra entry. The criteria used to recognise losses due to the impairment of these assets and, where applicable, the recovery of any losses due to impairment entered in previous financial years are similar to those applied to tangible fixed assets, as explained in section d) of this note.

Research and development costs

The Company adheres to the criterion of entering the research and development costs that it has incurred over the course of the year in the profit and loss account. However, research and development costs become active when the following requirements are met:

- They are specifically individually defined by project and the cost can be clearly established.
- There are justifiable reasons to trust in the technical success and financial and commercial profitability of the project.

Any assets generated in this way are depreciated using the straight line method over the course of their useful life (a maximum of five years). In addition, where there are doubts regarding the technical success or economic viability of the project, the amounts entered on the assets side of the balance sheet are attributed directly to the profit and loss account for the financial year.

Patents, licences, trademarks and similar

This heading includes the amounts paid to acquire patents and register the Company's trademarks, and items are valued initially at cost of acquisition or production cost, including registration and formal certification costs. They are depreciated using the straight line method over 10 years.

This also includes the valuation of identifiable commercial trademarks that have emerged from the combination of businesses during previous financial years. Trademarks are valued at their fair value on the date of acquisition, minus the amount of the negative difference emerging from the said combination.

IT applications

IT applications include software acquired from third parties, and they are entered at their acquisition price, which includes all the costs incurred until their effective entry into operation. These assets are depreciated using the straight line method over a five-year period, from the moment that each application enters operation.

Repair and maintenance costs incurred during the financial year are charged to the profit and loss account. In this regard, charges in the form of maintenance services are entered as a cost in the profit and loss account in the financial year in which they are incurred.

4. Entry and valuation rules (Continued)

b) Tangible fixed assets

Tangible fixed assets are initially valued at their cost of acquisition or production cost, and subsequently valued at cost minus the corresponding accumulated depreciation and, where applicable, minus losses incurred as a result of impairment, pursuant to the criteria explained in note 4-d.

The cost of replacing or refurbishing complete items and the cost of extending, modernising or improving items in order to extend their useful life, productivity or economic yield are entered as a higher cost of the tangible fixed asset in question, with the corresponding removal of the replaced or refurbished items.

Regular maintenance, conservation and repair costs are entered against the results, using the accrual principle, as a cost in the year in which they are incurred.

Any work carried out by the Company in relation to its own fixed assets is entered at the accumulated cost that results from adding external costs to internal costs, calculated on the basis of the materials used, direct labour costs and general manufacturing costs, based on rates of absorption similar to those applied for the purposes of making stock valuations.

Where applicable, if a fixed asset requires a period of more than one year in order to reach operational condition, capitalised costs will include any financial costs that have accrued prior to the item coming into operation and have been charged by the supplier or result from loans or other forms of outside financing, either specific or general, that are directly attributable to the acquisition or manufacture of the item in question. The Company did not capitalise any amount in this regard during the financial years 2016 and 2015.

The Company depreciates tangible fixed assets by applying annual depreciation percentages calculated on the basis of the estimated length of the useful life of such assets, as set out below:

Asset Type	Estimated Useful Life (years)	Method
Constructions	30–65	Straight line
Technical equipment and machinery	10–16	Straight line and declining balance
Other facilities, tools and furnishings	3–25	Straight line
Other fixed assets	3, 12–6, 25	Straight line

Useful life and amortization method are regularly reviewed in order to ensure that the method and term used to calculate depreciation are consistent with the expected pattern of profit generation relating to the intangible fixed asset element in question, and this is adjusted prospectively in the profit and loss account.

Investments that cannot be separated from items used under leasing arrangements classified as operational leases are entered as tangible fixed assets when they meet the requirements for definition as assets. These investments are depreciated on the basis of their useful life, which will be the length of the lease or assignment agreement, including any renewal term when there is evidence to support the fact that such a renewal is going to occur, and when this is shorter than the economic life of the asset.

Any profit or loss resulting from the disposal or withdrawal of an asset is calculated as the difference between the sale price and the book value of the asset, and this is entered in the profit and loss account.

c) Real estate investments

This section includes the values of land, buildings and other constructions that are maintained either for exploitation under lease or to obtain a capital gain upon their sale, as a consequence of any increase in their respective market prices that may apply in the future. For these assets, the Company applies the valuation rules relating to tangible fixed assets.

4. Entry and valuation rules (Continued)

d) Value impairment of intangible fixed assets, tangible fixed assets and real estate investments

At the end of each financial year, whenever there are signs of a fall in value, the Company uses the so-called impairment test to estimate the possible existence of a fall in value that may reduce the recoverable value of such assets to an amount that is lower than their book value. The recoverable value is calculated as either the fair value minus sale costs or the operational value, whichever is higher. In the event that the asset does not in itself generate cash flows independently from other assets, the Company calculates the recoverable value of the cash flow-generating unit to which the asset belongs.

During the financial years 2016 and 2015, the Company entered certain impairments in relation to some of its real estate assets (see note 7).

e) Leases

Leases are classified as financial leases whenever it can be concluded from the terms and conditions of the leases that the risks and benefits inherent in ownership of the asset forming the subject of the agreement are transferred substantially to the lessee. All other leases are classified as operational leases.

Financial leases

In the financial leasing transactions in which the Company acts as lessee, the cost of the leased assets is entered in the balance sheet on the basis of the nature of the item forming the subject of the agreement, and a liability in the same amount is simultaneously entered. This amount will be the lower of either the fair value of the leased asset or the present value of the minimum amounts agreed at the beginning of the lease, including any purchase option, when there is no reasonable doubt regarding the exercise of such an option. This calculation will not include fees of a contingent nature, service costs or taxes that are chargeable to the lessor. The total financial charge for the agreement is entered in the profit and loss account for the financial year in which it is accrued, applying the effective interest rate method. Fees of a contingent nature are entered as a cost in the year in which they are incurred.

Assets recorded for this kind of transaction are depreciated using criteria that are similar to the ones applied to tangible fixed assets as a whole, taking account of their nature.

Operational leases

Operational leases are understood to be leases under which the lessor agrees to grant the lessee the right to use an asset over a specific period of time in return for a single payment or a series of payments or fees, so long as this is not a lease of a financial nature.

Any costs resulting from operational lease agreements are entered in the profit and loss account in the financial year in which they are incurred.

Any charge or payment that may be made when arranging an operational lease will be treated as an advance charge or payment and entered against the results over the term of the lease, as the benefits from the leased asset are assigned or received.

The amount of the minimum fees to be paid and received in relation to operational lease agreements in which the Company is respectively named as either lessor or lessee is not significant in relation to these annual accounts.

4. Entry and valuation rules (Continued)

f) Financial instruments

Financial assets

Classification and initial valuation

The financial assets owned by the Company are classified in the following categories:

a) Loans and accounts receivable: financial assets originating from the sale of goods or the provision of services as part of the company's normal business activities, or financial assets that, while not originating from commercial operations, are not equity instruments or derivatives; any payments collected are of a fixed and quantifiable amount and they are not traded on the markets.

b) Investments in the equity of group and associate companies: group companies are understood to be those that are linked to the Company via a controlling relationship, while associated companies are those over which the Company exercises a significant influence.

c) Guarantee bonds and deposits: these are entered in the amounts in which they were originally put in place, which do not significantly differ from their fair value.

The financial assets included in the various categories indicated above are initially entered, in general terms, at the fair value of the consideration handed over in payment plus any costs that can be directly attributed to the transaction.

Subsequent valuation

Loans and accounts receivable are valued at their depreciated cost.

Investments in group and associated companies are valued at cost, minus, where applicable, the accumulated value of any adjustments for impairment. These adjustments are calculated as the difference between their book value and their recoverable value, which is understood to be either their fair value minus sale costs, or the present value of future cash flows earned from the investment, whichever is higher. In the absence of better evidence of the amount that may be recoverable, account is taken of the net equity value of the subsidiary company, corrected by any unrealised capital gains that exist on the valuation date (including goodwill, where it exists).

Financial assets available for sale are valued at their fair value, and the results of any changes to this fair value are recorded under net equity value, until such a time as the asset is disposed of or suffers a value impairment (of a stable or permanent nature), at which time the accumulated results previously entered under net equity value are moved across to the profit and loss account. In this regard, an impairment (of a permanent nature) is presumed if there has been a fall of more than 40% in the listed value of the asset, or there has been a prolonged fall in this value over a period of one and a half years without any recovery in its value.

The Company carries out an impairment test, at least at the end of each financial year, on any financial assets that are not entered at their reasonable value. It is considered that there is objective evidence of impairment if the recoverable value of the financial asset is lower than its book value. When such impairment occurs, this is entered in the profit and loss account. In particular, as regards value adjustments relating to commercial debtors and other accounts receivable, the rule used by the Company to calculate the relevant value adjustments is to classify the amounts owing as doubtful debts.

Financial liabilities

Financial liabilities are debts and accounts payable that are owed to the Company and that have originated from the purchase of goods or services during the company's ordinary business operations, along with any liabilities that do not have a commercial origin and cannot be regarded as derivative financial instruments. At 31 December 2016 and 2015, the Company classified all of its short-term financial liabilities as debts and accounts payable.

4. Entry and valuation rules (Continued)

Debts and accounts payable are initially valued at the fair value of the consideration received, adjusted to take account of directly attributable transaction costs. Subsequently, these liabilities are valued according to their depreciated cost.

The Company removes financial liabilities when the obligations that gave rise to them disappear.

g) Stocks

Stocks are valued at their acquisition price, production price or net realizable value, whichever is the lowest. Commercial discounts, lower prices obtained, other similar amounts and the interest included in the base amount of debited items are deducted when calculating the acquisition price. Discounts for prompt payment are also included as a lower purchase price, whether shown in the invoice or not.

The production cost includes direct material costs and, where applicable, direct labour costs and general manufacturing costs.

The net realizable value represents an estimate of the sale price minus all the costs that are estimated in order to complete manufacture, plus any costs that will be incurred during the course of the marketing, sales and distribution processes.

When allocating value to its inventories, the Company uses the FIFO method.

The Company makes the appropriate value adjustments, entering them as a cost in the profit and loss account, when the net realisable value of stocks is lower than their cost of acquisition (or production cost).

h) Subsidies, donations and bequests received

When accounting subsidies, donations and bequests received, the Company applies the following rules:

a) Non-repayable subsidies, donations and bequests: These are valued at the fair value of the amount granted or item received, depending on whether or not it is in monetary form, and they are entered in the results in proportion to the amount allocated to depreciation of the item benefiting from the subsidy over the period or, where applicable, when it is disposed of or a value adjustment is made for its impairment, with the exception of amounts received from members or owners, which are entered directly as shareholder equity and do not constitute any kind of income.

b) Repayable subsidies: While they remain repayable, they are entered as liabilities.

c) Operating subsidies: These are entered in the results at the time at which they are awarded, unless they are used to finance operational deficits in future years, in which case they are entered in the relevant financial year. If they are awarded in order to finance specific costs, they are entered as the costs being financed accrue.

i) Transactions in foreign currency

The operational currency used by the Company is the euro. Consequently, all transactions in currencies other than the euro are regarded as being denominated in foreign currency and entered according to the rates of exchange that apply on the transaction date.

At the end of the financial year, monetary assets and liabilities denominated in foreign currency are converted at the rate of exchange on the date of the balance sheet. Any profit or loss that emerges is entered directly in the profit and loss account for the financial year in which it occurs.

j) Tax on profits

The cost or income from tax on profits comprises the part that relates to the cost or income from current tax and the part that corresponds to the cost or income due to deferred tax.

Current tax is the amount that the Company pays as a consequence of the tax payable on the income it has earned during the financial year. Any deductions or other tax advantages that apply to the tax amount,

4. Entry and valuation rules (Continued)

excluding withheld taxes and payments on account, plus any tax losses that can be offset from previous financial years and that can be applied during the current year, lead to a decrease in the current tax amount.

The cost or income from deferred tax corresponds to the recognition and cancellation of assets and liabilities resulting from deferred taxes. These include the time-period differences identified as amounts that are expected to be payable or recoverable due to the difference between the asset and liability amounts shown in the books and their taxable value, together with any negative tax bases that are pending offset and credits due as the result of deductions against tax that are not fiscally applied. These amounts are entered by applying the time-period difference or corresponding credit to the tax rate at which they are expected to be recovered or paid.

All time-period differences are entered as deferred tax liabilities, except for those that originate from the initial entry of goodwill or other assets and liabilities in operations that do not affect either the tax result or the book result and do not constitute a combination of businesses.

Meanwhile, deferred tax assets are only entered to the extent that it is considered probable that the Company will earn sufficient tax profits in the future for them to be offset.

Deferred tax assets and liabilities arising from operations that lead to direct charges or payments being entered as asset entries are also accounted for with a contra entry in net equity value.

Upon closing each set of accounts, the deferred tax assets recorded are reappraised and the relevant adjustments are made in the event that there are any doubts regarding their future recovery. Any deferred tax assets not recorded in the balance sheet are also appraised at the close of each year, and these are entered in the accounts whenever it becomes probable that they could be recovered against future taxable profits.

k) Income and expenses

Income and expenses are entered on the basis of accrual criteria, i.e. at the time of the actual flow of goods and services that they represent, regardless of the time at which the monetary or financial flow resulting from such goods and services occurs. Income is valued at the fair value of the payment received minus discounts and taxes.

Income from sales is entered at the moment that all significant risk and benefit inherent in ownership of the item being sold is transferred to the purchaser, and neither current management of that item nor effective control there over are subsequently maintained.

As regards income from the provision of services, this is recognised on the basis of the degree to which such services have been completed on the date of the balance sheet, provided that the results of the transaction can be reliably estimated.

Interests received from financial assets are entered on the basis of the effective interest rate method, while dividends are entered when the shareholders' right to receive them is announced. In any case, any interest or dividends accruing on financial assets subsequent to their acquisition are entered as income in the profit and loss account.

l) Provisions and contingencies

When preparing these annual accounts, the Company's Directors have differentiated between the following:

- Provisions: liabilities covering obligations that remained outstanding on the date of the balance sheet as a consequence of past events that are likely to emerge and could result in damage to the Company's assets of an unknown value and over an unknown time. These amounts are entered on the balance sheet in the form of allowance provisions in the current most probable value that the Company estimates it would have to pay in order to be released from the obligation, and

4. Entry and valuation rules (Continued)

- Contingent liabilities: potential obligations arising as a consequence of past events, the emergence of which is conditional upon whether or not one or more future events arise that are beyond the control of the Company.

These annual accounts record all the significant provisions in respect of which it is estimated that there is a probability that the obligation will need to be covered. Contingent liabilities are not entered in the annual accounts, though information on such liabilities is given insofar as they are not classified as remote.

Provisions are valued at the current value of the best possible estimate of the amount that will be required to cancel or transfer the obligation, bearing in mind all available information relating to the event and its consequences, and any adjustments arising as a result of the updating of such provisions are entered as a financial cost as they accrue.

Any compensation to be received from a third party at the time at which the obligation is settled, provided that there is no doubt that such compensation will be received, is entered as an asset, except in the event there is a legal connection through which part of the risk has been outsourced, under which the Company will not be obliged to assume liability; in this situation, the compensation will be taken into account when estimating the amount that is to be recorded, where applicable, for the provision in question.

m) Asset items of an environmental nature

Asset items of an environmental nature are understood to be lasting assets that are used during the course of the Company's activities for the main purpose of minimising environmental impact, protecting and improving the environment, including the reduction or elimination of future contamination.

The tangible fixed asset items designed to minimise any environmental impact that could result from the activities engaged in by the Company are valued at cost price, adjusted by their accumulated depreciation.

Any extension, modernisation and improvement costs are capitalised when they represent an extension of the estimated useful life of the assets in question. Otherwise they are treated as costs for that financial year, along with repair and maintenance costs.

Any costs that are incurred in relation to the protection and improvement of the environment and that do not represent an investment in tangible fixed assets are entered in the results for the year in which they are incurred, regardless of the time at which the cash or financial stream resulting from such costs materialises.

Amounts incurred in the management of environmental effects resulting from the business activities engaged in by the company are classified as environmental costs, as are the costs that result from the Company's existing environmental undertakings. These include the costs incurred as a result of preventing pollution in relation to the Company's current operational activities, the treatment of residue and waste, decontamination, restoration, environmental management and environmental auditing.

The Company follows the rule of accounting for any potential undertakings at the moment at which it becomes aware of them.

Allowance provision for probable or certain environment-related liabilities, on-going lawsuits and pending compensation and obligations of an undetermined amount, where not covered by the insurance policies that have been taken out, is set aside at the moment that the liability or obligation that will result in compensation or payment arises.

n) Greenhouse gas emission rights

As note 2-e) indicates, from the 1st January 2016 onwards, greenhouse gas emission rights, which are used for the cancellation of the obligation derived from the emissions developed by the company, are reclassified as stocks. In the same way, emission rights hold to be sold were registered.

Any profit or loss resulting from the disposal or withdrawal of a right is calculated as the difference between the sale price and the book value of the asset, and this is entered in the profit and loss account.

4. Entry and valuation rules (Continued)

"Greenhouse gas emission rights" are entered in the balance sheet when the company becomes eligible for such rights. When such rights are acquired free of charge or at a price that is substantially lower than their market value, the acquisition price is considered to be their market price at the time of acquisition or at the beginning of the calendar year. In this case, they will be entered with a contra entry under "Subsidies, donations and bequests received" in the Net Equity Value section of the balance sheet, once any deferred tax associated with them has been deducted.

After being entered as an asset, emission rights are valued at their acquisition price or production price under stocks. The necessary provisions are set aside in order to give them their lower market value at the end of each financial year, whenever their book value may not be recoverable from the generation of sufficient income to cover all costs and expenses.

Costs attached to the emission of greenhouse gases require the corresponding provision to be made for risks and costs, and this provision is maintained until the moment that the Company has to cancel the obligation in question by handing over the corresponding emission rights.

Costs accrue as greenhouse gases are emitted, and they are entered under "Other operating costs-Costs from emission of greenhouse effect gasses" in the attached profit and loss accounts for 2016 and 2015, calculated according to the emission rights that have been transferred.

Subsidies of a non-repayable nature associated with emission rights acquired free of charge or at a price that is substantially below their market price are entered as "Subsidies, donations and bequests received" and charged to the profit and loss account in the same proportion as the costs incurred from the gas emissions relating to the subsidised emission rights.

o) Related party transactions

The Company carries out all related party transactions at market prices. In addition, its transfer pricing policy is properly supported on the basis of the requirements set out in current tax legislation, and the Company's Directors therefore believe that there are no significant risks in this regard that could give rise to liabilities worthy of consideration in the future.

p) Current and non-current entries

Current assets are understood to be assets that are linked to the normal business cycle, which is generally regarded a one-year period, and the term is also understood to apply to assets that are due to maturity or be disposed of or realised in the short term following the end of the financial year, financial assets maintained for negotiation and cash and other equivalent liquid assets. Assets that do not meet these requirements are classified as non-current.

Similarly, current liabilities are liabilities that are linked to the normal business cycle, financial liabilities maintained for negotiation (excluding financial derivatives with a settlement term of more than one year) and, in general, all obligations that are due to mature or be cancelled in the short-term. Otherwise they are classified as non-current.

5. Intangible Fixed Assets

The movements that occurred during the financial years 2016 and 2015 under the heading “Intangible fixed assets”, along with the relevant amortization, were as follows:

2016

	Thousands of euros			
	Opening Balance	Added	Removed	Closing Balance
Cost:				
Research and development	4,777	—	—	4,777
Patents, licences, trademarks and similar	14,315	52	—	14,367
IT applications	1,905	26	(1)	1,930
Total Cost	**20,997**	**78**	**(1)**	**21,074**
Accumulated Amortization:				
Research and development	(4,428)	(250)	—	(4,678)
Patents, licences, trademarks and similar(*)	(7,792)	(1,421)	—	(9,393)
IT applications	(1,606)	(91)	—	(1,697)
Total Accumulated Amortization	**(14,006)**	**(1,762)**	**—**	**(15,768)**
Net Book Value	**6,991**			**5,306**

(*) Re-expresed (see note 2-e)

2015

	Thousands of euros			
	Opening Balance	Added	Removed	Closing Balance
Cost:				
Research and development	4,777	—	—	4,777
Patents, licences, trademarks and similar	14,279	36	—	14,315
IT applications	1,737	168	—	1,905
Total Cost	**20,793**	**204**	**0**	**20,997**
Accumulated Amortization:				
Research and development	(4,003)	(425)	—	(4,428)
Patents, licences, trademarks and similar(*)	(6,548)	(1,424)	—	(7,972)
IT applications	(1,514)	(92)	—	(1,606)
	—	—	—	—
Total Accumulated Amortization	**(12,065)**	**(1,941)**	**—**	**(14,006)**
Net Book Value	**8,728**			**6,991**

(*) Re-expresed (see note 2-e)

5. Intangible Fixed Assets (Continued)

The gross value of items that remain in use and have been fully depreciated is as follows:

	Thousands of euros	
	2016	2015
Research and Development	4,214	3,442
Patents, licences, trademarks and similar	162	145
IT applications	1,503	1,432
Total	**5,879**	**5,019**

Patents, licences, trademarks and similar

As indicated in Notes 4-a and 5, the amount of 14,008 thousands of euros has been entered under "trademarks" in the section headed "Patents, licences, trademarks and similar", as the result of a valuation made by the Company's directors during the 2010 financial year in the context of the amalgamation of businesses that occurred in that year.

The Company's directors cannot reliably estimate a foreseeable limit to the period during which this trademark can be expected to generate net cash revenues for the Company, and the trademark will therefore be amortized, pursuant to the applicable accounting regulations, over a ten-year period. In the event that there are signs of any impairment, an "impairment" test will be applied, in accordance with the methodology described in note 2-d. In this regard, as detailed in note 2-e, the directors have opted for the retroactive application of the depreciation of this asset, and the comparative figures relating to accumulated depreciation have therefore been restated.

6. Tangible Fixed Assets

The movement that occurred during the financial years 2016 and 2015 under the heading "Tangible fixed assets", was as follows:

2016

	Thousands of euros				
	Opening Balance	Added and Allocated	Removed	Transferred	Closing Balance
Cost—					
Land and Constructions	74,639	115	—	—	74,754
Technical equipment and other tangible fixed assets.	50,258	7,998	(1,908)	1,760	58,108
Advances and fixed assets under construction	1,760	210	—	(1,760)	210
Total Cost	**126,657**	**8,323**	**(1,908)**	**—**	**133,072**
Depreciation—					
Constructions	(3,500)	(1,079)	—	—	(4,579)
Technical equipment and other tangible fixed assets	(23,294)	(6,011)	1,793	—	(27,512)
Total depreciation	**(26,794)**	**(7,090)**	**1,793**	**—**	**(32,091)**
Impairment on Land and Buildings	**(543)**	**—**	**—**	**—**	**(543)**
Net Book Value	**99,320**				**100,438**

6. Tangible Fixed Assets (Continued)

2015

	Thousands of euros				
	Opening Balance	Added and Allocated	Removed	Transferred	Closing Balance
Cost—					
Land and Constructions	74,467	172	—	—	74,639
Technical equipment and other tangible fixed assets	43,608	8,091	(1,509)	68	50,258
Advances and fixed assets under construction	68	1,760	—	(68)	1,760
Total Cost	**118,143**	**10,023**	**(1,509)**	**—**	**126,657**
Depreciation—					
Constructions	(2,421)	(1,079)	—	—	(3,500)
Technical equipment and other tangible fixed assets	(19,623)	(5,105)	1,434	—	(23,294)
Total depreciation	**(22,044)**	**(6,184)**	**1,434**	**—**	**(26,794)**
Impairment on Land and Buildings	**(543)**	**—**	**—**	**—**	**(543)**
Net Book Value	**95,556**				**99,320**

All tangible fixed assets are for the company's own use, and at the close of the financial years 2016 and 2015, no item had been assigned to third parties under a leasing arrangement.

Information relating to additions

The majority of the additions in 2016, as shown in the above table, along with the balance shown under the heading "Advances and fixed assets under construction", correspond to improvements to the Company's production facilities, which are scheduled to be completed over the coming year, as part of the investment plan approved by the Company. At 31st December 2016 there were no firm undertakings to purchase acquired tangible fixed assets (1,931 thousands of euros entered in this regard at the end of the 2015 financial year).

At close of the 2016 and 2015 financial years, tangible fixed assets did not include any assets acquired from other group companies in any significant amount.

Information relating to removals

The items removed during 2016, as shown in the foregoing table, correspond to some items that have been sold during the financial period by a total amount of 13 thousands of euros, and others that have been deregistered. The net result of these deregistration has ascended to an amount of 12 thousands of euros (profit), which is entered under the heading "Impairment and income from the disposal of fixed assets" on the attached profit and loss account for the financial year 2016.

Other information

As of 31st December 2016 and 2015, the Company had fixed asset items that had been fully depreciated as shown in the following breakdown (referring to the cost value recorded in the books):

	Thousands of euros	
	2016	2015
Technical equipment and machinery	3,838	2,241
Other facilities, tools and furnishings	6,046	5,971
Other tangible fixed assets	539	451
Total	**10,423**	**8,663**

6. Tangible Fixed Assets (Continued)

It is the Company's policy to take out the insurance policies necessary to cover any potential risk to which its fixed asset items may be exposed. At the end of the 2016 and 2015 financial years, the net book value of its fixed assets was completely covered by these policies.

At 31 December 2016 and 2015, the Company's land and constructions were mortgaged in guarantee of the Company's compliance with its obligations and liabilities under several financing agreements (see note 14).

As note 8 describes, at year end of 2016 and 2015, the company had contracts on diverse financial leasing operations on plant and equipment

7. Real estate investments

The movements that occurred during the 2016 and 2015 financial years under the heading "Real estate investments", were as follows:

2016

	Thousands of euros			
	Opening Balance	Added	Removed	Closing Balance
Cost—				
Land	22,948	—	(15,019)	7,929
Constructions	11,500	95	(7,588)	4,007
Total Cost	**34,448**	**95**	**(22,607)**	**11,936**
Depreciation—				
Constructions	(1,068)	(82)	752	(394)
Total Depreciation	**(1,068)**	**(82)**	**752**	**(394)**
Impairment	**(17,558)**	**(1,268)**	**11,712**	**(7,114)**
Net Book Value	**15,822**			**4,428**

2015

	Thousands of euros			
	Opening Balance	Added	Removed	Closing Balance
Cost—				
Land	23,159	—	(211)	22,948
Constructions	11,704	—	(204)	11,500
Total Cost	**34,863**	**—**	**(415)**	**34,448**
Depreciation—				
Constructions	(816)	(263)	11	(1,068)
Total Depreciation	**(816)**	**(263)**	**11**	**(1,068)**
Impairment	**(6,329)**	**(11,276)**	**47**	**(17,558)**
Net Book Value	**27,718**			**15,822**

Real estate investments refer to buildings and land allocated for exploitation under lease and/or maintained for the purposes of obtaining a capital gain on their sale.

The income obtained as the result of rents earned from real estate investments let out under lease during the financial year 2016, entered in the profit and loss account for the year, amounted to 74 thousands of

7. Real estate investments (Continued)

euros (360 thousands of euros in 2015), while the operating costs recorded in relation to these investments were 19 thousands of euros (150 thousands of euros in 2015).

As indicated in note 8, at the end of the financial years 2016 and 2015, the Company had entered into specific financial and operational leasing transactions in relation to its real estate investments.

During the 2016 financial year, the Company's directors assessed the potential impairment of these assets. Their analysis revealed the need to record an impairment in the amount of 1,268 thousands of euros, taking account of the expected sale price of these assets. This amount was entered as a charge under the heading "Impairment and results from the disposal of fixed assets—Impairment and losses" in the attached profit and loss account for 2016, though the asset in question was disposed of prior to the end of the 2016 financial year.

In addition, during the 2016 financial year the Company sold some of its real estate investments for a total sale price of 8,001 thousands of euros, generating net profits of 415 thousands of euros, which are entered under the heading "Impairment and results from the disposal of fixed assets—Income from disposals and others" in the attached profit and loss account for 2016.

Similarly to the land and constructions included under tangible fixed assets, at 31st December 2016 and 2015, some of the Company's real estate investments were mortgaged in guarantee of the Company's compliance with its obligations and liabilities under several financing agreements (see note 14).

8. Leases

The Company has entered into various financial leasing agreements over some of its facilities, the most important details of which are as follows:

	Thousands of euros	
	2016	2015
Cash cost of assets	2,095	2,842
Residual value	36	44
Instalments paid in previous years(*)	1,812	2,896
Instalments paid during the year(*)	140	217

(*) Does not include implicit interest or VAT.

At the close of the financial years 2016 and 2015, the Company had agreed the following minimum lease payments with its tenants, under the terms of the agreements currently in force, without taking account of the costs passed on for the use of the said facilities, future IPC-based increments or future reviews of the contractually agreed rents (amounts shown in thousands of euros):

	2016		2015	
Financial Leases Minimum Payments	(Nominal) Par Value	Current Value	(Nominal) Par Value	Current Value
Less than one year	145	143	226	223
Between one and five years	—	—	331	319
Total	**145**	**143**	**557**	**542**

9. Financial investments

Financial investments in group and associate companies

Movements in financial investments in Group and associate companies during the 2016 and 2015 financial years were as follows:

2016

	Thousands of euros			
	Opening Balance	Added	Removed	Closing Balance
Instruments on Equity Value	8,260	67	(4,775)	3,552
Long-term financial investments.	**8,260**	**67**	**(4,775)**	**3,552**
Impairment of Instruments on Equity	**(1,443)**	**—**	**259**	**(1,184)**
Total long-term financial investments	**6,817**			**2,368**

2015

	Thousands of euros			
	Opening Balance	Added	Removed	Closing Balance
Instruments on Equity Value	8,257	20	(17)	8,260
Long-term financial investments.	**8,257**	**20**	**(17)**	**8,260**
Impairment of Instruments on Equity	**(1,262)**	**(198)**	**17**	**(1,443)**
Total long-term financial investments	**6,995**			**6,817**
Short term credits with group companies	486	—	(486)	—
Other financial assets	24	—	(24)	—
Total Short-term financial investments	**510**	**—**		**—**

At the close of the 2016 and 2015 financial years, the shares that the Company continued to hold, which corresponded in all cases to unlisted companies, were as follows:

	Thousands of euros					
	2016			2015		
	Cost	Impairment	Net Book Value	Cost	Impairment	Net Book Value
Construplas, S.L.	.	—	—	230	—	230
Expocerámica, S.A.	1,748	(1,006)	742	1,748	(1,016)	732
Cerámicas Navagrés, S.A.	1,045	(137)	908	1,045	(160)	885
Nuevos Productos Cerámicos, S.A.	—	—	—	4,318	—	4,318
Other related companies(*)	759	(41)	718	919	(267)	652
Total	**3,552**	**(1,184)**	**2,368**	**8,260**	**(1,443)**	**6,817**

(*) Companies not currently trading and/or of little relative importance.

During the 2016 financial year, the Company sold the financial shares it held in Construplas, S.L. and Nuevos Productos Cerámicos, S.A., along with other less important shares included under the heading "Other related companies" shown in the above table, for a total price of 35,524 thousands of euros. Of this amount, part of the sale price was deferred until March 2017, in such a way that on 31.12.2016 the amount of 3,000 thousands of euros was entered under the heading "Short-term financial investments—Loans to companies" in the attached balance sheet for 31st December 2016. As a result of the sale of these companies in which the Company held a shareholding, a profit of 27,475 thousands of euros was obtained,

9. Financial investments (Continued)

and this was entered under the heading "Impairment and results from the disposal of financial instruments—Income from disposals and others" in the attached profit and loss account for 2016.

The following section shows financial information over the most significant holdings to provide a faithful image in these annual accounts. This information remains provisional, as it does not relate to annual accounts that have already been prepared (or, where appropriate, audited), but the Company's Directors believe that this financial information will not undergo any significant changes (it also includes information from 2015 for the purposes of comparison):

2016

				Thousands of euros			
Name	**Address**	**Activity**	**% Holding**	**Share capital**	**Reserves**	**Result for the Year[c]**	**Operating Result**
Expocerámica, S.A.[a]	Valladolid	Commercialization of construction materials	75.53	90	925	(12)	(4)
Cerámicas Navagrés, S.A.[b]	Noaín (Navarra)	Commercialization of construction materials	40	141	2,032	12	271

(a) Obtained from its annual accounts as of 31st December 2016, which are scheduled to be audited by Deloitte, S.L.

(b) Obtained from its annual accounts as of 31st December 2016, which are scheduled to be audited by other auditors.

2015

				Thousands of euros			
Name	**Address**	**Activity**	**% Holding**	**Share capital**	**Reserves and Others**	**Result for the Year[c]**	**Operating Result**
Construplas, S.L.[a]	Vall de Uxò (Castellón)	Manufacture and commercialization of bathroom accessories	100	361	1,299	1,531	2,111
Expocerámica, S.A.[a]	Valladolid	Commercialization of construction materials	75.53	90	1,011	(86)	(64)
Cerámicas Navagrés, S.A.[b]	Noaín (Navarra)	Commercialization of construction materials	40	141	2,171	(139)	788
Nuevos Productos Cerámicos, S.A.[b]	Villaframés	Manufacture of atomized clay	25	8,868	12,542	7,520	12,317

(a) Obtained from its annual accounts as of 31 December 2015, audited by Deloitte, S.L.

(a) Obtained from its annual accounts as of 31 December 2015, which were audited by other auditors.

(c) Obtained from the annual consolidated accounts as of 31st December 2015, to be audited by other auditors.

(d) Does not include results from discontinued operations in significant amounts in any cases.

During the financial year 2016, the Company received dividends in the amount of 6,230 thousands of euros (1,361 thousands of euros in 2015) that had been totally liquidated by the end of the financial year. They are entered under the heading "Financial income—From shares in asset instruments" in the attached profit and loss account.

9. Financial investments (Continued)

Financial investments in non-related companies (long and short term)

Movements in financial investments in non-related companies during 2016 and 2015 were as follows:

2016

	Thousands of euros			
	Opening Balance	Added	Removed	Closing Balance
Instruments on Equity Value	1,086	—	(1050)	36
Other long-term financial assets	**14**	**148**	(5)	157
Long-term financial investments	**1,100**	**148**	**(1055)**	**193**
Impairment of equity instruments	**(1,086)**	**—**	**1050**	**(36)**
Total Long-term financial investments	**14**			**157**
Credits to companies (note 9.1)	92	3,000	(92)	3,000
Other short-term financial assets	962		(957)	5
Total Short-term financial investments	**1,054**	**—**	**—**	**3,005**

2015

	Thousands of euros				
	Opening Balance	Added	Removed	Transferred	Closing Balance
Instruments on Equity Value	876	246	(36)	—	1,086
Credits to third parties	92	—	(92)	—	—
Other long-term financial assets	886	—	—	(872)	14
Long-term financial investments	**1,854**	**246**	**(128)**	**(872)**	**1,100**
Impairment of equity instruments	**(628)**	**(494)**	**36**		**(1,086)**
Total long-term financial investments	**1,226**				**14**
Credits to companies	100	—	(8)	—	92
Other short-term financial assets	401	89	(400)	872	962
Total Short-term financial investments	**501**	**—**	**—**	**—**	**1,054**

Information on the nature and level of risk of financial instruments

The management of the Company's financial risk is centralised in its financial department, which has the necessary mechanisms in place to control exposure to variations in both interest rates and exchange rates, along with exposure to credit and liquidity risk. The following are the main financial risks that have an impact on the Company:

a) Credit risk

In general, the Company keeps its cash and equivalent liquid assets with financial institutions with a high credit rating. In addition, a significant proportion of its turnover and accounts receivable from non-related clients are guaranteed by means of credit insurance policies.

Furthermore, it should be mentioned that there is no significant concentrated third-party credit risk, since no client represents more than 10% of the Company's total accounts receivable. Individual credit limits are established on the basis of both internal and external ratings, in accordance with the limits set by the Company. The use of these credit limits is regularly monitored.

9. Financial investments (Continued)

b) Liquidity risk

In order to ensure liquidity and attend to all the payment undertakings resulting from its business activities, the Company maintains a level of financial debt that is appropriate to its cash generation, and it also has additional operational financing lines that have not been drawn on, as detailed in note 14. In addition, as explained in note 20, during the month of March 2017 the Company reached an agreement with financial entities which allowed it to carry out a novation of the entire debt that it held with them, and as part of this process certain guarantees that had previously been granted to the financing institutions were released. As a consequence, the Company's directors believe that the Company has sufficient financial resources to engage in its normal business activities.

c) Market risk (including interest rate risk, exchange rate risk and other price-related risk)

Both the Company's cash and its financial debts are exposed to interest rate risk, which could have a significant effect on its financial results and cash flow. However, some of the Company's borrowings were arranged at a fixed interest rate (see note 14).

As regards exchange rate risk, this is mainly concentrated in the sale of finished product to countries in America and Asia, which are priced in US dollars. The Company has specific and adequate policies in place to monitor and manage exchange rate risk in the different currencies in which it operates.

10. Stocks

The movements in value adjustments due to impairment entered under the heading "Stocks" in 2016 and 2015 were as follows:

	Thousands of euros	
	2016	**2015**
Opening balance	1,100	1,471
Added (note 16)	997	1,100
Reversed (note 16)	(1,100)	(1,471)
Final balance	**997**	**1,100**

These value adjustments were caused, in the main, by the renewal of the product catalogue.

At 31st December 2016 and 2015 there were no stocks of significant value deposited in the custody of third parties. The Company also did not maintain undertakings to purchase stocks in a significant amount at the end of the financial year 2015.

The Company's policy consists on contracting insurance policies to cover any potential risk to which its stocks may be subject. At the end of the 2016 and 2017 financial years, these insurance policies almost entirely covered the value of the Company's stocks.

Greenhouse gas emission rights

As described in note 2-e, during the 2016 financial year the amount shown under "Greenhouse gas emission rights" was reclassified under the heading "Stocks". This balance corresponds to a valuation of the rights purchased in previous financial years and assigned free of charge to the Company for the 2016 financial year, pursuant to the 2013-2020 National Allocation Plan. Under this Plan, 63,714 rights were allocated to the Company for the 2016 financial year (64,909 rights allocated in 2015).

85,485 rights were used up during this financial year (79,827 rights during 2015), each corresponding to one metric tonne of CO_2, and the Company has therefore set aside a provision amounting to 629,000 euros during this financial year (528,000 euros in 2015), entered under the heading "Other Operating Costs— Costs due to greenhouse gas emission" in the attached profit and loss account for the 2016 financial year. Similarly, during 2016, the Company charged the amount of 512,000 euros to "Subsidies, donations and

10. Stocks (Continued)

bequests received", entering a credit in the attached profit and loss account, corresponding to the subsidies associated with the emission rights consumed (496,000 euros during 2015).

During the 2016 and 2015 financial years the Company did not acquire any emission rights on the secondary markets.

At the end of each financial year, the Company assesses the market value of any rights not consumed, comparing their book value with the last available valuation, and it was not necessary to enter any value adjustment in this regard at the end of the 2016 or 2015 financial years.

11. Equity Value

Share capital

At the end of the financial years 2016 and 2015, the share capital was represented by 880,412 shares, each with a nominal value of 6.01 euros, all of them totally subscribed and paid up. All the shares representing the share capital grant the same rights, and they are not admitted for trading on the Stock Market. In order to guarantee the financing operations described in note 14, an *in rem* pledge right has been established over 100% of the Company's shares.

At the close of the 2016 financial year, the only companies with a holding of more than 10% in the Company's share capital were Tensile-Keraben Holdings S.à.r.l, S.L., which holds a share of 77.3% in the Company's share capital, and Modernas Iniciativas Empresariales, S.L., with a share of 22.7%.

Legal reserve

Pursuant to the Spanish Capital Companies Act, limited companies must allocate an amount equal to 10% of their profits for the year to the legal reserve, until this reserve is equal to at least 20% of the share capital figure. The legal reserve may be used to increase the share capital using the portion of the reserve that exceeds 10% of the increased share capital figure. Except as mentioned above, and provided that it does not exceed 20% of the share capital figure, this reserve may only be used to offset losses, provided that there are no other reserves available for this purpose. At the end of the financial years 2016 and 2015, this reserve was fully constituted.

Reserve under Article 80.4 of Act 2/1995

This reserve, included under the headline "Other reserves", amounting up to 28 thousand euros at the end of the financial years 2016 and 2015, correspond to a capital share reduction performed by Kanban, S.L., an acquired company in the fiscal year 2009 (see note1).

Dividend distribution

The distribution of any profits is prohibited until research and development costs have been completely amortized, unless the amount of available reserves is at least equal to the amount of these costs that has not been amortized. As a consequence, at the close of the 2016 financial, the balance shown under "Other reserves" was unavailable in the amount of 99,000 euros (349,000 euros at the close of the 2015 financial year).

On 21 December 2016, the Company's General Meeting of Shareholders approved the distribution of a dividend through the partial cash distribution of the issue premium in an amount of 45,875 thousands of euros, which was fully settled prior to the close of the financial year. The Company had not distributed dividends during the previous four financial years (2011 to 2015).

11. Equity Value (Continued)

Capital subsidies

The information relating to the subsidies received by the Company, which form part of its net worth, along with the information on the income entered in the profit and loss account that has resulted from such subsidies, is as follows:

	Thousands of euros	
	2016	2015
Opening balance	611	658
Added	872	821
Tax effects	(218)	(223)
Transferred to results	(899)	(894)
Fiscal effects	225	249
Final balance	**591**	**611**

A portion of these subsidies, amounting to 512 thousands of euros, received from the Environment Ministry, relates to greenhouse gas emission rights (see Note 10) (this amounted to 496 thousands of euros in 2015).

The other subsidies were mainly granted for the purposes of financing the completion of research and/or development projects and the acquisition of tangible fixed assets

At the end of the financial years 2016 and 2015, the company had complied with all the requests necessary in order to receive and benefit from the subsidies mentioned above.

12. Foreign currency

The Company's operating currency in 2016 and 2015 was the euro.

The following table shows a breakdown of the most important balances and transactions performed in foreign currency, valued respectively at the exchange rate on the closing date and the average exchange rate.

	Thousands of euros			
	2016		2015	
	US Dollar	Other currencies	US Dollar	Other currencies
Fixed assets	282	—	227	—
Investments in group companies	317	210	250	210
Accounts receivable	1,338	1,787	1,523	1,765
Cash and other equivalent liquid assets.	279	5	43	8
Accounts payable	(133)	—	(366)	—
Purchases	(40)	—	(97)	—
Sales	3,715	1,766	3,934	2,028
Services received	(342)	(18)	(477)	(23)
Services provided	45	—	32	—
Dividends received	298	—	339	—

There were no other relevant transactions during 2016 and 2015, nor were there significant balances on 31st December 2016 and 2015 in currencies other than the euro.

The exchange rate differences recorded in the results for the financial year 2016 represented a net income of 14 thousands euros (85 thousands of euros net income in 2015), and this is entered under the heading "Exchange rate differences" in the attached profit and loss account for 2016.

13. Provisions and contingencies

The following table shows a breakdown of the short-term provisions in place at the end of the financial years 2016 and 2015, along with the main movements recorded during the said years:

2016

	Thousands of euros	
	Greenhouse gases emissions	Other Provisions
Opening balance	528	1,280
Added	629	35
Removed/Transferred	(528)	(1,315)
Final balance	**629**	**—**

2015

	Thousands of euros	
	Greenhouse gas emissions	Other Provisions
Opening balance	380	836
Added	528	793
Removed/Transferred	(380)	(349)
Final balance	**528**	**1,280**

The balance entered under "Other provisions" for the 2015 financial year in the foregoing table corresponds to guarantees put in place with financial institutions in favour of various companies and other provisions against contingencies from previous financial years. During the 2016 financial year, the obligations that had given rise to the setting aside of these provisions were settled, and the Company has therefore reversed these amounts.

14. Long- and short-term debts

Debts with credit institutions

The breakdown of debts with credit institutions at the close of 2016 and 2015 was as follows:

2016

	Thousands of euros		
	Short-Term	Long-Term	Total
Bank loans	7,007	60,250	67,257
Financial leases	143	—	143
Other financial liabilities.	3,105	977	4,082
Total	**10,255**	**61,227**	**71,482**

2015

	Thousands of euros		
	Short-Term	Long-Term	Total
Bank loans	3,047	74,597	77,644
Financial leases	223	319	542
Other financial liabilities	4,674	1,171	5,845
Total	**7,944**	**76,087**	**84,031**

14. Long- and short-term debts (Continued)

The limits set and the amounts drawn down under the existent credit facilities, depending on their nature, were as follows:

2016 & 2015

	Thousands of euros		
	Limit	Drawn down	Available
Domestic Discount Credit Lines	4,689	—	4,689
Export Discount Credit Lines	16,492	—	16,492
Total	**21,181**	**—**	**21,181**

The maturity dates of the long-term debts with credit institutions at 31st December 2016 and 2015 break down as follows:

2016

	Thousands of euros					
	2018	2019	2020	2021	2022 and later	Total
Bank loans	7,797	7,831	8,266	36,356		60,250
Other financial liabilities	173	184	150	150	320	977
Total	**7,970**	**8,015**	**8,416**	**36,506**	**320**	**61,227**

2015

	Thousands of euros					
	2017	2018	2019	2020	2021 and later	Total
Bank loans	7,023	7,856	7,892	8,330	43,496	74,597
Financial leases	229	90	—	—	—	319
Other financial liabilities	213	174	184	184	416	1,171
Total	**7,465**	**8,120**	**8,076**	**8,514**	**43,912**	**76,087**

The balance entered under "Bank loans" corresponds almost entirely to a syndicated loan granted to the Company in previous financial years, the final maturity date of which has been set for the year 2021. The main details of this financing at the 31st December 2016 are as follows:

- Senior tranche: syndicated loan granted by an initial amount of 68.1 million euros.
- Asset tranche: syndicated loan granted by an amount of 12 million euros.
- The Company can repay the principal in advance, either wholly or in part, without incurring penalties of any kind.
- The interest rate is tied to the Euribor, plus a market differential in the case of the senior tranche, and a fixed interest rate that will vary between 1% and 3% for the asset tranche, based on a pre-established timetable.
- Compliance with certain financial conditions during the term of the financing, In this regard, at the end of the financial years 2016 and 2015, the Company was in compliance with all the financial and other conditions required under the various financing agreements that remained in force.

In order to ensure compliance with the obligations assumed under the syndicated loan and operational financing facilities described above, at the 31st December 2016 there were a number of guarantees in

14. Long- and short-term debts (Continued)

favour of credit entities that have been put in place, among which we would make particular mention of the following:

- "Senior Tranche", first-rank real estate mortgage over various properties (the net book value of which at the close of the financial year 2016 amounted to 66,543 thousands of euros): a first-rank asset mortgage established over the "Keraben" trademark, pledge over all the shares in Keraben Grupo, S.A.
- "Asset Tranche": first-rank real estate mortgage over various real estate assets (see note 7), whose net book value at the close of the financial year 2016 amounted to 4,312 thousands of euros.
- In addition, there are certain obligations relating to a compulsory early repayment of the senior tranche, by way of a cash sweep, depending on compliance with certain financial ratios which its compliance were not achieved at the year-end of 2016.
- There is also a restriction on the distribution of dividends while all of the financing operations described above remain pending cancellation, though the Company has obtained express authorisation from the financing institutions to make the dividend distribution mentioned in note 11.

As detailed in note 20, following the closure of the financial year, the Company reached an agreement with the financing institutions allowing it to modify the conditions of the said financing, and practically all of the guarantees described above have been released.

The amounts shown in the entry under the heading "Financial lease creditors", recording short-term liabilities in the attached balance sheet at 31st December 2016, correspond to the amounts pending payment under the financial leasing agreements maintained by the Company, as described in note 8.

The amount entered under "Other financial liabilities" in the current and non-current liabilities section of the attached balance sheet corresponds to loans granted by various Public Entities, and other debts maintained with asset suppliers. These loans do not accrue any kind of interest, and the implicit interest is not significant. In order to calculate the fair value of this debt, the Company has taken its par value, which does not differ significantly from its current net value.

Deposits and guarantees

At 31 December 2016, the guarantees put in place by the Company through financial institutions amounted to 1,930 thousands of euros (2,793 thousands of euros during the 2015 financial year), and these mainly referred to technical bonds provided as guarantees for debts in favour of a Reciprocal Guarantee Company. One part of the bonds from 2015 covered the obligations described in note 13, and these were released during the 2016 financial year since the obligations assumed by the Company were cancelled. The Company's directors believe that any liabilities that might emerge as a result of the bonds that remained in place at the close of the 2016 financial year, where applicable, would not be significant.

Cash and other equivalent liquid assets.

At 31st December 2016 and 2015, the amount shown under "Cash and other equivalent liquid assets" related almost entirely to the cash amounts available in the current accounts held by the Company at various reputable financial institutions.

15. Government Bodies and tax situation

Reconciliation between accounting income and taxable income

Company Tax is calculated on the basis of financial or accounting income, which is obtained in accordance with generally accepted accounting principles and which does not necessarily have to coincide with taxable income, this being understood to mean the tax base.

15. Government Bodies and tax situation (Continued)

Accounting income and taxable income for Company Tax purposes in the financial years 2016 and 2015 were reconciled as follows:

2016

	Thousands of euros		
	Increase	Reduction	Total
Book income after taxes			**48,167**
Tax on profits	4,277	—	4,277
Permanent Differences:			
Non-deductible expenses	505	—	505
Non-Taxable Income	—	(32,196)	(32,196)
Temporary differences:			
Originating during the financial year	5,079	(5,954)	(875)
Originating in previous years	974	(1,932)	(958)
Preliminary tax base			**18,920**
Offset of negative tax bases			(4,730)
Tax base			**14,190**

2015

	Thousands of euros		
	Increase	Reduction	Total
Book income after taxes			**6,722**
Tax on profits	1,049	—	1,049
Permanent differences:			
Non-deductible expenses	487	—	487
Non-qualifying income	—	(2,904)	(2,904)
Temporary differences:			
Originating during the financial year	13,762	(1,438)	12,324
Originating in previous years	1,819	(1,747)	72
Preliminary tax base			**16,349**
Offset of negative tax bases			(4,087)
Tax base			**12,262**

Information on permanent differences

Increases in the tax base due to permanent differences for the 2016 financial year correspond, in the main, to taxes paid abroad, differences between book depreciation and tax depreciation, and expenses that are classified as non-deductible under Spanish Company Tax Act 27/2014.

Reductions in the tax base due to permanent differences for the 2016 financial year correspond, in the main, to: i) the adjustment made to the tax benefit obtained by the parent Company in the sale of the companies in which it had a holding, as detailed in note 9, at a price of 26,101 thousands of euros, and ii) the adjustment made to the tax base due to the receipt of dividends in the amount of 5,932 thousands of euros (see note 18).

Information on temporary differences

The difference between the tax burden entered for the financial year and for previous financial years and the tax burden that has already been paid or is due to be paid for the same financial years is the result, in

15. Government Bodies and tax situation (Continued)

the main, of time period differences originating from the financial year itself in a net amount of 875 thousands of euros, which mostly corresponds to: i) the increases in the tax base as a result of the book depreciation of the trademark, in the amount of 1,401 thousands of euros; ii) the increase in the impairment of real estate investments entered during the financial year in the amount of 1,268 thousands of euros, under the heading "Impairment and income from the disposal of fixed assets—Impairment and losses" in the attached profit and loss account for the 2016 financial year; iii) the difference in the book and tax valuation of the companies in which the Company held a share when these companies were sold during the 2016 financial year, due to the impairments regarded as non-deductible at the time of their entry in the accounts.

At the same time, the Company has adjusted to the accounting result, temporary differences with its origin on previous fiscal years, which correspond mainly with: i) the partial reversal of the adjustment performed to the impairment endowment of tangible and intangible assets, due to fiscal limitation on the deduction of such expense, introduced on Act 16 of 27th December 2012, which implemented various tax-related measures aimed at consolidating the public finances and boosting economic activity, and ii) to the reversal of the accelerated amortization applied on previous fiscal years.

Reconciliation between accounting income and cost for Company Tax purposes

Book income and costs for Company Tax purposes in the financial years 2016 and 2015 were reconciled as follows:

	Thousands of euros	
	2016	2015
Book income before taxes	**52,444**	**7,771**
Tax at 25% (28% in 2015)	13,111	2,176
Impact of permanent differences	(7,923)	(677)
Deductions generated	(331)	(407)
Adjustments for changes on income tax rates and other adjustments	(580)	(43)
Total costs/(income) for tax purposes entered in the profit and loss account	**4,277**	**1,049**

The section headed "Other adjustments" in the above table corresponds, in the main, to the difference in the book and tax valuations of the companies in which the Company had a shareholding at the time of their sale.

The legislation in relation to Company Tax establishes a range of tax incentives with the aim of encouraging research and development and technological innovation, exports and training activities. At the end of the financial year 2016, the Company had made deductions in this regard, pending application against future Company Tax payments, in the amount of 3,976 thousand euros (4,337 thousand euros in 2015), along with deductions relating to other items in the amount of 936 thousand euros (1,313 thousand euros in 2014).

15. Government Bodies and tax situation (Continued)

Deferred tax assets.

The Company's tax assets, differentiating between temporary differences, negative tax bases and deductions pending application, can be broken down as of the end of 2016 and 2015 as follows:

	Thousands of euros			
	2016		2015	
	Taxe Base	Amount Payable	Taxe Base	Amount Payable
Temporary differences—				
Limitation on Amortization up to 70%	1,092	273	1,252	376
Value adjustaments in combinations of businesses	4,931	1,233	6,108	1,527
Impairment of financial investments	551	138	2,185	546
Impairment of plots of land	288	72	576	144
Non-deductible provisions	316	79	684	171
Other temporary differences	488	121	504	151
Credits from negative tax bases	18,889	4,725	23,619	5,904
Deductions pending application	—	4,911	—	5,650
Total	**26,555**	**11,552**	**34,928**	**14,469**

The deferred tax assets referred above have been recorded in the balance sheet because the Company's Directors believe that, according to estimates of the Company's future results, positive tax bases will be obtained in sufficient amounts to ensure that these assets will be able to be recovered within the term set out in law to this end.

Negative tax bases pending to be offset

In accordance with current legislation, negative tax bases from one financial year can be offset for tax purposes against positive tax bases from subsequent financial years, and there is no limit on the number of years in which they can be offset under the tax legislation currently in force. However, these negative tax bases can be modified as a consequence of an inspection relating to the financial years in which they were generated. For the financial year 2016, the implementation tax rate of 25% is maintained.

At the end of 2016, the Company retained negative tax bases pending application in the amount of 18,889 thousands of euros (23,619 thousands of euros at 31 December 2015), as broken down below.

	Thousands of euros	
Financial year in which they originated	2016	2015
2008	2,323	7,053
2009	16,566	16,566
Total	**18,889**	**23,619**

Deductions pending application

According to the legislation in force, any deductions that remain pending application may be applied, basically, within a period of fifteen and eighteen years following the financial year in which they were generated, depending if the majority of deductions relate to research and development (18 years) or the remaining deductions (15 years).

15. Government Bodies and tax situation (Continued)

At the end of 2016 and 2015, deductions that remained pending application, shown by year in which they were generated, break down as follows:

Year generated	Thousands of euros 2016	Thousands of euros 2015
Previous to 2005	380	1.216
2005	602	602
2006	1.414	1.414
2007	587	587
2008	378	378
2009	264	264
2010	199	199
2011	278	278
2012	164	164
2013	255	255
2014	158	158
2015	135	135
2016	97	
Total	**4,911**	**5.650**

Deferred tax liabilities

The breakdown of deferred tax liability figures at the close of 2016 and 2015 is as follows:

	Thousands of euros			
	2016		2015	
	Tax Base	Amount Payable	Tax Base	Amount Payable
Subsidies	788	197	815	204
Value Adjustment on Business Combinations	45,924	11,481	48,696	12,174
Goods on financial leasing	1,272	318	1,432	358
Accelerated Amortization	3,616	904	4,241	1,060
Reinvestment of extraordinary profit	1,368	342	1,431	358
Other temporary differences	20	5	264	66
Total	**52,988**	**13,247**	**56,879**	**14,220**

The section “Value adjustments in combinations of businesses” included in the above table corresponds to the difference between the book value and the fiscal value of certain assets which were acquired by the Company as the result of the merger operation completed in 2010 (see Note 1).

15. Government Bodies and tax situation (Continued)

The list of assets that were acquired during the course of the said merger process was included in the Company's accounts at a value that was different from the value recorded in the books of the transferring company, as broken down below:

	Thousands of euros				
Account	Acquisition Price	Accumulated Amortization 20/06/2010	Net Book Value at 20/06/2010	New Tax Base	Difference
200/201 Research and development	18,701	(15,886)	2,815	2,815	—
203 Patents and Trademarks	2,024	(1,786)	238	238	—
204 Goodwill	1	—	1	1	—
206 IT Applications	3,776	(3,662)	114	114	—
209 Advances on intangible fixed assets	1,541	—	1,541	1,541	—
210 Land	23,131	—	23,131	67,868	44,737
211 Constructions	33,309	(13,651)	19,658	28,123	8,466
212 Technical equipment and machinery	103,659	(77,744)	25,915	15,047	(10,868)
214 Tools	6,360	(5,331)	1,029	1,029	—
215 Other Facilities	2,047	(1,634)	413	412	—
216 Furniture	15,876	(12,164)	3,712	3,713	—
217 Information processing equipment	2,632	(2,507)	125	126	—
218 Transport items	1,219	(732)	488	479	(8)
220 Investments in land	8,272	—	8,271	22,126	13,854
221 Investments in construction	14,145	(2,355)	11,790	11,862	72
Total	**236,693**	**(137,452)**	**99,241**	**155,494**	**56,253**

The increase in value from this combination of businesses that was completed during the financial year 2010 under the terms of the accounting regulations in force did not have any fiscal effects, in other words, the increased value was not included in the tax base of the company obliged to pay tax, meaning that the items whose value had been increased in relation to their previous value in the books of the transferring Company were depreciated for tax purposes on the basis of this latter value. In addition, the reduced value was not included in the tax base, and the depreciation for tax purposes of the corresponding items, which was the same as the book depreciation, was calculated using the new base amount.

As regards to the assets and liabilities that were included in the described merger, a breakdown of the value adjustments made as a result of the combination of businesses is shown in the following table:

	Thousands of euros	
Account entries	Increase	Reduction
240/250 Equity instruments	1,873	2,090
141/142 Other provisions	1,212	—
172 Long-term debts	232	—
490/493 Value impairment of short-term commercial credits	—	1,441
295 Value impairment	—	812
Overall total	**3,317**	**4,343**

Other Information

In relation to other determined deductions performed by the Company on previous fiscal years, it is important to outstand the following:

i) On the fiscal year 2009, the Company opted to apply the deduction, in the portion that was not included in the deduction due to double imposition of capital gains from an internal source, due to

15. Government Bodies and tax situation (Continued)

reinvestment of the extraordinary profit obtained by Kanban, S.L., the company taken over in this year by Keraben Grupo, S.A. in the transfer of asset items, according to the following breakdown:

	Thousands of euros				
Year Transferred	**Sales Value**	**Year of Reinvestment**	**Amount of Reinvestment**	**Income qualifying for reinvestment**	**Tax deduction generated**
		2009	210	145	17
2008	22,882	2010	2,402	1,660	199
		2011	3,355	2,318	278
Total	**22,882**		**5,967**	**4,123**	**494**

In addition, Metropol Cerámica, S.L., a company that was also taken over in 2009, applied a deferral in 2001 for the reinvestment of income obtained, in the amount of 2,147,000 euros, and the method chosen to include this income in its tax base was the one defined in Article 34.1.b) of the Spanish Company Tax Regulation.

ii) This reinvestment was made in its entirety during the course of the 2000 and 2001 financial years in the construction of an industrial unit within the municipal boundaries of Villafamés, province of Castellón.

The breakdown by financial year of the income included in the tax bases and the income that remains pending inclusion is as follows:

	Thousands of euros	
Taxable year	**Income included**	**Income pending inclusion**
2001	50	—
2002	64	—
2003	64	—
2004	64	—
2005	43	—
2006	43	—
2007	43	—
2008	43	—
2009	43	—
2010	43	—
2011	43	—
2012	43	—
2013	43	—
2014	43	—
2015	43	—
2016	64	
2017 to 2037	—	1,353
2038	—	14
Total	**779**	**1,367**

The income to be included during the tax periods between 2017 and 2038 inclusive will be included at a rate of 64 thousand euros per year.

Financial years pending verification and inspection processes

Pursuant to the legislation currently in force, taxes may not be regarded as having been completely settled until the tax returns submitted have been inspected by the tax authorities, or until the time-bar period has

15. Government Bodies and tax situation (Continued)

been exceeded. At the end of the 2016 financial year, the periods 2012 to 2016 of the Company's operation remained open for inspection in respect of Company Tax, while the last four years remained open for inspection in respect of all other applicable taxes. Given the different potential interpretations that can be made of the tax regulations, the results of any inspections that may be carried out by the tax authorities in the future in relation to years that remain subject to inspection could give rise to tax liabilities, the amount of which cannot currently be quantified in any objective way. However, the Company's Directors believe that the said taxes have been adequately settled, meaning that even in the event that differences arise in respect of the interpretation of the regulations in force as regards the fiscal approach applied to the Company's operations, any eventual liabilities, will not have a significant effect on these annual accounts.

In addition, on 4th July 2014, the Tax Authorities began an inspection relating to Company Tax for the financial years 2010 to 2011, and an inspection of Value Added Tax and amounts retained or paid in on account against revenues and professional services, capital assets and real estate leases for the period between 2010 and 2011 by the Company. The inspection was extended to the period between 2012 and 2014 with regard to company tax. These inspections were completed during the 2016 financial year, though they did not generate any impact that had not already been entered by the closure of the 2015 financial year.

16. Income and expenses

Net turnover figure

The distribution of the net turnover figure for the financial years 2016 and 2017 by business activity and by geographical market sector is as follows:

	Thousands of euros	
Activity	2016	2015
Sale of tiles and sub products	115,772	104,620
Technical Services	1,872	2,175
Provision of services	340	360
Total	**117,984**	**107,155**

	Thousands of euros	
Geographical market sectors	2016	2015
National	40,699	35,533
Export	77,285	71,622
Total	**117,984**	**107,155**

16. Income and expenses (Continued)

Supplies

The amount entered under "Supplies" in the attached profit and loss accounts for 2016 and 2015 breaks down as follows:

	Thousands of euros	
	2016	2015
Consumption of merchandise:		
Net purchases	3,934	4,367
Changes in stock levels	486	(696)
Subtotal	**4,420**	**3,671**
Consumption of raw materials and other consumables:		
Net purchases	25,145	22,645
Changes in stock levels	(87)	234
Subtotal	**25,058**	**22,879**
Work carried out by other companies	**1,324**	**2,384**
Impairment of goods, raw materials and others	**(49)**	**(197)**
Total Supplies	**30,753**	**28,737**

Almost all of the purchases made by the Company during the financial years 2016 and 2015 were made within Spain, and the cost of purchases made within the EU and imports made over the course of both financial years was not significant.

Personnel costs

The amount shown under "Personnel costs" in the profit and loss account breaks down as follows:

	Thousands of euros	
	2016	2015
Wages and salaries	18,432	17,190
Social Security	5,164	4,736
Other welfare charges	156	149
Total	**23,752**	**22,075**

The average number of employees during the financial years 2016 and 2015, broken down into categories, was as follows:

	Average Number of Employees	
	2016	2015
Management and Administration	55	53
Professional technicians and scientific staff	27	24
Sales / Logistics	141	134
Production	267	253
Technical staff	113	112
Total	**603**	**576**

16. Income and expenses (Continued)

The number of employees retained by the Company on 31st December 2016 and 2015, broken down by category and gender, was as follows:

2016

	Average Number of Employees		
	Male employees	Female employees	Total
Management and Administration	19	35	54
Professional technicians and scientific staff	16	11	27
Sales / Logistics	127	8	135
Production	266	13	279
Technical staff	83	33	116
Total	**511**	**100**	**611**

2015

	Average Number of Employees		
	Male employees	Female employees	Total
Management and Administration	22	34	56
Professional technicians and scientific staff	15	10	25
Sales / Logistics	128	6	134
Production	240	16	256
Technical staff	80	31	111
Total	**485**	**97**	**582**

The average number of employees with disabilities greater or equal to 33%, broken down by category, is as follows:

2016

	Average Number of Employees		
	Male employees	Female employees	Total
Management and Administration	1	—	1
Production	4	—	4
Total	**5**	**—**	**5**

2015

	Average Number of Employees		
	Male employees	Female employees	Total
Management and Administration	2	—	2
Production	3	—	3
Technical Staff	1		1
Total	**6**	**—**	**6**

16. Income and expenses (Continued)

Impairment of current assets entered in the profit and loss account

The movements in allowance provisions for insolvencies and stocks in 2016 and 2015 were as follows:

	Thousands of euros	
	Provision for Insolvencies	Provision for Stocks
Balance at 1 January 2015	**3,707**	**1,471**
Allocation to provisions for the year	691	1,100
Total withdrawn—		
Withdrawn without effect on the results	(865)	—
Withdrawn with effect on the results	(149)	(1,471)
Balance at 31 December 2015	**3,384**	**1,100**
Allocation to provisions for the year	977	998
Total withdrawn—		
Withdrawn without effect on the results	(584)	—
Withdrawn with effect on the results	(148)	(1,100)
Balance at 31 December 2016	**3,629**	**998**

17. Environmental information

The Company aims to ensure that engagement in its industrial activity is compatible with preservation of the environment. To this end it has equipment and facilities among its tangible fixed assets that are exclusively and specifically designed to minimise the environmental impact of its production processes and the products that it places on the market, the net cost and net book value of which amount respectively to 4,610 thousands of euros and 3,545 thousands of euros respectively (3,878 thousands of euros and 3,027 thousands of euros respectively in 2015). The provision for the depreciation of these assets amounted to 213 thousands of euros for the 2016 financial year (199 thousands of euros in 2015).

Furthermore, in the normal course of its business activity, and as part of its environmental protection processes, the Company incurred during the financial year 2016, costs relating to such processes amounting to approximately 616 thousands of euros (approximately 732 thousands of euros during 2015).

The Company's Directors do not believe that there are any risks or contingencies arising from environmental issues that could have a significant impact on these annual accounts, and for that reason these annual accounts do not contain any allowance provision in this regard.

Information on greenhouse gas emission rights

European Parliament Directive 2003/87/EC was published in October 2003 and established undertakings to reduce the emission of greenhouse gases. European Parliament and Council Resolution 2009/29/EC of 23 April 2009 revised the rules for the period from 2013 to 2020. These Directives were enacted in Spanish law by means of Royal Decree 1,722 of 28 December 2012, which introduced aspects relating to the allocation of emission rights within the framework of Act 1 of 9th March 2005, which in turn regulated the rules governing the trading of greenhouse gas emission rights. The allocation of rights to facilities eligible to receive the free allocation of emission rights for the period from 2013 to 2020 was calculated by applying the allocation methodology set out in European Commission Decision 2011/278/EU.

In the individual allocation of rights for the period from 2013 to 2020, the Company was awarded 63,714 tonnes free of charge for the 2016 financial year. The issue of greenhouse gases during the 2016 financial year was estimated at 85,485 tonnes (see Notes 10 and 11) (79,827 tonnes during 2015), which meant a cost of 629 thousands of euros which is entered under the heading "Other Operating Costs—Costs due to the emission of greenhouse gases" in the attached profit and loss account for the 2016 financial year.

17. Environmental information (Continued)

There were no future agreements on emission rights at the close of the financial year. There were no contingencies for penalties and similar items under Act 1/2005 at the close of the financial year.

18. Related party transactions and balances

a) Related party transactions

Transactions—income/(expenses)—engaged in with related parties during the financial years 2016 and 2015 broke down as follows:

2016

	Thousands of euros				
	Group Companies	Associate Companies	Other Related Parties	Shareholders	Total
Sales	687	2,406	2		3,095
Purchases	(110)	(44)	—		(154)
Non-current asset purchases	(1)	—	—		(1)
Provision of services and leases	24	—	—		24
Services charged	105	131	8		244
Services received	(2)	(1)	(145)		(148)
Sale of real state	2,817			253	3,070
Dividends received	2,527	3,703	—		6,230

2015

	Thousands of euros			
	Group Companies	Associate Companies	Other Related Parties	Total
Sales	876	2,723	270	3,869
Purchases	(86)	(147)	—	(233)
Non-current asset purchases	(3)	—	—	(3)
Provision of services and leases	122		—	122
Services charged	17	36	—	53
Services received	(38)	(32)	(107)	(177)
Dividends received	1,361		—	1,361

The services provided, shown on the above table, correspond, mainly, to leases and to services provided by the personnel, IT and administration departments to various group companies.

As mentioned in note 1, the Company is the dominant organisation in a corporate group. It also belongs to a group of companies whose direct parent is Tensile-Keraben Holdings, S.à.r.l., and the group's ultimate parent company is Tensile Capital GP LLC. To this end, all the companies that belong to the Tensile Group are regarded as group companies.

18. Related party transactions and balances (Continued)

b) Balances with related parties

The amounts of the balances held with related parties at 31st December 2016 and 2015 break down as follows:

2016

	Thousands of euros			
	Group Companies	Associate Companies	Other related parties	Total
Instruments on Equity Value	931	1,437	—	2,368
Accounts receivable for sales and services	184	1,913	5	2,102
Commercial creditors and other accounts payable.	—	(22)	—	(22)

2015

	Thousands of euros			
	Group Companies	Associate Companies	Other related parties	Total
Instruments on Equity Value	1,154	5,663	—	6,817
Accounts receivable for sales and services	219	1,977	55	2,251
Commercial creditors and other accounts payable	(217)	(126)	(5)	(348)

The amount entered in the section headed "Group and associate company customers" on the assets side of the balance sheet relates in its entirety to the accounts receivable from group companies as a consequence of commercial transactions.

In addition, the amount entered under "Commercial creditors and other accounts payable—Group and associate company suppliers" on the liabilities side of the balance sheet relates to accounts payable to group and associate companies as a consequence of commercial transactions.

19. Other information

Payments to Directors and Senior Managers

During the 2016 and 2015 financial years, the duties of the Company's senior management have been performed by its board of directors. The payments received during 2016 and 2015 by the members of the board of directors (which comprised five male members at 31st December 2016 and 2015), in respect of all items, amounted to 4,082 thousands of euros and 540 thousands of euros respectively.

Of the amounts detailed above in respect of payments to the Company's directors, 10 thousands of euros related to the Company's payment of premiums for life insurance policies (the same amount as in 2015). In addition, the premium amount paid out in the 2016 financial year in the form of civil liability insurance for the directors amounted to 10 thousands of euros.

The Company has certain incentive plans for some directors, linked to specific profitability and/or liquidity parameters to be obtained by shareholders in any future disposal of the Company. In this regard, the payments received in 2016, as detailed above, include an amount accrued in this connection, which is entered under the heading "Other results" in the attached profit and loss account for the 2016 financial year (the remaining portion of the amount recorded under "Other results" relates to costs incurred in relation to the operations involving the sale of the companies in which the Company had a shareholding, as described in note 9). The Company's directors believe that no additional amount had accrued in respect of this item as of 31st December 2016, meaning that no liability has been entered in the attached balance sheet as of 31st December 2016.

19. Other information (Continued)

No compensation has been incurred as the result of the resignation or dismissal of any of the members of the board of directors during the 2016 and 2015 financial years. No advances or loans have been made to the Company's directors or its senior management. The Company has not assumed any additional obligation on behalf of its directors. Furthermore, the Company has not assumed any obligation of any kind in respect of pensions or the payment of life insurance premiums in relation to the members of the board of directors.

Auditors' Fees

During the 2016 financial year, the fees relating to account auditing services provided by the Company's auditor, Deloitte, S.L., amounted to 47 thousands of euros (the same amount as in the 2016 financial year). In addition, fees were accrued for other services provided by the Company's auditor during the 2016 financial year in the amount of 120 thousands of euros (no amount was paid in this regard during 2015).

Off balance sheet resolutions

The Company's Directors believe that there are no Company resolutions that are not recorded in the balance sheet or not mentioned, where applicable, in the information contained in other Notes in these notes to the accounts that would have a significant effect in determining the Company's financial situation.

Financing structure

The Company forms part of the Tensile Group, the ultimate parent of which is Tensile Capital GP LLC. However the Company acts independently from its group in terms of financial structure, obtaining directly the necessary financial resources from local financial entities, for the development of its activity as detailed in note 14. The Company's Directors believe that, both, the disposable discount credit lines, and the long-term financing, will allow the Company to adequately manage all their financing requirements.

Information on situations involving conflicts of interest among the Company's Directors

With regard to the contents of Article 229 of the Consolidated Text of the Spanish Capital Companies Act, the Directors have informed the Company that, during the financial year 2016, neither they nor the individuals or companies to which they are related, as defined in Article 231 of the said Act, were affected by situations involving a conflict of interest, as provided for in the aforementioned Article 229, and neither the Board of Directors nor the other Directors were sent any communication of the kind provided for in paragraph 3 of the said Article.

Information on deferred payments to suppliers. Third Additional Provision. "Duty to Inform" under Act 15 of 5 July 2010.

Act 15 of 5th July 2010, which amended Act 3 of 29th December 2004, which established measures to combat late payment in commercial transactions, established that "Companies must expressly include information in the notes to their annual accounts regarding the payment terms they apply to suppliers". In addition, the ruling of 29 January 2016 by the Spanish Institute of Accounting and Accounts Auditing ("**ICAC**") sets out the information to be included in the notes in order to comply with the said Act, and this will apply to all annual accounts for financial years beginning from 1st January 2015 onwards.

The information required for the financial year 2016 under the third additional provision of the aforementioned ruling is as follows:

	2016 Days	2015 Days
Average supplier payment term	88	85
Ratio of transactions paid	93	92
Ratio of transactions pending payment	66	36

19. Other information (Continued)

	(Thousands of euros)	(Thousands of euros)
Total payments made	67,315	75,034
Total payments pending	19,566	14,212

The data shown in the above table regarding payments to suppliers refers to suppliers that are, by their very nature, commercial creditors as the result of debts with suppliers of goods and services, in such a way that this includes data relating to the entries "Suppliers", "Suppliers, group and associate companies" and "Miscellaneous creditors" in the current liabilities section of the balance sheet.

The maximum legal payment term applicable to the Company in the financial year 2016, pursuant to Act 11 of 26 July 2013, which implemented Act 3 of 29th December 2004, which in turn established measures to combat late payment in commercial operations, is 30 days, unless there is an agreement between the parties, in which case the maximum term would be 60 days (the same as the term for 2015).

Information required under Chapter VIII of Title VII of Royal Legislative Decree 4/2004, which approved the Consolidated Text of the Spanish Company Tax Act.

The General Meetings of Shareholders of Industrias Químicas Benavent, S.L. and Keraben Grupo, S.A.U., held in extraordinary fully-attended session on 29th June 2010, approved the reverse merger of a wholly owned company, the target company being its sole shareholder, in such a way that Keraben Grupo S.A.U. legally took over the company Industrias Químicas Benavent, S.L. The merger agreement was recorded in a public deed dated 6th October 2010, which was registered at Castellón Mercantile Registry on 26th October 2010.

It was agreed to adopt the fiscal rules set out in the Spanish Company Tax Act. Specifically, the planned merger was implemented under the tax rules set out in Chapter VIII of Title VII of Royal Legislative Decree 4 of 5th March 2004, which approved the consolidated text of the Spanish Company Tax Act. To this end, and pursuant to the contents of Article 96 of the aforementioned Royal Decree, the said operation was recorded in the resolutions adopted by the respective General Meetings of Shareholders of the companies involved in the merger.

During the financial year 2011, a merger was completed in which Keraben Tiendas, S.L. was absorbed by Keraben Grupo, S.A. Specifically, a public deed dated 30th September 2011 recorded a merger in which the company Keraben Grupo, S.A. (hereinafter, the dominant company) absorbed Keraben Tiendas, S.L.U. (hereinafter, the target company).

It was agreed to adopt the fiscal rules set out in the Spanish Company Tax Act. Specifically, the planned merger was implemented under the tax rules set out in Chapter VIII of Title VII of Royal Legislative Decree 4 of 5th March 2004, which approved the consolidated text of the Spanish Company Tax Act. To this end, and pursuant to the contents of Article 96 of the aforementioned Royal Decree, the said operation was recorded in the resolutions adopted by the respective General Meetings of Shareholders of the companies involved in the merger.

Keraben Grupo, S.A. was the prior result of the merger by takeover carried out in 2009 by the companies Keraben, S.A., as dominant company, and Kanban, S.L., Metropol Cerámica, S.L. and Keratrim, S.A., as target companies.

Likewise, Keraben, S.A. was the result of a merger between the companies Gres de Nules, S.A., as dominant company, and Keraben, S.A., as Target Company, which took place in accordance with the resolutions passed at the respective General Meetings of Shareholders on 27th November 2001. In this merger, the dominant company adopted the name of the target company: Keraben, S.A.

Subsequently, the General Meetings of Shareholders of the companies Keraben, S.A., as dominant company, and Creacer, S.A., as Target Company, gave their approval on 20th November 2003 for the vertical merger of the latter by the former.

In turn, Kanban, S.L. was the result of a merger by takeover between the companies Kanban, S.A. (the company's previous name), as dominant company, and Disacer, S.A., Iniciativas Patrimoniales Herben,

19. Other information (Continued)

S.L. and Starker, S.A., as target companies, which was completed in 1999, and a merger between Kanban, S.L., as dominant company, and Iniciativas Inmobiliarias Tiber, S.L., Proyectos y Desarrollos Cerámicos, S.L. and Desarrollos y Proyectos Benavent, S.L., as target companies, which was completed in 2008.

The first approved annual reports issued by Keraben Grupo, S.A. following the mergers carried out in 2011, 2010 and 2009, the first reports issued by Keraben, S.A. following the said mergers (corresponding to the financial years ending 31st December 2001 and 2003), and the reports issued by Kanban, S.L. for the financial years 1999 and 2008, contain the information required under the legislation in force.

As regards the target company, Kanban, S.L., this company made non-monetary contributions during the 2002 financial year during the subscription of shares in another group company. The share capital amount received was valued at the book value of the shares handed over, as this did not exceed the value attributed to them by the recipient company. Pursuant to the contents of Spanish Company Tax Act 43/1995, the company chose to apply the special regulations on mergers and demergers, allocations of assets and exchanges of securities regulated under Chapter VIII of Title VIII of the said Act.

During the financial year 2002, Kanban, S.L. also carried out a share capital increase, formally undertaken under the terms of Chapter VIII of Title VIII of Act 43/1995, by means of a share swap transaction in which it acquired a holding in the share capital of another company which allowed it to obtain a majority of voting rights, while the shareholders of the other company were in turn given a holding in the share capital of Kanban, S.L.

In addition, on 2nd August 2004, Kanban, S.L. increased its share capital in the amount of 794,507.95 euros through the issue of 26,439 company shares, each with a par value of 30.05060521 euros. The new shares were issued with an issue premium of 455.04939479 euros per share. The increase was subscribed and the shares and issue premium were fully paid up immediately by means of a non-monetary contribution of shares. The operation was performed under the tax rules set out in Royal Legislative Decree 4/2004, which approved the Consolidated Text of the Spanish Company Tax Act. Specifically, the planned non-monetary transaction, governed by Article 94 of the aforementioned Royal Legislative Decree, was carried out under the tax rules set out in Chapter VIII of Title VII.

On 30th December 2004, Kanban, S.L. increased its share capital in the amount of 219,098.96 euros through the issue of 7,291 company shares, each with a par value of 30.05060521 euros. The new shares were issued with an issue premium of 455.04939479 euros per share. The increase was subscribed and the shares and issue premium were fully paid up immediately by means of a non-monetary contribution of shares. The operation was performed under the tax rules set out in Royal Legislative Decree 4/2004, which approved the Consolidated Text of the Spanish Company Tax Act. Specifically, the planned non-monetary transaction, governed by Article 94 of the aforementioned Royal Legislative Decree, was carried out under the tax rules set out in Chapter VIII of Title VII.

20. Events occurring after closure of the accounts

Following the closure of the financial year, the Company formalised an agreement to renew the conditions of the financing detailed in note 14, in such a way that the new conditions are, essentially, as follows:

- Syndicated loan in the amount of 70 million euros in a single tranche.
- Repayment period of 7 years.
- Interest rate based on the Euribor rate plus a market differential, which will vary depending on the performance of certain financial ratios of the Company.
- Restrictions on the distribution of dividends and additional borrowing by the Company have been removed, provided that certain financial ratios remain below specific established limits.
- As regards the guarantees that were put in place during the earlier financing and remained in place during the 2016 financial year, the guarantees and mortgages over the Company's tangible and real estate assets have been released and have been replaced by a mortgage undertaking over these same assets.

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain. In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Shareholders of Keraben Grupo, S.A.,

Report on the Financial Statements

We have audited the accompanying financial statements of Keraben Grupo, S.A., which comprise the balance sheet as at 31 December 2015, and the statement of profit or loss, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended.

Directors' Responsibility for the Financial Statements

The directors are responsible for preparing the accompanying financial statements so that they present fairly the equity, financial position and results of Keraben Grupo, S.A. in accordance with the regulatory financial reporting framework applicable to the Company in Spain (identified in Note 2-a to the accompanying financial statements) and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the audit regulations in force in Spain. Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the 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 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 accompanying financial statements present fairly, in all material respects, the equity and financial position of Keraben Grupo, S.A. as at 31 December 2015, and its results and its cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Company and, in particular, with the accounting principles and rules contained therein.

Other Matters

The Company's financial statements for the year ended 31 December 2014 were audited by another auditor, who expressed an unqualified opinion on those financial statements on 5 May 2015.

Report on Other Legal and Regulatory Requirements

The accompanying directors' report for 2015 contains the explanations which the directors consider appropriate about the Company's situation, the evolution of its business and other matters, but is not an integral part of the financial statements. We have checked that the accounting information in the directors' report is consistent with that contained in the financial statements for 2015. Our work as auditors was confined to checking the directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the Company's accounting records.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain. In the event of a discrepancy, the Spanish-language version prevails.

KERABEN GRUPO, S.A.

Balance Sheets at 31 December, 2015 (expressed in Thousands of Euros-€)

	Note	Balance at 31.12.15	Balance at 31.12.14
ASSETS			
NON-CURRENT ASSETS		152,329	163,570
Intangible fixed assets	5	15,887	16,147
Development		349	772
Patents, licenses, trade marks and similar		14,093	14,081
Goodwill			
Computer programmes		301	224
Research			
Credits for greenhouse gas emissions		1,144	1,070
Tangible fixed assets	6	99,320	95,556
Land and buildings		70,596	71,503
Plant, machinery and others		26,964	23,985
Assets in course and advance payments		1,760	68
Investments in property and real estate	7	15,822	27,718
Land		10,670	18,626
Buildings		5,152	9,092
Long-term investments in group and associated entities	9, 18	6,817	6.995
Equity based instruments		6,817	6.995
Long-term investments	9	14	1,226
Equity instruments			248
Loans to third parties			92
Other financial assets		14	886
Deferred tax assets	15	14,469	15,928
CURRENT ASSETS		55,210	51,464
Stocks	10	18,627	17,264
Goods for resale		1,350	518
Raw materials and other supplies		1,169	1,342
Work in progress and partially finished goods		478	439
Finished goods		15,630	14,965
Accounts receivable—commercial and other		28,968	26,311
Accounts receivable for sales and services		23,650	20,624
Trade debtors—group and associated entities	18	2,196	2,031
Sundry debtors		353	239
Employees		50	29
Current tax assets		1,629	1,190
Other debts due from government bodies		1,090	2,198
Short-term investments in group and associated entities	9		510
Loans to companies			486
Other financial assets			24
Short-term financial investments	9	1,054	502
Equity instruments		1	1
Loans to third parties		92	100
Other financial assets		961	401
Short-term accruals and prepayments		162	119
Cash and equivalent liquid assets	14	6,399	6,758
Cash resources		6,399	6,758
TOTAL ASSETS		207,539	215,034
NET EQUITY AND LIABILITIES			
NET EQUITY		88,176	81,500
Shareholders' funds	11	87,565	80,842
Capital		5,291	5,291
Authorised share capital		5,291	5,291
Share issue premium		74,372	74,372
Reserves		1,180	(19,271)
Legal and statutory		1,058	384
Other reserves		122	19,655
Own shares, treasury stock and similar Prior year results			(1,692)
(Retained losses from prior years)			(1,692)
Result for the year	3	6,722	22,142
Subsidies, grants and donations	11	611	658
NON-CURRENT LIABILITIES		92,244	99,769
Long-term provisions			—
Other provisions			—
Long-term borrowings	14	76,087	80,239
Borrowings from financial institutions		74,597	77,806
Finance lease borrowings	8	319	857
Derivatives	4-f		211
Other financial liabilities		1,171	1,365
Long-term debts with group and associated entities			44
Deferred tax liabilities	15	16,157	19,486
CURRENT LIABILITIES		27,119	33,765
Short-term provisions	13	1,808	1,216
Short-term borrowings	14	7,944	7,945
Borrowings from financial institutions		3,047	3,933
Finance lease borrowings	8	223	497
Other financial liabilities		4,674	3,515
Short-term debts with group and associated entities	18		61
Accounts payable—commercial and other		17,367	24,310
Suppliers		13,012	19,457
Trade creditors, group and associated entities	18	348	167
Sundry creditors		852	937
Employees (payroll creditor)		1,753	2,215
Other amounts payable to government bodies		942	1,120
Advances received from customers		450	414
Short-term accruals			233
TOTAL NET EQUITY AND LIABILITIES		207,539	215,034

KERABEN GRUPO, S.A.

Profit and Loss Account for the year ended 31 December, 2015 (expressed in Thousands of Euros—€)

	Note	(Debit) Credit 2015	2014
CONTINUING OPERATIONS:			
Net turnover	16	**107,155**	**97,120**
Sales		106,483	96,298
Services rendered		672	822
Variation on stocks of finished goods and work-in-progress		**704**	**1,121**
Own work capitalised		**12**	**8**
Supplies	16	**(28,737)**	**(25,897)**
Consumption of goods for resale		(3,671)	(1,613)
Consumption of raw materials and other consumables		(22,879)	(22,259)
Subcontracting and similar		(2,384)	(2,133)
Impairment of raw materials, goods for resale and supplies		197	108
Other operating income		**307**	**400**
Ancillary income and other income from normal operations		251	386
Operating subsidies transferred to income		56	14
Employee costs	16	**(22,075)**	**(21,401)**
Salaries, wages and similar		(17,190)	(16,454)
Social Security and similar costs		(4,885)	(4,947)
Provisions			
Other operating costs		**(30,980)**	**(31,755)**
External services		(28,919)	(30,513)
Taxes		(879)	(602)
Losses, impairment and movement on provisions for commercial operations	16	(654)	(260)
Other normal operating costs	5	(528)	(380)
Depreciation of fixed assets	5, 6, 7	**(6,985)**	**(5,187)**
Transfer of grants for non-financial assets and others	11	**894**	**879**
Excess provisions	13	**349**	
Impairment and results on sale of fixed assets	5, 6, 7	**(11,413)**	**(2,262)**
Impairment and losses		(11,276)	(2,240)
Results on sale and others		(137)	(22)
Negative difference on business combinations			
Other profits and losses		**511**	**(18)**
OPERATING RESULT (1+2+3+4+5+6+7+8+9+10+11+12)		**9,742**	**13,008**
Financial income		**1,416**	**11,126**
From interests in equity based instruments	9	1,361	464,000
In group and associated entities		1,361	464,000
In third parties			
From tradable investments and other financial instruments		55	10,662
Group and associated entities			
Third parties		55	10,662
Transfer of financial subsidies, donations and similar			
Financial costs	14	**(2,796)**	**(4,157)**
Borrowings from group and associated entities			
Borrowings from third parties		(2,603)	(4,277)
Recalculation of provisions		(193)	120
Variation in fair value of financial instruments		**17**	**(47)**
Investment portfolio and others		17	(47)
Transfer to results for the year concerning financial assets held for sale			
Differences on Exchange	12	**85**	**322**
Impairment and results on sale of financial assets		**(693)**	**(497)**
Impairment and losses		(693)	(497)
Results on sale and others			
FINANCIAL RESULT		**(1,971)**	**6,747**
RESULT BEFORE TAX		**7,771**	**19,755**
Corporation tax	15	**(1,049)**	**1,727**
RESULT FOR THE YEAR FROM CONTINUING OPERATIONS		**6,722**	**21,482**
Results after-tax from discontinued operations		**—**	**660**
RESULT FOR THE YEAR	3	**6,722**	**22,142**

KERABEN GRUPO, S.A.

Statement of Changes in Net Equity for the year ended 31 December, 2015 (expressed in Thousands of Euros—€)

A) STATEMENT OF RECOGNISED INCOME AND EXPENSES

	Note	(Expense) / Income 2015	(Expense) / Income 2014
Profit and loss account—result	3	**6,722**	**22,142**
Income and expenses recognised directly in equity			
Subsidies, donations and similar	18	**821**	**758**
Tax effect	18	**(223)**	**(191)**
Total income and expenses recognised directly in equity	15	**598**	**567**
Transfers to the profit and loss account			
Subsidies, donations and similar	18	**(894)**	**(1,009)**
Tax effect	18	**250**	**303**
Total transfers to the profit and loss account		**(644)**	**(706)**
TOTAL RECOGNISED INCOME AND EXPENSES		**6,676**	**22,003**

B) STATEMENT OF TOTAL CHANGES IN NET EQUITY

	Capital authorised	Share premium	Reserves	Prior year negative results	Prior year results	Result for the year	Own shares, treasury stock and similar	Subsidies, donations and similar received	TOTAL
OPENING BALANCE 2014	**1,921**	**30,790**	**(4,303)**	**(3,699)**	**—**	**2,007**	**(448)**	**798**	**27,606**
Total recognised income and expenses	**—**	**—**	**—**	**—**	**—**	**22,142**	**—**	**(140)**	**22,002**
Operations with shareholders or owners	**3,370**	**43,581**	**(14,967)**	**—**	**—**	**—**	**448**	**—**	**32,432**
Share capital increases (Note 11)	4,196	54,147	—	—	—	—	—	—	58,343
(−) Share capital reductions	(816)								(816)
(−) Share capital reductions (Note 1)	—		(14,529)						(14,529)
Operations with own shares (net)	(10)		(438)				448		—
Other operations with shareholders or owners		(10,566)							(10,566)
Other movements in net equity	**—**	**—**	**—**	**2,007**	**—**	**(2,007)**	**—**	**—**	**—**
ADJUSTED OPENING BALANCE 2014	**5,291**	**74,371**	**(19,270)**	**(1,692)**	**—**	**22,142**	**—**	**658**	**81,501**
Total recognised income and expenses	**—**	**—**	**—**	**—**	**—**	**6,722**	**—**	**(47)**	**6,675**
Other movements in net equity	—	—	20,450	1,692	—	(22,142)	—	—	—
CLOSING BALANCE 2015	**5,291**	**74,371**	**1,180**	**—**	**—**	**6,722**	**—**	**611**	**88,176**

KERABEN GRUPO, S.A.

Statements of Cash Flows 31 December, 2015 (expressed in Thousands of Euros—€)

	Notes	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Result for the year before tax	3	**7,771**	**20,699**
Adjustments to the result		**19,756**	**1,023**
Depreciation of fixed assets (+)	5, 6, 7	6,985	5,262
Valuation correction for impairment (+/−)		12,599	3,467
Movement on provisions (+/−)	13	(349)	380
Transfer of subsidies (−)	11	(894)	(1,009)
Results on sale and withdrawal of fixed assets (+/−)	5, 6, 7	137	22
Results on sale and withdrawal of financial instruments (+/−)			
Financial income (−)	9,14	(1,416)	(11,126)
Financial expense (+)	14	2,796	4,157
Differences on exchange (+/−)	12	(85)	(177)
Change in fair value of financial instruments (+/−)		(17)	47
Other income and expenses (−/+)			
Changes in working capital:		**(11,573)**	**6,514**
Stocks (+/−)	10	(992)	(1,859)
Debtors and other accounts receivable (+/−)		(3,453)	(1,012)
Other current assets (+/−)			28
Creditors and other accounts payable (+/−)		(7,186)	9,433
Other current liabilities (+/−)		(73)	(45)
Other non-current assets and liabilities (+/−)		131	(31)
Other cash flows from operating activities:		**(2,974)**	**(6,376)**
Interest paid (−)		(2,246)	(4,514)
Dividends received (+)	9	1,361	439
Interest received (+)		55	74
Receipts (payments) for corporation tax (+/−)		(2,144)	(2,375)
Cash flows from operating activities		**12,980**	**21,860**
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Payments for investments (−):		**(9,211)**	**(8,115)**
Group and associated companies			
Intangible fixed assets	5	(204)	(594)
Tangible fixed assets	6	(8,761)	(6,658)
Other financial assets		(246)	(863)
Collections on disposal of investments (+):		**1.303**	**89**
Group and associated companies	9.1	510	385
Intangible fixed assets			
Tangible fixed assets	6	92	—
Investments in property	7	201	—
Other financial assets	9.2	500	104
Business unit		—	(400)
Cash flows from investment activities		**(7,908)**	**8,026**
CASH FLOWS FROM FINANCING ACTIVITIES			
Collections and payments from equity based instruments		**325**	**59,102**
Issues of equity based instruments			58,344
Subsidies, donations and similar	11	325	758
Collections and payments for financial liability instruments	14,18	**(5,841)**	**(67,215)**
Issue:			
Borrowings from financial institutions (+)			
Repayment and cancellation of:		**(5,841)**	**(67,215)**
Borrowings from financial institutions (−)		(5,229)	(65,756)
Borrowings from group and associated entities (−)		(104)	(190)
Other borrowings (−)		(508)	(1,269)
Cash flow from financing activities		**(5,516)**	**(8,113)**
Effect of movements on exchange		**85**	**12**
NET INCREASE/REDUCTION IN CASH AND EQUIVALENTS		**(359)**	**5,733**
Opening cash and equivalent resources		6,758	929
Closing cash and equivalent resources		6,399	6,758

Keraben Grupo, S.A.

Report on the financial year ending 31 December 2015

1. Company Business

Keraben Grupo, S.A. (hereinafter, the Company) was incorporated on 2 March 1974 for an indefinite time. Its registered office is at Carretera Valencia—Barcelona, Km. 44.3 , in the town of Nules (Castellon), where its main production facilities and the place in which it engages in its business is located.

According to its Articles of Association, the Company's corporate purpose comprises the following activities:

- The manufacture, through all stages and processes, and the commercialization, including the purchase, sale, import, export, representation, wholesale and retail distribution, directly or on commission, and the transportation of all kinds of ceramic goods and products and their derivatives, supplementary or accessory items, especially floor tiles, wall tiles, bricks, clays, frits, colours, varnishes, bisques and similar items of all kinds, along with chemical ceramic items for the said industrial processes and any other article or material that is manufactured with the use of fire and that either serves as a raw material for the ceramic industry in the broadest sense or is itself a completely or partially finished product in the said industry.
- The provision of all kinds of services, advice and technical assistance in relation to the industries and products listed above.
- The trading and the leasing (excluding financial leasing) of any properties belonging to the Company itself or to third parties.
- The production and sale of electrical and thermal energy through co-generation.
- The possession, direction and management of holdings in other companies through the corresponding organisation of material and human resources.

The main activity engaged by the Company during the financial year 2015 consisted on the manufacture and marketing of ceramic floor and wall tiles.

The Company is the parent of a group of companies, and pursuant to the legislation in force it is obliged to prepare separate consolidated accounts. The consolidated annual accounts of Keraben Grupo, S.A. and its dependent companies for the financial year 2015 were prepared by the Directors on 31 March 2016 and will be deposited at Castellon Mercantile Registry after the approval of the Company's General Meeting of Shareholders. Meanwhile, the consolidated annual accounts for the financial year 2014 were formulated by the directors in the General Meeting of Shareholders of Keraben Grupo, S.A. held on 31st March 2015 and filed at Castellon Mercantile Registry. The Company also belongs to a group of companies whose direct parent parent is Tensile-Keraben Holdings, S.à.r.l., which is domiciled in Luxembourg, and the group's ultimate parent company is Tensile Capital GP LLC, which is domiciled in the USA.

Corporate restructuring processes during previous financial years

Merger processes

Keraben, S.A. was the result from a merger between the companies Gres de Nules, S.A., as dominant company, and Keraben, S.A., as target company, which was registered on 18th March 2002, in accordance with the merger project published on 4th January 2002 and approved by the respective General Meetings of Shareholders of Keraben, S.A. and Gres de Nules, S.A., held in extraordinary fully-attended session on 27th November 2001, pursuant to Article 250.2 of the Consolidated Text of the Spanish Limited Companies Act. The merger was registered for accounting effects on 1st January 2001. In this merger, the dominant company adopted the name of the target company: Keraben, S.A.

Keraben Grupo, S.A. was the result from a simplified reverse merger registered on 15th October 2009, by means of the takeover by Keraben Grupo S.A.U., as dominant company, of the companies Kanban, S.L., Metropol Cerámica, S.L. and Keratrim, S.A., as target companies, in accordance with the merger project published on 7th July 2009 and approved by the General Meetings of Shareholders of Keraben S.A.U., Kanban, S.L., Metropol Cerámica, S.L. and Keratrim, S.A., held in extraordinary fully-attended session on

1. Company Business (Continued)

29th June 2009, pursuant to Article 250.2 of the Consolidated Text of the Spanish Limited Companies Act. The merger was registered for accounting effects on 1st January 2009.

On 26th October 2010, a reverse merger was registered at the Mercantile Registry, in which Industrias Químicas Benavent, S.L. was taken over by its fully-owned subsidiary Keraben Grupo S.A.U., in accordance with the merger project published on 6th July 2010 and approved by the General Meetings of Shareholders of Industrias Químicas Benavent, S.L. and Keraben Grupo, S.A.U., held in extraordinary fully-attended session on 29th June 2010, pursuant to the contents of Section 8, Chapter I, Title II of Act 3 of 3 April 2009, on the structural modification of commercial companies. This merger operation was completed by virtue of the special procedure provided for in Articles 49.1 and 52.1 of Act 3 of 3rd April 2009. The merger was registered for accounting effects on 21st June 2010.

On 8th November 2011, a merger was registered in which Keraben Tiendas, S.L.U. was absorbed by Keraben Grupo, S.A. Specifically, a public deed dated 30th September 2011 recorded a merger in which the company Keraben Grupo, S.A. (hereinafter, the dominant company) absorbed Keraben Tiendas, S.L.U. (hereinafter, the target company), in accordance with the merger project published on 13th July 2011, approved by the General Meetings of Shareholders of Keraben Grupo, S.A. and Keraben Tiendas, S.L.U. held in extraordinary fully-attended session on 10thAugust 2011. This merger operation was completed by virtue of the special procedure provided for in Article 49 of Act 3 of 3rd April 2009. The merger was registered for accounting effects on 1st January 2011.

On the described mergers, it was agreed to adopt the fiscal rules set out in the Spanish Company Tax Act. Specifically, the executed mergers were implemented under the tax rules set out in Chapter VIII of Title VII of Royal Legislative Decree 4 of 5th March 2004, which approved the consolidated text of the Spanish Company Tax Act. Pursuant to Eighth Additional Disposal of the Law 43/1995 of the 27^{th} December Spanish Company Tax Act The compulsory information relating to the above merger operations was included in the annual accounts of the dominant companies in the relevant financial year.

Demerger processes

The Company held a General Meeting of Shareholders on 3rd November 2014, at which it approved the partial demerger project for the splitting off of the part of its equity comprising the elements attached to its agricultural business division and their allocation to a newly-created company. This demerger was implemented with a share capital and voluntary reserves reduction of 816,000 euros and 14.529 euros respectively. The merger was registered for accounting effects on 23rd December 2014, the date on which the said decision was publicly recorded. The operation was also registered with the Mercantile Registry on 19th January 2015.

2. Bases for presentation

a) Regulatory framework applicable to the Company as regards financial reporting

These annual accounts have been prepared by the Directors in accordance with the regulatory framework applicable to the Company as regards to financial reporting, as set out in:

- The Spanish Commercial Code and other mercantile legislation.
- The Spanish General Chart of Accounts approved by Royal Decree 1,514/2007, the amendments approved by Royal Decree 1,159/2010.
- The compulsory rules approved by the Spanish Institute of Accounting and Accounts Auditing for the implementation of the General Chart of Accounts and its supplementary regulations.
- All other applicable Spanish accounts regulations.

2. Bases for presentation (Continued)

b) Faithful Image

These present annual accounts have been prepared from the Company's accounts records, and they are presented in accordance with the regulatory framework governing financial reporting that applies to the Company, particularly the accounting principles and criteria set down in the said regulatory framework. They thus show a faithful image of the Company's worth, financial situation, results and cash flow movements during the relevant financial year. In particular, preparing these annual accounts, the Company's Directors applied the principles governing a company that is currently trading, since in their opinion there is no significant question regarding the continuity of its business activities. Furthermore, the Directors have neither taken nor do they plan to take any decision that could significantly alter the value of the asset and liability items entered in the accounts, or the time periods over which assets will be realised and liabilities settled.

These annual accounts, which have been prepared by the Company's Directors, shall be submitted for approval by the General Meeting of Shareholders, and it is expected that they will be approved without any changes. Meanwhile, the annual accounts for the 2014 financial year were approved by the General Meeting of Shareholders held on 15th June 2015 and are held on file at Castellon Mercantile Registry.

The Directors of the Company are responsible for the information contained in these annual accounts.

c) Accounting principles

The accounting principles and criteria applied during the preparation of these annual accounts are summarised in Note 4 of these notes to the accounts. No non-compulsory accounting principles have been applied. In addition, the Directors have prepared these annual accounts taking account of all the accounting principles and regulations that must be applied and that have a significant effect on the said annual accounts. Where an accounting principle is compulsory, there is no instance in which it has not been applied.

d) Responsibility for information, critical aspects relating to the valuation and assessment of uncertainty

While preparing these annual accounts, estimates made by the Company's Directors have been used in order to place a value on some of the assets, liabilities, income, expenses and undertakings shown in the accounts themselves. These estimates basically refer to the following:

- The assessment of potential losses due to the impairment of certain assets (see Notes 4-c, 4-e and 4-f).
- The useful life of intangible assets, tangible assets and real estate investments (see Notes 4-a, 4-b and 4-d).
- The fair value of certain financial instruments (Note 4-f).
- The forecast future taxable profits that make it probable that deferred tax assets will be recovered (Note 15).
- The calculation of certain allowance coverage amounts (see Note 4-l).

Despite the fact that these estimates have been made on the basis of the best information available at the end of the financial year 2015, it is possible that events occurring in the future may make it necessary to modify them (either upwards or downwards) in coming years. This will be carried out, where necessary, in the form of a prospective analysis, and the effects of any change to the said estimates will be recognised in the relevant future profit and loss accounts.

e) Comparison of information

The information in these annual accounts relating to the financial year 2014 is presented solely for the purposes of comparison with the information from the financial year 2015.

2. Bases for presentation (Continued)

a) Grouping of entries

Certain entries in the balance sheet, the profit and loss account, the statement of changes to net equity value and the cash flow statement are grouped together in order to facilitate understanding, though where information is particularly significant it is shown in broken down form in the corresponding notes to the accounts.

b) Changes to accounting criteria

There were no significant changes to accounting criteria during 2015 in comparison with the criteria applied during 2014.

c) Correction of errors

During the preparation of these annual accounts, no significant errors were detected that involved re-entering the amounts included in the annual accounts for the 2014 financial year.

3. Application of the result

The proposal for the application of the result from the financial year 2015, which has been drawn up by the Company's Directors and will be submitted for approval by the General Meeting of Shareholders, involves allocating all profits for the year to the entry "Other reserves".

4. Entry and valuation rules

The main entry and valuation rules used by the Company when preparing its annual accounts for the financial year 2015, pursuant to the rules set out in the Spanish General Chart of Accounts, were as follows:

a) Intangible fixed assets

As a general rule, intangible fixed assets are initially valued at cost of acquisition or production cost. Subsequently, they are valued at cost minus the corresponding accumulated depreciation and, where applicable, minus losses incurred as a result of impairment, pursuant to the criteria explained in Note 4-d. These assets are depreciated on the basis of their useful life.

The Company enters any loss that may have occurred in the registered value of these assets as the result of their impairment in the accounts, using the entry headed "Impairment and income from the disposal of fixed assets" in the profit and loss account as a contra entry. The criteria used to recognise losses due to the impairment of these assets and, where applicable, the recovery of any losses due to impairment entered in previous financial years are similar to those applied to tangible fixed assets, as explained in section d) of this Note.

Research and development costs

The Company adheres to the criterion of entering the research and development costs that it has incurred over the course of the year in the profit and loss account. However, research and development costs become active when the following requirements are met:

- They are specifically individually defined by project and the cost can be clearly established.
- There are justifiable reasons to trust in the technical success and financial and commercial profitability of the project.

Any assets generated in this way are depreciated using the straight line method over the course of their useful life (a maximum of five years). In addition, where there are doubts regarding the technical success or economic viability of the project, the amounts entered on the assets side of the balance sheet are attributed directly to the profit and loss account for the financial year.

4. Entry and valuation rules (Continued)

Patents, licences, trademarks and similar

This heading includes the amounts paid to acquire patents and register the Company's trademarks, and items are valued initially at cost of acquisition or production cost, including registration and formal certification costs. They are depreciated using the straight line method over 10 years.

This also includes the valuation of identifiable commercial trademarks that have emerged from the combination of businesses during previous financial years. Trademarks are valued at their fair value on the date of acquisition, minus the amount of the negative difference emerging from the said combination.

These assets, whose useful life has been classified as indefinite, given that it is not possible to forecast the end of the period during which they are expected to generate incoming net cash streams for the Company based on an analysis of all the relevant factors, are not depreciated. An analysis of their potential impairment is made whenever there are signs of impairment, and at least once a year.

IT applications

IT applications include software acquired from third parties, and they are entered at their acquisition price, which includes all the costs incurred until their effective entry into operation. These assets are depreciated using the straight line method over a five-year period, from the moment that each application enters operation.

Repair and maintenance costs incurred during the financial year are charged to the profit and loss account. In this regard, charges in the form of maintenance services are entered as a cost in the profit and loss account in the financial year in which they are incurred.

Other aspects

Spanish Act 22 of 20th July 2015, on the Auditing of Accounts, introduced certain changes to the Spanish Commercial Code (Article 39.4) that affect intangible assets and goodwill. The new wording establishes that intangible fixed assets are assets with a defined useful life, and when the useful life of such assets cannot be estimated in a reliable way, they will be depreciated over a period of ten years, unless another legal or regulatory provision establishes a different term. As regards goodwill, it is specified that, unless otherwise demonstrated, this has a useful life of ten years. These changes will apply to all financial statements referring to financial years commencing on or after 1st January 2016.

In addition, in December 2015 the ICAC published a Draft Royal Decree introducing changes to the General Chart of Accounts/Rules for the Preparation of Consolidated Annual Accounts. This implements the changes relating to accounting impact introduced in the aforementioned Commercial Code, though on the date on which these annual accounts are being prepared, the said Royal Decree has not yet been approved.

The Company is currently analysing the future impact of these changes, though given that the as yet unapproved Royal Decree will include rules relating to the transitional period, it is not possible to give a reliable estimate of their effects.

b) Tangible fixed assets

Tangible fixed assets are initially valued at their cost of acquisition or production cost, and subsequently valued at cost minus the corresponding accumulated depreciation and, where applicable, minus losses incurred as a result of impairment, pursuant to the criteria explained in Note 4-d.

The cost of replacing or refurbishing complete items and the cost of extending, modernising or improving items in order to extend their useful life, productivity or economic yield are entered as a higher cost of the tangible fixed asset in question, with the corresponding removal of the replaced or refurbished items.

Regular maintenance, conservation and repair costs are entered against the results, using the accrual principle, as a cost in the year in which they are incurred.

4. Entry and valuation rules (Continued)

Any work carried out by the Company in relation to its own fixed assets is entered at the accumulated cost that results from adding external costs to internal costs, calculated on the basis of the materials used, direct labour costs and general manufacturing costs, based on rates of absorption similar to those applied for the purposes of making stock valuations.

Where applicable, if a fixed asset requires a period of more than one year in order to reach operational condition, capitalised costs will include any financial costs that have accrued prior to the item coming into operation and have been charged by the supplier or result from loans or other forms of outside financing, either specific or general, that are directly attributable to the acquisition or manufacture of the item in question. The Company did not capitalise any amount in this regard during the financial years 2015 and 2014.

The Company depreciates tangible fixed assets by applying annual depreciation percentages calculated on the basis of the estimated length of the useful life of such assets, as set out below:

	Estimated Useful Life (years)		
Asset Type	**2015**	**2014**	**Method**
Constructions	30–65	44–100	Straight line
Technical equipment and machinery	10–16	14–18	Straight line and declining balance
Other facilities, tools and furnishings	3–25	3–25	Straight line
Other fixed assets	3, 12–6, 25	3, 12–6, 25	Straight line

During the current financial year, the Company Management has re-estimated the useful life of some of its tangible fixed assets. This re-estimation was carried out on the basis of an internal technical study that took account of the technical characteristics of the Company's assets and current levels of business activity. The impact of this change in estimates, which was entered by prospective application, involved entering a higher amount for depreciation in the financial year 2015 compared with the amount that would have been entered if the previous useful life estimates had been maintained, a total of €1,568,000.

Investments that cannot be separated from items used under leasing arrangements classified as operational leases are entered as tangible fixed assets when they meet the requirements for definition as assets. These investments are depreciated on the basis of their useful life, which will be the length of the lease or assignment agreement, including any renewal term when there is evidence to support the fact that such a renewal is going to occur, and when this is shorter than the economic life of the asset.

Any profit or loss resulting from the disposal or withdrawal of an asset is calculated as the difference between the sale price and the book value of the asset, and this is entered in the profit and loss account.

c) Real estate investments

This section includes the values of land, buildings and other constructions that are maintained either for exploitation under lease or to obtain a capital gain upon their sale, as a consequence of any increase in their respective market prices that may apply in the future. For these assets, the Company applies the valuation rules relating to tangible fixed assets.

e) Value impairment of intangible fixed assets, tangible fixed assets and real estate investments

At the end of each financial year, whenever there are signs of a fall in value, the Company uses the so-called impairment test to estimate the possible existence of a fall in value that may reduce the recoverable value of such assets to an amount that is lower than their book value. The recoverable value is calculated as either the fair value minus sale costs or the operational value, whichever is higher. In the event that the asset does not in itself generate cash flows independently from other assets, the Company calculates the recoverable value of the cash flow-generating unit to which the asset belongs.

During the financial years 2015 and 2014, the Company entered certain impairments in relation to some of its real estate assets (see Note 7).

4. Entry and valuation rules (Continued)

f) Leases

Leases are classified as financial leases whenever it can be concluded from the terms and conditions of the leases that the risks and benefits inherent in ownership of the asset forming the subject of the agreement are transferred substantially to the lessee. All other leases are classified as operational leases.

Financial leases

In the financial leasing transactions in which the Company acts as lessee, the cost of the leased assets is entered in the balance sheet on the basis of the nature of the item forming the subject of the agreement, and a liability in the same amount is simultaneously entered. This amount will be the lower of either the fair value of the leased asset or the present value of the minimum amounts agreed at the beginning of the lease, including any purchase option, when there is no reasonable doubt regarding the exercise of such an option. This calculation will not include fees of a contingent nature, service costs or taxes that are chargeable to the lessor. The total financial charge for the agreement is entered in the profit and loss account for the financial year in which it is accrued, applying the effective interest rate method. Fees of a contingent nature are entered as a cost in the year in which they are incurred.

Assets recorded for this kind of transaction are depreciated using criteria that are similar to the ones applied to tangible fixed assets as a whole, taking account of their nature.

Operational leases

Operational leases are understood to be leases under which the lessor agrees to grant the lessee the right to use an asset over a specific period of time in return for a single payment or a series of payments or fees, so long as this is not a lease of a financial nature.

Any costs resulting from operational lease agreements are entered in the profit and loss account in the financial year in which they are incurred.

Any charge or payment that may be made when arranging an operational lease will be treated as an advance charge or payment and entered against the results over the term of the lease, as the benefits from the leased asset are assigned or received.

The amount of the minimum fees to be paid and received in relation to operational lease agreements in which the Company is respectively named as either lessor or lessee is not significant in relation to these annual accounts.

f) Financial instruments

f.1 Financial assets

Classification and initial valuation

The financial assets owned by the Company are classified in the following categories:

a) Loans and accounts receivable: financial assets originating from the sale of goods or the provision of services as part of the company's normal business activities, or financial assets that, while not originating from commercial operations, are not equity instruments or derivatives; any payments collected are of a fixed and quantifiable amount and they are not traded on the markets.

b) Investments in the equity of group and associate companies: group companies are understood to be those that are linked to the Company via a controlling relationship, while associated companies are those over which the Company exercises a significant influence.

c) Guarantee bonds and deposits: these are entered in the amounts in which they were originally put in place, which do not significantly differ from their fair value.

4. Entry and valuation rules (Continued)

The financial assets included in the various categories indicated above are initially entered, in general terms, at the fair value of the consideration handed over in payment plus any costs that can be directly attributed to the transaction.

Subsequent valuation

Loans and accounts receivable are valued at their depreciated cost.

Investments in group and associated companies are valued at cost, minus, where applicable, the accumulated value of any adjustments for impairment. These adjustments are calculated as the difference between their book value and their recoverable value, which is understood to be either their fair value minus sale costs, or the present value of future cash flows earned from the investment, whichever is higher. In the absence of better evidence of the amount that may be recoverable, account is taken of the net equity value of the subsidiary company, corrected by any unrealised capital gains that exist on the valuation date (including goodwill, where it exists).

Financial assets available for sale are valued at their fair value, and the results of any changes to this fair value are recorded under net equity value, until such a time as the asset is disposed of or suffers a value impairment (of a stable or permanent nature), at which time the accumulated results previously entered under net equity value are moved across to the profit and loss account. In this regard, an impairment (of a permanent nature) is presumed if there has been a fall of more than 40% in the listed value of the asset, or there has been a prolonged fall in this value over a period of one and a half years without any recovery in its value.

The Company carries out an impairment test, at least at the end of each financial year, on any financial assets that are not entered at their reasonable value. It is considered that there is objective evidence of impairment if the recoverable value of the financial asset is lower than its book value. When such impairment occurs, this is entered in the profit and loss account. In particular, as regards value adjustments relating to commercial debtors and other accounts receivable, the rule used by the Company to calculate the relevant value adjustments is to classify the amounts owing as doubtful debts.

f.2 Financial liabilities

Financial liabilities are debts and accounts payable that are owed to the Company and that have originated from the purchase of goods or services during the company's ordinary business operations, along with any liabilities that do not have a commercial origin and cannot be regarded as derivative financial instruments. At 31 December 2015 and 2014, the Company classified all of its short-term financial liabilities as debts and accounts payable.

Debts and accounts payable are initially valued at the fair value of the consideration received, adjusted to take account of directly attributable transaction costs. Subsequently, these liabilities are valued according to their depreciated cost.

The Company removes financial liabilities when the obligations that gave rise to them disappear.

f.3 Derivatives

The Company uses derivative financial instruments to cover the risks to which its business activities, operations and future cash flows are exposed. Such risks mainly arise as the result of changes in interest rates. Within the framework of this kind of operation, the Company contracts financial hedging instruments.

In order to allow these financial instruments to be classified as hedging for accounts entries, they must initially be reassigned as such and the hedging connection must be documented. The Company must also check, both initially and then at regular intervals throughout their life (at least each time the accounts are closed) that the hedging connection remains effective, that is to say, that it can be foreseeably expected that changes to the fair value of or cash flow yield from the hedged item (when attributed to the hedged

4. Entry and valuation rules (Continued)

risk) are almost entirely offset by changes to the fair value of or cash flow yield from the hedging instrument, and that, retrospectively, hedging results have varied within a range of 80% and 125% of the results of the hedged item.

Up to the financial year 2014, the Company used derivative financial instruments to provide partial cover for the risk of changes in interest rates. During the financial year 2015, these operations were cancelled, which had an insignificant effect on these annual accounts.

g) Stocks

Stocks are valued at their acquisition price, production price or net realizable value, whichever is the lowest. Commercial discounts, lower prices obtained, other similar amounts and the interest included in the base amount of debited items are deducted when calculating the acquisition price. Discounts for prompt payment are also included as a lower purchase price, whether shown in the invoice or not.

The production cost includes direct material costs and, where applicable, direct labour costs and general manufacturing costs.

The net realizable value represents an estimate of the sale price minus all the costs that are estimated in order to complete manufacture, plus any costs that will be incurred during the course of the marketing, sales and distribution processes.

When allocating value to its inventories, the Company uses the FIFO method.

The Company makes the appropriate value adjustments, entering them as a cost in the profit and loss account, when the net realisable value of stocks is lower than their cost of acquisition (or production cost).

h) Subsidies, donations and bequests received

When accounting subsidies, donations and bequests received, the Company applies the following rules:

d) Non-repayable subsidies, donations and bequests: These are valued at the fair value of the amount granted or item received, depending on whether or not it is in monetary form, and they are entered in the results in proportion to the amount allocated to depreciation of the item benefiting from the subsidy over the period or, where applicable, when it is disposed of or a value adjustment is made for its impairment, with the exception of amounts received from members or owners, which are entered directly as shareholder equity and do not constitute any kind of income.

e) Repayable subsidies: While they remain repayable, they are entered as liabilities.

f) Operating subsidies: These are entered in the results at the time at which they are awarded, unless they are used to finance operational deficits in future years, in which case they are entered in the relevant financial year. If they are awarded in order to finance specific costs, they are entered as the costs being financed accrue.

i) Transactions in foreign currency

The operational currency used by the Company is the euro. Consequently, all transactions in currencies other than the euro are regarded as being denominated in foreign currency and entered according to the rates of exchange that apply on the transaction date.

At the end of the financial year, monetary assets and liabilities denominated in foreign currency are converted at the rate of exchange on the date of the balance sheet. Any profit or loss that emerges is entered directly in the profit and loss account for the financial year in which it occurs.

j) Tax on profits

The cost or income from tax on profits comprises the part that relates to the cost or income from current tax and the part that corresponds to the cost or income due to deferred tax.

4. Entry and valuation rules (Continued)

Current tax is the amount that the Company pays as a consequence of the tax payable on the income it has earned during the financial year. Any deductions or other tax advantages that apply to the tax amount, excluding withheld taxes and payments on account, plus any tax losses that can be offset from previous financial years and that can be applied during the current year, lead to a decrease in the current tax amount.

The cost or income from deferred tax corresponds to the recognition and cancellation of assets and liabilities resulting from deferred taxes. These include the time-period differences identified as amounts that are expected to be payable or recoverable due to the difference between the asset and liability amounts shown in the books and their taxable value, together with any negative tax bases that are pending offset and credits due as the result of deductions against tax that are not fiscally applied. These amounts are entered by applying the time-period difference or corresponding credit to the tax rate at which they are expected to be recovered or paid.

All time-period differences are entered as deferred tax liabilities, except for those that originate from the initial entry of goodwill or other assets and liabilities in operations that do not affect either the tax result or the book result and do not constitute a combination of businesses.

Meanwhile, deferred tax assets are only entered to the extent that it is considered probable that the Company will earn sufficient tax profits in the future for them to be offset.

Deferred tax assets and liabilities arising from operations that lead to direct charges or payments being entered as asset entries are also accounted for with a contra entry in net equity value.

Upon closing each set of accounts, the deferred tax assets recorded are reappraised and the relevant adjustments are made in the event that there are any doubts regarding their future recovery. Any deferred tax assets not recorded in the balance sheet are also appraised at the close of each year, and these are entered in the accounts whenever it becomes probable that they could be recovered against future taxable profits.

In the financial year 2014, the company paid taxes under the rules governing consolidation. For the financial year 2015, the Company's Directors have decided to change to the system for the submission of individual tax returns.

k) Income and expenses

Income and expenses are entered on the basis of accrual criteria, i.e. at the time of the actual flow of goods and services that they represent, regardless of the time at which the monetary or financial flow resulting from such goods and services occurs. Income is valued at the fair value of the payment received minus discounts and taxes.

Income from sales is entered at the moment that all significant risk and benefit inherent in ownership of the item being sold is transferred to the purchaser, and neither current management of that item nor effective control thereover are subsequently maintained .

As regards income from the provision of services, this is recognised on the basis of the degree to which such services have been completed on the date of the balance sheet, provided that the results of the transaction can be reliably estimated.

Interests received from financial assets are entered on the basis of the effective interest rate method, while dividends are entered when the shareholders' right to receive them is announced. In any case, any interest or dividends accruing on financial assets subsequent to their acquisition are entered as income in the profit and loss account.

4. Entry and valuation rules (Continued)

g) Provisions and contingencies

When preparing these annual accounts, the Company's Directors have differentiated between the following:

- Provisions: liabilities covering obligations that remained outstanding on the date of the balance sheet as a consequence of past events that are likely to emerge and could result in damage to the Company's assets of an unknown value and over an unknown time. These amounts are entered on the balance sheet in the form of allowance provisions in the current most probable value that the Company estimates it would have to pay in order to be released from the obligation, and
- Contingent liabilities: potential obligations arising as a consequence of past events, the emergence of which is conditional upon whether or not one or more future events arise that are beyond the control of the Company.

These annual accounts record all the significant provisions in respect of which it is estimated that there is a probability that the obligation will need to be covered. Contingent liabilities are not entered in the annual accounts, though information on such liabilities is given insofar as they are not classified as remote.

Provisions are valued at the current value of the best possible estimate of the amount that will be required to cancel or transfer the obligation, bearing in mind all available information relating to the event and its consequences, and any adjustments arising as a result of the updating of such provisions are entered as a financial cost as they accrue.

Any compensation to be received from a third party at the time at which the obligation is settled, provided that there is no doubt that such compensation will be received, is entered as an asset, except in the event there is a legal connection through which part of the risk has been outsourced, under which the Company will not be obliged to assume liability; in this situation, the compensation will be taken into account when estimating the amount that is to be recorded, where applicable, for the provision in question.

m) Interrupted operations

An interrupted operation is any part of the Company that has been transferred or disposed of in any other way, or that has been classified as 'held for sale' and, among other conditions, represents a business line or significant area that can be regarded as separate from the rest.

For this type of operation, the Company includes a sole entry in its profit and loss account under the heading "Result for the financial year from interrupted operations net of taxes", which includes both the post-tax result for interrupted operations, and the post-tax result entered as a result of their valuation at fair value minus the costs of the sale or disposal of the items from which the interrupted activity is made up.

In addition, when operations are classified as interrupted, the Company records the amount obtained in the previous financial year from the activities classified as interrupted, under the accounts heading mentioned above, on the closing date of the financial year to which the annual accounts refer.

d) Asset items of an environmental nature

Asset items of an environmental nature are understood to be lasting assets that are used during the course of the Company's activities for the main purpose of minimising environmental impact, protecting and improving the environment, including the reduction or elimination of future contamination.

The tangible fixed asset items designed to minimise any environmental impact that could result from the activities engaged in by the Company are valued at cost price, adjusted by their accumulated depreciation.

Any extension, modernisation and improvement costs are capitalised when they represent an extension of the estimated useful life of the assets in question. Otherwise they are treated as costs for that financial year, along with repair and maintenance costs.

4. Entry and valuation rules (Continued)

Any costs that are incurred in relation to the protection and improvement of the environment and that do not represent an investment in tangible fixed assets are entered in the results for the year in which they are incurred, regardless of the time at which the cash or financial stream resulting from such costs materialises.

Amounts incurred in the management of environmental effects resulting from the business activities engaged in by the company are classified as environmental costs, as are the costs that result from the Company's existing environmental undertakings. These include the costs incurred as a result of preventing pollution in relation to the Company's current operational activities, the treatment of residue and waste, decontamination, restoration, environmental management and environmental auditing.

The Company follows the rule of accounting for any potential undertakings at the moment at which it becomes aware of them.

Allowance provision for probable or certain environment-related liabilities, on-going lawsuits and pending compensation and obligations of an undetermined amount, where not covered by the insurance policies that have been taken out, is set aside at the moment that the liability or obligation that will result in compensation or payment arises.

o) Greenhouse gas emission rights

"Greenhouse gas emission rights" are entered in the balance sheet when the company becomes eligible for such rights. When such rights are acquired free of charge or at a price that is substantially lower than their market value, the acquisition price is considered to be their market price at the time of acquisition or at the beginning of the calendar year. In this case, they will be entered with a contra entry under "Subsidies, donations and bequests received" in the Net Equity Value section of the balance sheet, once any deferred tax associated with them has been deducted.

After being entered as an asset, emission rights are valued at their acquisition price or production price and are not subject to depreciation. The necessary provisions are set aside in order to give them their lower market value at the end of each financial year, whenever their book value may not be recoverable from the generation of sufficient income to cover all costs and expenses.

Costs attached to the emission of greenhouse gases require the corresponding provision to be made for risks and costs, and this provision is maintained until the moment that the Company has to cancel the obligation in question by handing over the corresponding emission rights.

Costs accrue as greenhouse gases are emitted, and they are entered under "Other operating costs-Costs from emission of greenhouse effect gasses" in the attached profit and loss accounts for 2015 and 2014, calculated according to the emission rights that have been transferred.

Any profit or loss resulting from the disposal or withdrawal of a right is calculated as the difference between the sale price and the book value of the asset, and this is entered in the profit and loss account.

Subsidies of a non-repayable nature associated with emission rights acquired free of charge or at a price that is substantially below their market price are entered as "Subsidies, donations and bequests received" and charged to the profit and loss account in the same proportion as the costs incurred from the gas emissions relating to the subsidised emission rights.

h) Related party transactions

The Company carries out all related party transactions at market prices. In addition, its transfer pricing policy is properly supported on the basis of the requirements set out in current tax legislation, and the Company's Directors therefore believe that there are no significant risks in this regard that could give rise to liabilities worthy of consideration in the future.

4. Entry and valuation rules (Continued)

i) Current and non-current entries

Current assets are understood to be assets that are linked to the normal business cycle, which is generally regarded a one-year period, and the term is also understood to apply to assets that are due to maturity or be disposed of or realised in the short term following the end of the financial year, financial assets maintained for negotiation and cash and other equivalent liquid assets. Assets that do not meet these requirements are classified as non-current.

Similarly, current liabilities are liabilities that are linked to the normal business cycle, financial liabilities maintained for negotiation (excluding financial derivatives with a settlement term of more than one year) and, in general, all obligations that are due to mature or be cancelled in the short-term. Otherwise they are classified as non-current.

5. Intangible Fixed Assets

The movements that occurred during the financial years2 015 and 2014 under the heading "Intangible fixed assets", along with the relevant depreciation, were as follows:

2015

	Thousands of euros			
	Opening Balance	Added	Removed	Closing Balance
Cost:				
Research and development	4,777	—	—	4,777
Patents, licences, trademarks and similar	14,279	36	—	14,315
IT applications	1,737	168	—	1,905
Greenhouse gas emission rights (Notes 4-o and 17)	1,069	455	(380)	1,144
Total Cost	**21,862**	**659**	**(380)**	**22,141**
Accumulated Depreciation:				
Research and development	(4,003)	(425)	—	(4,428)
Patents, licences, trademarks and similar	(198)	(22)	—	(220)
IT applications	(1,514)	(92)	—	(1,606)
	—	—	—	—
Total Accumulated Depreciation	**(5,715)**	**(539)**	**—**	**(6,254)**
	—	—	—	—
Net Book Value	**16,147**			**15,887**

5. Intangible Fixed Assets (Continued)

2014

	Thousands of euros			
	Opening Balance	Added	Removed	Closing Balance
Cost:				
Research and development	4,777	—	—	4,777
Patents, licences, trademarks and similar	14,267	12	—	14,279
IT applications	1,556	181	—	1,737
Greenhouse gas emission rights (Note 17)	745	712	(388)	1,069
Total Cost	**21,345**	**905**	**(388)**	**21,862**
Accumulated Depreciation:				
Research and development	(3,383)	(620)	—	(4,003)
Patents, licences, trademarks and similar	(172)	(26)	—	(198)
IT applications	(1,450)	(64)	—	(1,514)
	—	—	—	—
Total Accumulated Depreciation	**(5,005)**	**(710)**	**—**	**(5,715)**
Net Book Value	**16,340**			**16,147**

The gross value of items that remain in use and have been fully depreciated is as follows:

	Thousands of euros	
	2015	2014
Research and Development	3,442	2,565
Patents, licences, trademarks and similar	145	103
IT applications	1,432	1,350
Total	**5,019**	**4,018**

Patents, licences, trademarks and similar

As indicated in Notes 4-a and 5, the amount of 14,008,000 euros under "trademarks, patents, licenses and similars" in the section headed, as the result of a valuation made by the Company's Directors during the financial year 2010, under the context of the amalgamation of businesses that occurred in that year. According to the estimates and projections available to the Company's Directors, the cash flow provisions attributed to the mentioned trademarks will result in the recovery of their net book value.

Greenhouse gas emission rights

The balance shown under the heading "Greenhouse gas emission rights" corresponds to a valuation of the rights purchased in previous financial years and assigned free of charge to the Company for the financial year 2015, pursuant to the 2013-2020 National Allocation Plan. 64,909 rights were allocated to the Company for the financial year 2015 (66,091 rights allocated in 2014).

79,827 rights were used up during this financial year (74,996 rights during 2014), each corresponding to one metric tonne of CO2, and the Company has therefore set aside a provision amounting to 528,000 euros during this financial year (350,000 euros in 2014), entered under the heading "Other Operating Costs-Costs due to emission of greenhouse effect gasses" in the profit and loss account for the 2015 financial year. Similarly, during 2015, the Company charged an amount of496,000 euros to "Subsidies, donations and bequests received", entering a credit in the attached profit and loss account, corresponding to the subsidies associated with the emission rights consumed (380,000 euros during 2014).

5. Intangible Fixed Assets (Continued)

During the financial year 2015 the Company did not acquire any emission rights on the secondary markets (59,746 rights were acquired in 2014 for a price of 402,000 euros).

At the end of each financial year, the Company assesses the market value of any rights not consumed, comparing their book value with the last available valuation, and it was not necessary to enter any value adjustment in this regard at the end of the 2015 or 2014 financial years.

6. Tangible Fixed Assets

The movement that occurred during the financial years 2015 and 2014 under the heading "Tangible fixed assets", was as follows:

2015

	Thousands of euros				
	Opening Balance	Added and Allocated	Removed	Transferred	Closing Balance
Cost—					
Land and Constructions	74,467	172	—	—	74,639
Technical equipment and other tangible fixed assets.	43,608	8,091	(1,509)	68	50,258
Advances and fixed				(68)	
assets under construction	68	1,760	—		1,760
Total Cost	**118,143**	**10,023**	**(1,509)**	**—**	**126,657**
Depreciation—					
Constructions	(2,421)	(1,079)	—	—	(3,500)
Technical equipment and other tangible fixed assets	(19,623)	(5,105)	1,434	—	(23,294)
Total depreciation	**(22,044)**	**(6,184)**	**1,434**	**—**	**(26,794)**
Impairment on Land and Buildings	**(543)**	**—**	**—**	**—**	**(543)**
Net Book Value	**95,556**				**99,320**

2014

	Thousands of euros				
	Opening Balance	Added and Allocated	Removed	Transferred	Closing Balance
Cost—					
Land and Constructions	88,248	1,020	(14,802)	—	74,467
Technical equipment and other tangible fixed assets	37,531	7,279	(1,266)	63	43,608
Advances and fixed assets under construction	63	157	(89)	(63)	68
Total Cost	**125,842**	**8,456**	**(16,157)**	**—**	**118,143**
Depreciation—					
Constructions	(1,886)	(538)	3	—	(2,421)
Technical equipment and other tangible fixed assets	(16,451)	(3,823)	651	—	(19,623)
Total depreciation	**(18,337)**	**(4,361)**	**654**	**—**	**(22,044)**
Impairment on Land and Buildings	**(1,179)**	**(78)**	**714**	**—**	**(543)**
Net Book Value	**107,505**				**95,556**

6. Tangible Fixed Assets (Continued)

All tangible fixed assets are for the company's own use, and at the close of the financial years 2015 and 2014, no item had been assigned to third parties under a leasing arrangement.

Information relating to additions

The majority of the additions in 2015, as shown in the above table, along with the balance shown under the heading "Advances and fixed assets under construction", correspond to improvements to the Company's production facilities, which are scheduled to be completed over the coming year, as part of the investment plan approved by the Company. According to the said investment plan and the contracts entered into with suppliers, the firm undertakings to purchase tangible fixed assets assumed by the Company by the end of the 2015 financial year amounted to approximately 1,931thousands euros (approximately 1,800 thousands euros at the close of 2014).

At close of the 2015 and 2014 financial years, tangible fixed assets did not include any assets acquired from other group companies in any significant amount.

Information relating to removals

The items removed during 2015, as shown in the foregoing table, correspond to some items that have been sold during the financial period by a total amount of 92.000 Euros, and others that have been deregistered. The net result of these deregistration has ascended to an amount of 18.000 Euros (Profit), which is entered under the heading "Impairment and income from the disposal of fixed assets" on the attached profit and loss account for the financial year 2015.

In addition, during the 2014 financial year the Company split off its agricultural business, thus entering the net removal of tangible fixed assets worth 14,741,000 euros.

Other information

As of 31 December 2015 and 2014, the Company had fixed asset items that had been fully depreciated as shown in the following breakdown (referring to the cost value recorded in the books):

	Thousands of euros	
	2015	2014
Technical equipment and machinery	2,241	1,358
Other facilities, tools and furnishings	5,971	5,774
Other tangible fixed assets	451	695
Total	**8,663**	**7,827**

It is the Company's policy to take out the insurance policies necessary to cover any potential risk to which its fixed asset items may be exposed. At the end of the 2015 and 2014 financial years, the net book value of its fixed assets was completely covered by these policies.

At 31 December 2015 and 2014, the Company's land and constructions were mortgaged in guarantee of the Company's compliance with its obligations and liabilities under several financing agreements (see Note 14).

As Note 8 describes, at year end of 2014 and 2015, the company had contracts on diverse financial leasing operations on plant and equipment

7. Real estate investments

The movements that occurred during the 2015 and 2014 financial years under the heading "Real estate investments", were as follows:

2015

	Thousands of euros			
	Opening Balance	Added	Removed	Closing Balance
Cost—				
Land	23,159	—	(211)	22,948
Constructions	11,704	—	(204)	11,500
Total Cost	**34,863**	**—**	**(415)**	**34,448**
Depreciation—				
Constructions	(816)	(263)	11	(1,068)
Total Depreciation	**(816)**	**(263)**	**11**	**(1,068)**
Impairment	**(6,329)**	**(11,276)**	**47**	**(17,558)**
Net Book Value	**27,718**			**15,822**

2014

	Thousands of euros			
	Opening Balance	Added	Removed	Closing Balance
Cost—				
Land	24,055	—	(896)	23,159
Constructions	12,424	—	(720)	11,704
Total Cost	**36,479**	**—**	**(1,616)**	**34,863**
Depreciation—				
Constructions	(663)	(190)	37	(816)
Total Depreciation	**(663)**	**(190)**	**37**	**(816)**
Impairment	**(4,559)**	**(2,188)**	**418**	**(6,329)**
Net Book Value	**31,257**			**27,718**

Real estate investments refer to buildings and land allocated for exploitation under lease and/or maintained for the purposes of obtaining a capital gain on their sale.

The income obtained as the result of rents earned from real estate investments let out under lease during the financial year 2015, entered in the profit and loss account for the year, amounted to 360,000 euros (382,000 in 2014), while the operating costs recorded in relation to these investments were 150,000 euros (157,000 in 2014).

As indicated in Note 8, at the end of the financial years 2015 and 2014, the Company had entered into various financial and operational leasing transactions in relation to its real estate investments.

On 31st December 2015, the Company's Directors assessed the potential impairment of these assets. Their analysis revealed the need to record an impairment in the amount of 11,276,000 euros, taking account of expectations regarding the sale price of these assets, according to the plans made in this regard for the financial year 2016. This amount was entered as a charge under the heading "Impairment and results from the disposal of fixed assets—Impairment and losses" in the attached profit and loss account for 2015.

7. Real estate investments (Continued)

In addition, during the financial year 2015 the Company sold some of its real estate investments, generating net losses of 154,000 euros, which are entered under the heading "Impairment and results from the disposal of fixed assets—Income from disposals and others" in the attached profit and loss account for 2015.

Similarly to the land and constructions included under tangible fixed assets, at 31st December 2015 and 2014, some of the Company's real estate investments were mortgaged in guarantee of the Company's compliance with its obligations and liabilities under several financing agreements (see Note 14).

8. Leases

The Company has entered into various financial leasing agreements over some of its facilities, the most important details of which are as follows:

	Thousands of euros	
	2015	2014
Cash cost of assets	7,089	7,089
Residual value	77	77
Instalments paid in previous years(*)	6,548	5,736
Instalments paid during the year(*)	812	488

(*) Does not include implicit interest or VAT.

At the close of the financial years 2015 and 2014, the Company had agreed the following minimum lease payments with its tenants, under the terms of the agreements currently in force, without taking account of the costs passed on for the use of the said facilities, future IPC-based increments or future reviews of the contractually agreed rents (amounts shown in thousands of euros):

	2015		2014	
Financial Leases Minimum Payments	(Nominal) Par Value	Current Value	(Nominal) Par Value	Current Value
Less than one year	226	223	506	497
Between one and five years	331	319	870	857
Total	**557**	**542**	**1,376**	**1,354**

9. Financial investments

9.1 Financial investments in group and associate companies

Movements in financial investments in group and associate companies during 2015 were as follows (the same movements for the financial year 2014 were not significant with regard to these current annual accounts seen as a whole):

	Thousands of euros				
	Opening Balance	Added	Removed	Transferred	Closing Balance
Instruments on Equity Value	8,257	20	(17)	—	8,260
Long-term financial investments.	**8,257**	**20**	**(17)**	**—**	**8,260**
Impairment of Instruments on Equity	**(1,262)**	**(199)**	**17**	**—**	**(1,443)**
Total long-term financial investments	**6.995**				**6.817**
Short term credits with group companies	486	—	(486)	—	—
Other financial assets	24	—	(24)	—	—
Total Short-term financial investments	**510**	**—**		**—**	**—**

9. Financial investments (Continued)

In the 2015 financial year the Company ceased to be fiscally consolidated. During the 2014 financial year, the Company maintained a balance of 486,000 euros in credits with group companies as the result from its fiscal consolidation.

At the close of the 2015 and 2014 financial years, the shares that the Company continued to hold, which corresponded in all cases to unlisted companies, were as follows:

	Thousands of euros					
	2015			2014		
	Cost	Impairment	Net Book Value	Cost	Impairment	Net Book Value
Construplas, S.L.	230	—	230	230	—	230
Expocerámica, S.A.	1,748	(1,016)	732	1,748	(871)	877
Cerámicas Navagrés, S.A.	1,045	(160)	885	1,045	(124)	921
Nuevos Productos Cerámicos, S.A.	4,318	—	4,318	4,318	—	4,318
Other related companies(*)	919	(267)	652	916	(267)	649
Total	**8,260**	**(1,443)**	**6,817**	**8,257**	**(1,262)**	**6,995**

(*) Companies not currently trading and/or of little relative importance.

The following section shows financial information over the most significant holdings to provide a faithful image in these annual accounts. This information remains provisional, as it does not relate to annual accounts that have already been prepared (or, where appropriate, audited), but the Company's Directors believe that this financial information will not undergo any significant changes (it also includes information from 2014 for the purposes of comparison):

2015

				Thousands of euros			
Name	Address	Activity	% Holding	Share capital	Reserves	Result for the Year[c]	Operating Result
Construplas, S.L.[a]	Vall de Uxò (Castellón)	Manufacture and commercialization of bathroom accessories	100	361	1,299	1,531	2,111
Expocerámica, S.A.[a]	Valladolid	Commercialization of construction materials	75.53	90	1,011	(86)	(64)
Cerámicas Navagrés, S.A.[b]	Noaín (Navarra)	Commercialization of construction materials	40	141	2,171	(139)	788
Nuevos Productos Cerámicos, S.A.[b]	Villafranés	Manufacture of atomized clay	25	8,868	12,542	7,520	12,317

(a) Obtained from its annual accounts as of 31st December 2015, which are scheduled to be audited by Deloitte, S.L.

(b) Obtained from its annual accounts as of 31st December 2015, which are scheduled to be audited by other auditors.

(c) Obtained from the annual consolidated accounts as of 31st December 2015, which are scheduled to be audited by other auditors.

(d) Does not include results from discontinued operations in significant amounts in any cases.

9. Financial investments (Continued)

2014

Name	Address	Activity	% Holding	Share capital (Thousands of euros)	Reserves and Others (Thousands of euros)	Result for the Year[c] (Thousands of euros)	Operating Result (Thousands of euros)
Construplas, S.L.[a]	Vall de Uxò (Castellón)	Manufacture and commercialization of bathroom accessories	100	361	1,231	1,090	1,626
Expocerámica, S.A.[a]	Valladolid	Commercialization of construction materials	75.53	90	1,071	(60)	(54)
Cerámicas Navagrés, S.A.[b]	Noaín (Navarra)	Commercialization of construction materials	40	141	2,165	5	47
Nuevos Productos Cerámicos, S.A.[b]	Villaframés	Manufacture of atomized clay	25	8,868	3,649	3,176	7,463

(a) Obtained from its annual accounts as of 31 December 2014, audited by Grant Thornton, S.L.

(a) Obtained from its annual accounts as of 31 December 2014, which were audited by other auditors.

(c) Obtained from the annual consolidated accounts as of 31st December 2014, which are scheduled to be audited by other auditors.

(e) Does not include results from discontinued operations in significant amounts in any cases.

During the financial year 2015, the Company received dividends in the amount of 1,361,000 from the companies in which it maintained shares, and these had been totally liquidated by the end of the financial year. They are entered under the heading "Financial income—From shares in asset instruments" in the attached profit and loss account.

The shares held by Keraben Grupo, S.A. in Nuevos Productos Cerámicos, S.A. are used to guarantee certain financing operations, as described in Note 14.

9.2 Financial investments in non-related companies

Movements in financial investments in non-related companies during 2015 were as follows (the same movements for the 2014 financial year were not significant with regard to these current annual accounts seen as a whole):

	Opening Balance (Thousands of euros)	Added	Removed	Transferred	Closing Balance
Instruments on Equity Value	876	246	(36)	—	1,086
Credits to third parties	92	—	(92)	—	—
Other long-term financial assets	886	—	—	(872)	14
Long-term financial investments	**1,854**	**246**	**(128)**	**(872)**	**1,100**
Impairment of equity instruments	**(628)**	**(494)**	**36**		**(1,086)**
Total long-term financial investments	**1,226**				**14**
Credits to companies	100	—	(8)	—	92
Other short-term financial assets	401	89	(400)	872	962
Total Short-term financial investments	**501**	**—**	**—**	**—**	**1,054**

Information on the nature and level of risk of financial instruments

The management of the Company's financial risk is centralised in its Finance Department, which has the necessary mechanisms in place to control exposure to variations in both interest rates and exchange rates,

9. Financial investments (Continued)

along with exposure to credit and liquidity risk. The following are the main financial risks that have an impact on the Company:

e) Credit risk

In general, the Company keeps its cash and equivalent liquid assets with financial institutions with a high credit rating. In addition, a significant proportion of its turnover and accounts receivable from non-related clients are guaranteed by means of credit insurance policies.

Furthermore, it should be mentioned that there is no significant concentrated third-party credit risk, since no client represents more than 10% of the Company's total accounts receivable. Individual credit limits are established on the basis of both internal and external ratings, in accordance with the limits set by the Company. The use of these credit limits is regularly monitored.

f) Liquidity risk

In order to ensure liquidity and attend to all the payment undertakings resulting from its business activities, during the 2014 financial year the Company reached an agreement with its financial institutions under which it restructured the payment timetable for its financial debt in order to bring it into line with its expected cash generation, as well as non-arranging additional operational financing lines detailed in Note 14. As consequence, the Company's Directors believe that the Company has sufficient financial resources to engage in its normal business activities.

c) Market risk (including interest rate risk, exchange rate risk and other price-related risk)

Both the Company's cash and its financial debts are exposed to interest rate risk, which could have a significant effect on its financial results and cash flow. However, some of the Company's borrowings were arranged at a fixed interest rate (see Note 14).

As regards exchange rate risk, this is mainly concentrated in the sale of finished product to countries in America and Asia, which are priced in US dollars. The Company has specific and adequate policies in place to monitor and manage exchange rate risk in the different currencies in which it operates.

10. Stocks

The movements in value adjustments due to impairment entered under the heading "Stocks" in 2015 and 2014 were as follows:

	Thousands of euros	
	2015	**2014**
Opening balance	1,471	1,001
Added (Note 16)	1,100	1,471
Reversed (Note 16)	(1,471)	(1,001)
Final balance	**1,100**	**1,471**

These value adjustments were caused, in the main, by the renewal of the product catalogue.

At 31st December 2015 and 2014 there were no stocks of significant value deposited in the custody of third parties. The Company also did not maintain undertakings to purchase stocks in a significant amount at the end of the financial year 2015.

The Company's policy consists on contracting insurance policies to cover any potential risk to which its stocks may be subject. At the end of the 2015 and 2014 financial years, these insurance policies almost entirely covered the value of the Company's stocks.

11. Equity Value

Share capital

At the end of the financial years 2015 and 2014, the share capital was represented by 880,412 shares, each with a nominal value of 6.01 euros, all of them totally subscribed and paid up. All the shares representing the share capital grant the same rights, and they are not admitted for trading on the Stock Market. In order to guarantee the financing operations described in Note 14, an *in rem* pledge right has been established over 100% of the Company's shares.

At the end of the financial year 2015, the only company with a holding of more than 10% in the Company's share capital was Tensile-Keraben Holdings S.à.r.l, S.L., which holds a share of 77.3% in the Company's share capital (79.3% in 2014).

A company operation was carried out during the financial year 2014 which led to the following effects:

- The agricultural business was split off and subsequently allocated to a newly created company, leading to a share capital reduction of 816,000 euros.
- A share capital increase was made in the amount of 4,196,000 euros, through the issue of 698,173 shares each with a par value of 6.01 euros, with an issue premium of 54,147,000 euros.
- Offset of credits generated with a shareholder that took on part of the Company's financial debts. The Company then unregistered the financial liability in its accounts and recognised the corresponding increase in shareholder equity in an equivalent amount at the fair value of the cash contribution made, in accordance with BOICAC 79 Consultation No. 5. The difference that resulted from this operation was entered in the profit and loss account, giving income in the amount of 10,566,000 euros and a reduction in the amount of the issue premium.
- Trading of shares representing 2% of Keraben Grupo, S.A.'s share capital, by virtue of which the majority shareholder became the owner of 77.3% of the share capital. This transaction was registered with Castellón Mercantile Registry on 30th March 2015.

Legal reserve

Pursuant to the Spanish Capital Companies Act, limited companies must allocate an amount equal to 10% of their profits for the year to the legal reserve, until this reserve is equal to at least 20% of the share capital figure. The legal reserve may be used to increase the share capital using the portion of the reserve that exceeds 10% of the increased share capital figure. Except as mentioned above, and provided that it does not exceed 20% of the share capital figure, this reserve may only be used to offset losses, provided that there are no other reserves available for this purpose. At the end of the financial year 2015, this reserve was fully constituted (partially constituted at the end of 2014).

Reserve under Article 80.4 of Act 2/1995

This reserve, amounting up to 28 thousand euros at the end of the financial years 2014 and 2015, correspond to a capital share reduction performed by Kanban, S.L., an acquired company in the fiscal year 2009.

Dividend distribution

The distribution of any profits is prohibited until research and development costs have been completely amortized, unless the amount of available reserves is at least equal to the amount of these costs that has not been amortized. As a consequence, at the time at which voluntary reserves are generated, 349,000 euros will be unavailable.

11. Equity Value (Continued)

Capital subsidies

The information relating to the subsidies received by the Company, which form part of its net worth, along with the information on the income entered in the profit and loss account that has resulted from such subsidies, is as follows:

	Thousands of euros	
	2015	2014
Opening balance	658	799
Added	821	758
Tax effects	(223)	(192)
Transferred to results	(894)	(1,009)
Fiscal effects	249	302
Final balance	**611**	**658**

A portion of these subsidies, amounting to 496,000 euros, received from the Environment Ministry, relates to greenhouse gas emission rights (see Note 4-o) (this amounted to 380,000 euros in 2014).

The other subsidies were mainly granted for the purposes of financing the completion of research and/or development projects and the acquisition of tangible fixed assets

At the end of the financial years 2015 and 2014, the company had complied with all the requests necessary in order to receive and benefit from the subsidies mentioned above.

12. Foreign currency

The Company's operating currency in 2015 and 2014 was the euro.

The following table shows a breakdown of the most important balances and transactions performed in foreign currency, valued respectively at the exchange rate on the closing date and the average exchange rate.

	Thousands of euros			
	2015		2014	
	US Dollar	Other currencies	US Dollar	Other currencies
Fixed assets	227	—	86	—
Investments in group companies	250	210	250	210
Accounts receivable	124	1,765	1,229	1,601
Cash and other equivalent liquid assets	43	8	383	—
Accounts payable	(366)	—	(81)	—
Purchases	(97)	—	(53)	—
Sales	3.934	2,028	3,626	1,915
Services received	(477)	(23)	(248)	(10)
Services provided	32	—	45	—
Dividends received	339	—	188	—
Dividends not received	—	—	—	24

There were no other relevant transactions during 2015 and 2014, nor were there significant balances on 31st December 2015 and 2014 in currencies other than the euro.

The exchange rate differences recorded in the results for the financial year 2015 represented a net income of 85,000 euros (322,000 net income in 2014), and this is entered under the heading "Exchange rate differences" in the attached profit and loss account for 2015.

13. Provisions and contingencies

The following table shows a breakdown of the short-term provisions in place at the end of the financial years 2015 and 2014, along with the main movements recorded during the said years:

2015

	Thousands of euros	
	Greenhouse gases emissions	Other Provisions
Opening balance	380	836
Added	528	793
Removed/Transferred	(380)	(349)
Final balance	**528**	**1,280**

2014

	Thousands of euros	
	Greenhouse gas emissions	Other Provisions
Opening balance	388	615
Added	380	221
Removed/Transferred	(388)	—
Final balance	**380**	**836**

The balance entered under the heading "Other provisions" in the foregoing table corresponds, on the one hand, to guarantees put in place with financial institutions in favour of various companies which had not paid off their debts by the maturity date and will thus probably result in outgoings for the Company, and on the other, to other provisions against contingencies. (see Note 15)

14. Long- and short-term debts

Debts with credit institutions

The breakdown of debts with credit institutions at the close of 2015 and 2014 was as follows:

2015

	Thousands of euros		
	Short-Term	Long-Term	Total
Bank loans	3,047	74,597	77,644
Financial leases	223	319	542
Other financial liabilities.	4,674	1,171	5,845
Total	**7,944**	**76,087**	**84,031**

14. Long- and short-term debts (Continued)

2014

	Thousands of euros		
	Short-Term	Long-Term	Total
Bank loans	3,933	77,806	81,739
Derivatives (Note 4-f)	—	211	211
Financial leases	497	857	1,354
Other financial liabilities	3,515	1,365	4,880
Total	**7,945**	**80,239**	**88,184**

The limits set and the amounts drawn down under the existent credit facilities, depending on their nature, were as follows:

2015

	Thousands of euros		
	Limit	Drawn down	Available
Domestic credit facilities	4,689	—	4,689
Export credit facilities	16,492	—	16,492
Total	**21,181**	**—**	**21,181**

2014

	Thousands of euros		
	Limit	Drawn down	Available
Domestic credit facilities	4,689	651	4,038
Export credit facilities	16,492	2,504	13,988
Total	**21,181**	**3,155**	**18,026**

The maturity dates of the long-term debts with credit institutions at 31st December 2015 and 2014 break down as follows:

2015

	Thousands of euros					
	2017	2018	2019	2020	2021 and later	Total
Bank loans	7,023	7,856	7,892	8,330	43,496	74,597
Financial leases	229	90	—	—	—	319
Other financial liabilities	213	174	184	184	435	1,171
Total	**7,465**	**8,120**	**8,076**	**8,480**	**43,931**	**76,087**

14. Long- and short-term debts (Continued)

2014

	Thousands of euros					
	2016	**2017**	**2018**	**2019**	**2020 and later**	**Total**
Bank loans	3,008	7,023	7,856	7,892	52,027	77,806
Financial leases	538	229	90	—	—	857
Other financial liabilities	194	194	174	184	619	1,365
Total	**3,740**	**7,446**	**8,120**	**8,076**	**52,646**	**80,028**

The balance entered under "Bank loans" corresponds almost entirely to a syndicated loan granted to the Company in previous financial years, the final maturity date of which has been set for the year 2021. The main details of this financing are as follows:

- Senior tranche: syndicated loan granted by an initial amount of 68.1 million euros.
- Asset tranche: syndicated loan granted by an amount of 12 million euros.
- The Company can repay the principal in advance, either wholly or in part, without incurring penalties of any kind.
- The interest rate is tied to the Euribor, plus a market differential in the case of the senior tranche, and a fixed interest rate that will vary between 1% and 3% for the asset tranche, based on a pre-established timetable.
- Compliance with certain financial conditions during the term of the financing, In this regard, at the end of the financial years 2015 and 2014, the Company was in compliance with all the financial and other conditions required under the various financing agreements that remained in force.

In order to ensure compliance with the obligations assumed under the syndicated loan and operational financing facilities described above, a number of guarantees in favour of credit entities have been put in place, among which we would make particular mention of the following:

- Senior Tranche": joint and several first-call guarantee by Construplas, S.L., first-rank real estate mortgage over various properties (the net book value of which at the close of the financial year 2015 amounted to 67,755,000 euros), a first-rank asset mortgage established over the "Keraben" trademark, pledge over all the shares in Keraben Grupo, S.A.
- "Asset Tranche": first-rank real estate mortgage over various real estate assets (see Note 7), whose net book value at the close of the financial year 2015 amounted to 10,949,000 euros.
- In addition, there are certain obligations relating to a compulsory early repayment of the senior tranche, by way of a cash sweep, depending on compliance with certain financial ratios. These obligations will come into force from the coming financial year 2016, and compliance with the financial ratios in question must be calculated on the basis of the figures at 31st December 2015. On this basis, the Company does not expect to make any early repayment of this debt during the coming financial year.

The amounts shown in the entries under the heading "Financial lease creditors", recording short- and long-term liabilities in the attached balance sheet at 31st December 2015, correspond to the amounts pending payment under the financial leasing agreements maintained by the Company, as described in Note 8.

The amount entered under "Other financial liabilities" in the current and non-current liabilities section of the attached balance sheet corresponds to loans granted by various Public Entities, and other debts maintained with asset suppliers. These loans do not accrue any kind of interest, and the implicit interest is not significant. In order to calculate the fair value of this debt, the Company has taken its par value, which does not differ significantly from its current net value.

14. Long- and short-term debts (Continued)

Deposits and guarantees

At 31st December 2015, the guarantees put in place by the Company through financial institutions amounted to 2,793,000 euros, and these mainly referred to bonds provided as guarantees for debts in favour of a Reciprocal Guarantee Company and a company in which the Company has a shareholding. In respect of these amounts, the Company's Directors have assessed the potential situations that could result in outgoings for the Company, and these are entered under the heading "Short-term provisions" in the attached balance sheet as of 31st December 2015. (See Note 13)

Cash and other equivalent liquid assets.

At 31st December 2015 and 2014, the amount shown under "Cash and other equivalent liquid assets" related almost entirely to the cash amounts available in the current accounts held by the Company at various reputable financial institutions.

15. Government Bodies and tax situation

Reconciliation between accounting income and taxable income

Company Tax is calculated on the basis of financial or accounting income, which is obtained in accordance with generally accepted accounting principles and which does not necessarily have to coincide with taxable income, this being understood to mean the tax base.

Accounting income and taxable income for Company Tax purposes in the financial years 2015 and 2014 were reconciled as follows:

2015

	Thousands of euros		
	Increase	Reduction	Total
Book income after taxes			**6,722**
Tax on profits	1,049	—	1,049
Permanent differences:			
Non-deductible expenses	487	—	487
Non-Taxable Income	—	(2,904)	(2,904)
Temporary differences:			
Originating during the financial year	12,361	(1,438)	10,923
Originating in previous years	1,819	(1,747)	72
Preliminary tax base			**16,349**
Offset of negative tax bases			(4,087)
Tax base			**12,262**

15. Government Bodies and tax situation (Continued)

2014

	Thousands of euros		
	Increase	Reduction	Total
Book income after taxes			22,142
Tax on profits	—	(1,444)	(1,444)
Permanent differences:			
Non-deductible expenses	192	—	192
Non-qualifying income	—	(13,903)	(13,903)
Temporary differences:			
Originating during the financial year	2,004	(1,586)	418
Originating in previous years	3,053	(1,232)	1,821
Tax base			9,218

Information on permanent differences

The increase on taxable income due to permanent differences in the fiscal year 2015 correspond, basically, with taxes paid abroad, differences between fiscal and accountable amortization, and expenses which are considered to be non-deductible by the Law 27/2014 on Company's Income Tax.

The reductions on taxable income due to permanent differences in the fiscal year 2015 correspond, basically with: i) impairment reversal of a share in a related company sold during the fiscal year, whose endowment was considered on previous fiscal years as a permanent increase on the taxable income by an amount of 1,545,000 Euros, and ii) with the adjustment performed to the taxable income due to the reception of dividends from Group companies during the fiscal year, by an amount of 1,022 thousand euros (See Note 9.1)

Meanwhile in 2014, the Company adjusted the book result by permanent differences amounting to 13,711 thousand euros, the majority of which related to income produced throughout the liquidation of two companies in the group as well as the recognition of income in the amount of 10,566 thousand euros relating to the cancellation of a liability by means of a share capital increase through the offsetting of credits (see Note 11).

Information on temporary differences

The difference between the tax burdens allocated to the actual and previous fiscal periods, and the tax burden already paid or to be paid from those fiscal years, has its origin, basically, in the temporary differences originated in the fiscal year itself by an amount of 12,361, thousand euros, from which its major part correspond, to impairment of real estate investments, registered during the fiscal period by an amount of 11,276 thousand euros under the heading "Deterioration and results from sale of assets—Deterioration and losses" on the attached profit and loss account form the fiscal year 2015.

At the same time, the Company has adjusted to the accounting result, temporary differences with its origin on previous fiscal years, which correspond mainly with: i) the partial reversal of the adjustment performed to the impairment endowment of tangible and intangible assets, due to fiscal limitation on the deduction of such expense, introduced on Act 16 of 27th December 2012, which implemented various tax-related measures aimed at consolidating the public finances and boosting economic activity, by an amount of 1,076 thousand euros, and ii)to the reversal of the accelerated amortization applied on previous fiscal years by an amount of 1,068 thousand euros.

15. Government Bodies and tax situation (Continued)

Reconciliation between accounting income and cost for Company Tax purposes

Book income and costs for Company Tax purposes in the financial years 2015 and 2014 were reconciled as follows:

	Thousands of euros	
	2015	2014
Book income before taxes	**7,771**	**20,447**
Tax at 28% (30% in 2014)	2,176	6,134
Impact of permanent differences	(677)	(4,133)
Deductions generated	(407)	(255)
Adjustments for changes on income tax rates and other adjustments	(43)	(3,473)
Total costs/(income) for tax purposes entered in the profit and loss account	**1,049**	**(1,727)**

The section "Adjustments for changes on income tax rates" in the above table relates, mainly, to the impact on assets and liabilities during 2015 and 2014 as the result of the deferred tax associated with the change in the applicable Company Tax rate approved for the forthcoming year, which has been cut to 28% for 2015 and is expected to be further reduced to 25% for the financial year beginning in 2016 and subsequent years.

The legislation in relation to Company Tax establishes a range of tax incentives with the aim of encouraging research and development and technological innovation, exports and training activities. At the end of the financial year 2015, the Company had made deductions in this regard, pending application against future Company Tax payments, in the amount of 4,448 thousand euros (5,104 thousand euros in 2014), along with deductions relating to other items in the amount of 1,227 thousand euros (1,503 thousand euros in 2014).

The breakdown of costs for Company Tax purposes in the 2015 and 2014 financial years is as follows:

	Thousands of euros	
	2015	2014
Continuing operations	(1,049)	1,727
Interrupted operations	—	(283)
Attributed to net worth	(27)	(111)
Total	**(1,076)**	**1,555**

15. Government Bodies and tax situation (Continued)

Deferred tax assets.

The Company's tax assets, differentiating between temporary differences, negative tax bases and deductions pending application, can be broken down as of the end of 2015 and 2014 as follows:

	Thousands of euros			
	2015		2014	
	Taxe Base	Amount Payable	Taxe base	Amount Payable
Temporary differences—				
Limitation on Amortization up to 70%	1,252	376	2,079	582
Value adjustaments in combinations of businesses	6,108	1,527	949	237
Impairment of financial investments	2,185	546	1,510	378
Impairment of plots of land	576	144	576	144
Non-deductible provisions	684	171	836	209
Other temporary differences	404	101	604	151
Credits from negative tax bases	23,716	5,929	29,887	7,573
Deductions pending application	—	5,675	—	6,654
Total	**34,919**	**14,469**	**36,443**	**15,928**

The deferred tax assets referred above have been recorded in the balance sheet because the Company's Directors believe that, according to estimates of the Company's future results, positive tax bases will be obtained in sufficient amounts to ensure that these assets will be able to be recovered within the term set out in law to this end.

Negative tax bases pending to be offset

In accordance with current legislation, negative tax bases from one financial year can be offset for tax purposes against positive tax bases from subsequent financial years, and there is no limit on the number of years in which they can be offset under the tax legislation currently in force. However, these negative tax bases can be modified as a consequence of an inspection relating to the financial years in which they were generated.

In 2015, this could only be applied up to a maximum of 25% of the taxable base for the year, though this limit rises to 60% in 2016 and further to 70% for 2017 and subsequent years.

At the end of 2015, the company retained negative tax bases pending application in the amount of 23,716 thousand euros (29,887 thousand euros at 31 December 2014), as broken down below.

	Thousands of euros	
Financial year in which they originated	2015	2014
2005	—	22
2007	—	3,647
2008	6,973	9,475
2009	16,743	16,743
Total	**23,716**	**29,887**

Deductions pending application

According to the legislation in force, any deductions that remain pending application may be applied, basically, within a period of fifteen and eighteen years following the financial year in which they were generated, depending if the majority of deductions relate to research and development (18 years) or the remaining deductions(15 years).

15. Government Bodies and tax situation (Continued)

At the end of 2015 and 2014, deductions that remained pending application, shown by year in which they were generated, break down as follows:

Year generated	Thousands of euros 2015	2014
Previous to 2005	1.141	2.216
2005	602	602
2006	1.414	1.414
2007	587	587
2008	378	378
2009	264	264
2010	199	199
2011	351	351
2012	198	198
2013	240	240
2014	158	158
2015	144	—
Total	**5.675**	**6.607**

Deferred tax liabilities

The breakdown of deferred tax liability figures at the close of 2015 and 2014 is as follows:

	Miles de Euros			
	2015		2014	
	Tax Base	Amount Payable	Tax Base	Amount Payable
Subsidies	815	204	1,125	231
Value Adjustment on Business Combinations	56,444	14,111	68,230	17,067
Goods on financial leasing	1,432	358	1,583	400
Accelerated Amortization	4,241	1,060	5,309	1,354
Reinvestment of extraordinary profit	1,431	358	1,474	368
Other temporary differences	264	66	264	66
Total	**64,627**	**16,157**	**77,985**	**19,486**

The section "Value adjustments in combinations of businesses" included in the above table corresponds to the difference between the book value and the fiscal value of certain assets which were acquired by the Company as the result of the merger operation completed in 2010 (see Note 1).

15. Government Bodies and tax situation (Continued)

The list of assets that were acquired during the course of the said merger process was included in the Company's accounts at a value that was different from the value recorded in the books of the transferring company, as broken down below:

	Thousands of euros				
Account	**Acquisition Price**	**Accumulated Depreciation 20/06/2010**	**Net Book Value at 20/06/2010**	**New Tax Base**	**Difference**
200/201 Research and development	18,701	(15,886)	2,815	2,815	—
203 Patents and Trademarks	2,024	(1,786)	238	238	—
204 Goodwill	1	—	1	1	—
206 IT Applications	3,776	(3,662)	114	115	—
209 Advances on intangible fixed assets	1,541	—	1,541	1,541	—
210 Land	23,131	—	23,131	67,868	44,737
211 Constructions	33,309	(13,651)	19,658	28,123	8,466
212 Technical equipment and machinery	103,659	(77,744)	25,915	15,047	(10,868)
214 Tools	6,360	(5,331)	1,029	1,029	—
215 Other Facilities	2,047	(1,634)	413	412	—
216 Furnishings	15,876	(12,164)	3,712	3,713	—
217 Information processing equipment	2,632	(2,507)	125	125	—
218 Transport items	1,219	(732)	487	479	(8)
220 Investments in land	8,272	—	8,271	22,125	13,854
221 Investments in construction	14,145	(2,355)	11,790	11,862	72
Total	**236,693**	**(137,452)**	**99,241**	**155,494**	**56,253**

The increase in value from this combination of businesses that was completed during the financial year 2010 under the terms of the accounting regulations in force did not have any fiscal effects, in other words, the increased value was not included in the tax base of the company obliged to pay tax, meaning that the items whose value had been increased in relation to their previous value in the books of the transferring company were depreciated for tax purposes on the basis of this latter value. In addition, the reduced value was not included in the tax base, and the depreciation for tax purposes of the corresponding items, which was the same as the book depreciation, was calculated using the new base amount.

As regards to the assets and liabilities that were included in the described merger, a breakdown of the value adjustments made as a result of the combination of businesses is shown in the following table:

	Thousands of euros	
Account entries	**Increase**	**Reduction**
240/250 Equity instruments	1,873	2,090
141/142 Other provisions	1,212	—
172 Long-term debts	232	—
490/493 Value impairment of short-term commercial credits	—	1,441
295 Value impairment	—	811
Overall total	3,317	4,343

Other Information

In relation to other determined deductions performed by the Company on previous fiscal years, it is important to outstand the following:

i) On the fiscal year 2009, the Company opted to apply the deduction, in the portion that was not included in the deduction due to double imposition of capital gains from an internal source, due to

15. Government Bodies and tax situation (Continued)

reinvestment of the extraordinary profit obtained by Kanban, S.L., the company taken over in this year by Keraben Grupo, S.A. in the transfer of asset items, according to the following breakdown:

	Thousands of Euros				
Year transferred	Sales Value	Year of Reinvestment	Amount of Reinvestment	Income qualifying for reinvestment	Tax deduction generated
		2009	210	145	17
2007	22,882	2010	2,402	1,660	199
		2011	3,355	2,318	278
Total	**22,882**		**5,967**	**2,036**	**494**

In addition, Metropol Cerámica, S.L., a company that was also taken over in 2009, applied a deferral in 2001 for the reinvestment of income obtained, in the amount of 2,147,000 euros, and the method chosen to include this income in its tax base was the one defined in Article 34.1.b) of the Spanish Company Tax Regulation.

ii) This reinvestment was made in its entirety during the course of the 2000 and 2001 financial years in the construction of an industrial unit within the municipal boundaries of Villafamés, province of Castellón.

The breakdown by financial year of the income included in the tax bases and the income that remains pending inclusion is as follows:

	Thousands of euros	
Taxable year	Income included	Income pending inclusion
2001	50	—
2002	64	—
2003	64	—
2004	64	—
2005	43	—
2006	43	—
2007	43	—
2008	43	—
2009	43	—
2010	43	—
2011	43	—
2012	43	—
2013	43	—
2014	43	—
2015	43	—
2016 to 2048	—	1,417
2049	—	14
Total	**716**	**1,431**

The income to be included during the tax periods between 2015 and 2048 inclusive will be included at a rate of 43 thousand euros per year.

On Law 16/2013 of the 29th October repealed on the 1st January 2013 Article 12.3 of the TRLIS, relating to the deduction in the form of losses due to impairment of shareholdings in group, and associate companies, and it established transitional regulations for the inclusion in the taxable base of losses that remained pending inclusion as of 31st December 2012.

15. Government Bodies and tax situation (Continued)

iii) In the 2012 financial year, Keraben Grupo, S.A. applied the deduction of losses due to the impairment of shareholdings in group, and associate companies, as provided for in Article 12.3 of Royal Legislative Decree 4/2004 (Consolidated Text of the Company Tax Act, "TRLIS"), along with the reversal of the associated impairment. To this end, the following table provides the information required under the tax regulations with regard to the amounts deducted, the difference over the financial year in the shareholder equity of the companies in which the holding is held, the amounts included in the taxable base and the amounts pending inclusion.

	Thousands of euros						
Company	Total Accounting Impairment 31/12/2012	Accounted Impairment in 2012 financial year	Difference in fiscal year of Equity Value	Amount integrated on Taxable Income	Total accumulated amount included in tax base	Tax value	Net book value
Expocerámica, S.A.	609	609	(270)	(264)	(264)	643	,139

(1) Adjusted with share capital increases and reductions

(2) Adjusted to percentage holding

Financial years pending verification and inspection processes

Pursuant to the legislation currently in force, taxes may not be regarded as having been completely settled until the tax returns submitted have been inspected by the tax authorities, or until the time-bar period has been exceeded. At the end of the 2015 financial year, the periods 2012 to 2015 of the Company's operation remained open for inspection in respect of Company Tax, while the last four years remained open for inspection in respect of all other applicable taxes. Given the different potential interpretations that can be made of the tax regulations, the results of any inspections that may be carried out by the tax authorities in the future in relation to years that remain subject to inspection could give rise to tax liabilities, the amount of which cannot currently be quantified in any objective way. However, the Company's Directors believe that the said taxes have been adequately settled, meaning that even in the event that differences arise in respect of the interpretation of the regulations in force as regards the fiscal approach applied to the Company's operations, any eventual liabilities, will not have a significant effect on these annual accounts.

Meanwhile, on the 4th July 2014, the Tax Agency initiated inspections corresponding to Corporation Tax from periods 2010 to 2011, as well as VAT and withholding or payment on account of income from work or professionals, movable capital and property leasing presented between 2010 and 2011. At the date of the formulation of these accounts, such inspections have not yet finished. However, the Company's Directors have recognized in the actual accounts its best estimation with respect to the impacts, which could be derived from such actions, based on the disposable information at the date of formulation. No additional impacts are expected derived from such inspection apart fromm those already recognized at the year end of 2015.

16. Income and expenses

Net turnover figure

The distribution of the net turnover figure for the financial years 2015 and 2014 by business activity and by geographical market sector is as follows:

	Thousands of euros	
Activity	2015	2014
Sale of tiles and subproducts	104,620	94,697
Technical Services	2,175	2,032
Provision of services	360	391
Total	**107,155**	**97,120**

16. Income and expenses (Continued)

Geographical market sectors	Thousands of euros 2015	Thousands of euros 2014
National	35,534	28,555
Export	71,622	68,565
Total	**107,155**	**97,120**

Supplies

The amount entered under "Supplies" in the attached profit and loss accounts for 2015 and 2014 breaks down as follows:

	Thousands of euros 2015	Thousands of euros 2014
Consumption of merchandise:		
Net purchases	4,367	1,567
Changes in stock levels	(696)	46
Subtotal	**3,671**	**1,613**
Consumption of raw materials and other consumables:		
Net purchases	22,645	22,136
Changes in stock levels	234	123
Subtotal	**22,879**	**22,259**
Work carried out by other companies	**2,384**	**2,133**
Impairment of goods, raw materials and others	**(197)**	**(108)**
Total Supplies	**28,737**	**25,898**

Almost all of the purchases made by the Company during the financial years 2015 and 2014 were made within Spain, and the cost of purchases made within the EU and imports made over the course of both financial years was not significant.

Personnel costs

The amount shown under "Personnel costs" in the profit and loss account breaks down as follows:

	Thousands of euros 2015	Thousands of euros 2014
Wages and salaries	17,190	16,454
Social Security	4,736	4,815
Other welfare charges	149	132
Total	**22,075**	**21,401**

16. Income and expenses (Continued)

The average number of employees during the financial years 2015 and 2014, broken down into categories, was as follows:

	Average Number of Employees	
	2015	**2014**
Management and Administration	53	50
Professional technicians and scientific staff	24	23
Sales / Logistics	134	121
Production	253	260
Technical staff	112	113
Total	**576**	**567**

The number of employees retained by the Company on 31st December 2015 and 2014, broken down by category and gender, was as follows:

2015

	Average Number of Employees		
	Male employees	**Female employees**	**Total**
Management and Administration	22	34	56
Professional technicians and scientific staff	15	10	25
Sales / Logistics	128	6	134
Production	240	16	256
Technical staff	80	31	111
Total	**485**	**97**	**582**

2014

	Average Number of Employees		
	Male employees	**Female employees**	**Total**
Management and Administration	19	31	50
Professional technicians and scientific staff	14	9	23
Sales / Logistics	115	8	123
Production	218	16	234
Technical staff	83	31	114
Total	**449**	**95**	**544**

16. Income and expenses (Continued)

Impairment of current assets entered in the profit and loss account

The movements in allowance provisions for insolvencies and stocks in 2015 and 2014 were as follows:

	Thousands of euros	
	Provision for Insolvencies	Provision for Stocks
Balance at 1 January 2014	**4,307**	**1,001**
Allocation to provisions for the year	290	1,471
Total withdrawn—		
Withdrawn without effect on the results	—	—
Withdrawn with effect on the results	(890)	(1,001)
Balance at 31 December 2014	**3,707**	**1,471**
Allocation to provisions for the year	691	1,100
Total withdrawn—		
Withdrawn without effect on the results	(865)	—
Withdrawn with effect on the results	(149)	(1,471)
Balance at 31 December 2015	**3,384**	**1,100**

17. Environmental information

The Company aims to ensure that engagement in its industrial activity is compatible with preservation of the environment. To this end it has equipment and facilities among its tangible fixed assets that are exclusively and specifically designed to minimise the environmental impact of its production processes and the products that it places on the market, the net cost and net book value of which amount respectively to 3,878 thousand and 3,027 thousand euros (3,563 thousand euros and 2,911 thousand euros respectively in 2014). The provision for the depreciation of these assets amounted to 199 thousand euros for the 2015 financial year (194 thousand euros in 2014).

Furthermore, in the normal course of its business activity, and as part of its environmental protection processes, the Company incurred during the financial year 2015, costs relating to such processes amounting to approximately 732 thousand euros (approximately 494 thousand euros during 2014).

The Company's Directors do not believe that there are any risks or contingencies arising from environmental issues that could have a significant impact on these annual accounts, and for that reason these annual accounts do not contain any allowance provision in this regard.

Information on greenhouse gas emission rights

European Parliament Directive 2003/87/EC was published in October 2003 and established undertakings to reduce the emission of greenhouse gases. European Parliament and Council Resolution 2009/29/EC of 23 April 2009 revised the rules for the period from 2013 to 2020. These Directives were enacted in Spanish law by means of Royal Decree 1,722 of 28 December 2012, which introduced aspects relating to the allocation of emission rights within the framework of Act 1 of 9th March 2005, which in turn regulated the rules governing the trading of greenhouse gas emission rights. The allocation of rights to facilities eligible to receive the free allocation of emission rights for the period from 2013 to 2020 was calculated by applying the allocation methodology set out in European Commission Decision 2011/278/EU.

In the individual allocation of rights for the period from 2013 to 2020, the Company was awarded 64,909 tonnes free of charge for the 2015 financial year. The issue of greenhouse gases during the financial year 2015 was estimated at 79,827 tonnes (see Notes 5 and 11) (74,996 tonnes during 2014).

There were no future agreements on emission rights at the close of the financial year. There were no contingencies for penalties and similar items under Act 1/2005 at the close of the financial year.

18. Related party transactions and balances

a) Related party transactions

Transactions—income/(expenses)—engaged in with related parties during the financial years 2015 and 2014 broke down as follows:

2015

	Thousands of euros			
	Group Companies	Associate Companies	Other Related Parties	Total
Sales	876	2,723	270	3,869
Purchases	(86)	(147)	—	(233)
Non-current asset purchases	(3)	—	—	(3)
Provision of services and leases	122	—	—	122
Services charged	17	36	—	53
Services received	(38)	(32)	(107)	(177)
Dividends received	1,361	—	—	1,361

2014

	Thousands of euros			
	Group Companies	Associate Companies	Other Related Parties	Total
Sales	687	2,306	222	3,215
Purchases	(91)	(196)	—	(287)
Non-current asset purchases	(3)	—	—	(3)
Provision of services and leases	412	67	—	479
Services charged	17	67	—	84
Services received	(5)	(31)	(4)	(40)
Dividends received	394	45	—	439
Dividends accrued but not collected	—	24	—	24

The services provided, shown on the above table, correspond, mainly, to leases and to services provided by the personnel, IT and administration departments to various group companies.

As mentioned in Note 1, the Company is the dominant organisation in a corporate group. It also belongs to a group of companies whose direct parent is Tensile-Keraben Holdings, S.à.r.l., and the group's ultimate parent company is Tensile Capital GP LLC. To this end, all the companies that belong to the Tensile Group are regarded as group companies.

b) Balances with related parties

The amounts of the balances held with related parties at 31st December 2015 and 2014 break down as follows:

2015

	Thousands of euros			
	Group Companies	Associate Companies	Other related parties	Total
Instruments on Equity Value	1,154	5,663	—	6,817
Trade receivable for sales and services	219	1,977	55	2,251
Commercial creditors and other accounts payable.	(217)	(126)	(5)	(348)

18. Related party transactions and balances (Continued)

2014

	Thousands of euros			
	Group Companies	Associate Companies	Other related parties	Total
Instruments on Equity Value	**1,297**	**5,698**	**248**	**7,243**
Trade receivable for sales and services	**174**	**1,857**	**63**	**2,094**
Short-term financial investments	**486**	**24**	**—**	**510**
Long-term debts	**(44)**	**—**	**—**	**(44)**
Short-term debts	**(61)**	**—**	**—**	**(61)**
Commercial creditors and other accounts payable	**(130)**	**(37)**	**(968)**	**(1,135)**

The amount entered in the section headed "Group and associate company customers" on the assets side of the balance sheet relates in its entirety to the accounts receivable from group companies as a consequence of commercial transactions.

In addition, the amount entered under "Commercial creditors and other accounts payable—Group and associate company suppliers" on the liabilities side of the balance sheet relates to accounts payable to group and associate companies as a consequence of commercial transactions.

19. Other information

Payments to Directors and Senior Managers

During the 2015 and 2014 financial years, the duties of the Company's Senior Management have been performed by its Board of Directors. The payments received during 2015 and 2014 by the members of the Board of Directors (which comprised five male members at 3st December 2015 and 2014), in respect of all items, amounted to 540 thousand euros (251 thousand euros in 2014).

Of the amounts detailed above in respect of payments to the Company's Directors, 10 thousand euros are related to the Company's payment of premiums for life insurance policies (no amount by this concept in 2014).

During this financial year the Company approved certain incentive plans for some Directors, linked to specific profitability and/or liquidity parameters to be obtained by shareholders in any future disposal of the Company. The Company's Directors believe that no liability had accrued in respect of this item as of 31st December 2015 .

No compensation has been incurred as the result of the resignation or dismissal of any of the members of the Board of Directors during the financial years 2015 and 2014. No advances or loans have been made to the Company's Directors or its Senior Management. The Company has not assumed any additional obligation on behalf of its Directors. Furthermore, the Company has not assumed any obligation of any kind in respect of pensions or the payment of life insurance premiums in relation to the members of the Board of Directors.

Auditors' Fees

During the financial year 2015, the fees relating to account auditing services provided by the Company's auditor, Deloitte, S.L., amounted to 47,000 euros (44,000 paid in 2014 by way of fees to the previous auditor). No additional fees were accrued for other services provided by the Company's auditor during the financial year 2015 (18,000 euros invoiced by the previous auditor during 2014).

Off balance sheet resolutions

The Company's Directors believe that there are no Company resolutions that are not recorded in the balance sheet or not mentioned, where applicable, in the information contained in other Notes in these notes to the accounts, that would have a significant effect in determining the Company's financial situation.

19. Other information (Continued)

Financing structure

The Company forms part of the Tensile Group, the ultimate parent of which is Tensile Capital GP LLC. However In the Company acts independently from its group in terms of financial structure, obtaining directly the necessary financial resources from local financial entities, for the development of its activity as detailed in Note 14. The Company's Directors believe that, both, the disposable discount credit lines, and the long-term financing, will allow the Company to adequately manage all their financing requirements.

Information on situations involving conflicts of interest among the Company's Directors

With regard to the contents of Article 229 of the Consolidated Text of the Spanish Capital Companies Act, the Directors have informed the Company that, during the financial year 2015, neither they nor the individuals or companies to which they are related, as defined in Article 231 of the said Act, were affected by situations involving a conflict of interest, as provided for in the aforementioned Article 229, and neither the Board of Directors nor the other Directors were sent any communication of the kind provided for in paragraph 3 of the said Article.

Information on deferred payments to suppliers. Third Additional Provision. "Duty to Inform" under Act 15 of 5 July 2010.

Act 15 of 5th July 2010, which amended Act 3 of 29th December 2004, which established measures to combat late payment in commercial transactions, established that "Companies must expressly include information in the notes to their annual accounts regarding the payment terms they apply to suppliers". In addition, the ruling of 29 January 2016 by the Spanish Institute of Accounting and Accounts Auditing ("**ICAC**") sets out the information to be included in the notes in order to comply with the said Act, and this will apply to all annual accounts for financial years beginning from 1st January 2015 onwards.

The information required for the financial year 2015 under the third additional provision of the aforementioned ruling is as follows:

	2015 Days
Average supplier payment term	85
Ratio of transactions paid	92
Ratio of transactions pending payment	36

	(Thousands of euros)
Total payments made	75,034
Total payments pending	14,212

The ICAC ruling of 29th January 2016 establishes that the annual accounts statements for the first year in which this applies will not include comparative information relating to this new obligation, the accounts being classified as initial accounts for the purposes of this information.

The data shown in the above table regarding payments to suppliers refers to suppliers that are, by their very nature, commercial creditors as the result of debts with suppliers of goods and services, in such a way that this includes data relating to the entries "Suppliers", "Suppliers, group and associate companies" and "Miscellaneous creditors" in the current liabilities section of the balance sheet.

The maximum legal payment term applicable to the Company in the financial year 2015, pursuant to Act 11 of 26 July 2013, which implemented Act 3 of 29th December 2004, which in turn established measures to combat late payment in commercial operations, is 30 days, unless there is an agreement between the parties, in which case the maximum term would be 60 days (the same as the term for 2014).

19. Other information (Continued)

Information required under Chapter VIII of Title VII of Royal Legislative Decree 4/2004, which approved the Consolidated Text of the Spanish Company Tax Act.

The General Meetings of Shareholders of Industrias Químicas Benavent, S.L. and Keraben Grupo, S.A.U., held in extraordinary fully-attended session on 29th June 2010, approved the reverse merger of a wholly owned company, the target company being its sole shareholder, in such a way that Keraben Grupo S.A.U. legally took over the company Industrias Químicas Benavent, S.L. The merger agreement was recorded in a public deed dated 6th October 2010, which was registered at Castellón Mercantile Registry on 26th October 2010.

It was agreed to adopt the fiscal rules set out in the Spanish Company Tax Act. Specifically, the planned merger was implemented under the tax rules set out in Chapter VIII of Title VII of Royal Legislative Decree 4 of 5th March 2004, which approved the consolidated text of the Spanish Company Tax Act. To this end, and pursuant to the contents of Article 96 of the aforementioned Royal Decree, the said operation was recorded in the resolutions adopted by the respective General Meetings of Shareholders of the companies involved in the merger.

During the financial year 2011, a merger was completed in which Keraben Tiendas, S.L. was absorbed by Keraben Grupo, S.A. Specifically, a public deed dated 30th September 2011 recorded a merger in which the company Keraben Grupo, S.A. (hereinafter, the dominant company) absorbed Keraben Tiendas, S.L.U. (hereinafter, the target company).

It was agreed to adopt the fiscal rules set out in the Spanish Company Tax Act. Specifically, the planned merger was implemented under the tax rules set out in Chapter VIII of Title VII of Royal Legislative Decree 4 of 5th March 2004, which approved the consolidated text of the Spanish Company Tax Act. To this end, and pursuant to the contents of Article 96 of the aforementioned Royal Decree, the said operation was recorded in the resolutions adopted by the respective General Meetings of Shareholders of the companies involved in the merger.

Keraben Grupo, S.A. was the prior result of the merger by takeover carried out in 2009 by the companies Keraben, S.A., as dominant company, and Kanban, S.L., Metropol Cerámica, S.L. and Keratrim, S.A., as target companies.

Likewise, Keraben, S.A. was the result of a merger between the companies Gres de Nules, S.A., as dominant company, and Keraben, S.A., as Target Company, which took place in accordance with the resolutions passed at the respective General Meetings of Shareholders on 27th November 2001. In this merger, the dominant company adopted the name of the target company: Keraben, S.A.

Subsequently, the General Meetings of Shareholders of the companies Keraben, S.A., as dominant company, and Creacer, S.A., as Target Company, gave their approval on 20th November 2003 for the vertical merger of the latter by the former.

In turn, Kanban, S.L. was the result of a merger by takeover between the companies Kanban, S.A. (the company's previous name), as dominant company, and Disacer, S.A., Iniciativas Patrimoniales Herben, S.L. and Starker, S.A., as target companies, which was completed in 1999, and a merger between Kanban, S.L., as dominant company, and Iniciativas Inmobiliarias Tiber, S.L., Proyectos y Desarrollos Cerámicos, S.L. and Desarrollos y Proyectos Benavent, S.L., as target companies, which was completed in 2008.

The first approved annual reports issued by Keraben Grupo, S.A. following the mergers carried out in 2011, 2010 and 2009, the first reports issued by Keraben, S.A. following the said mergers (corresponding to the financial years ending 31st December 2001 and 2003), and the reports issued by Kanban, S.L. for the financial years 1999 and 2008, contain the information required under the legislation in force.

As regards the target company, Kanban, S.L., this company made non-monetary contributions during the 2002 financial year during the subscription of shares in another group company. The share capital amount received was valued at the book value of the shares handed over, as this did not exceed the value attributed to them by the recipient company. Pursuant to the contents of Spanish Company Tax Act 43/1995, the

19. Other information (Continued)

company chose to apply the special regulations on mergers and demergers, allocations of assets and exchanges of securities regulated under Chapter VIII of Title VIII of the said Act.

During the financial year 2002, Kanban, S.L. also carried out a share capital increase, formally undertaken under the terms of Chapter VIII of Title VIII of Act 43/1995, by means of a share swap transaction in which it acquired a holding in the share capital of another company which allowed it to obtain a majority of voting rights, while the shareholders of the other company were in turn given a holding in the share capital of Kanban, S.L.

In addition, on 2nd August 2004, Kanban, S.L. increased its share capital in the amount of 794,507.95 euros through the issue of 26,439 company shares, each with a par value of 30.05060521 euros. The new shares were issued with an issue premium of 455.04939479 euros per share. The increase was subscribed and the shares and issue premium were fully paid up immediately by means of a non-monetary contribution of shares. The operation was performed under the tax rules set out in Royal Legislative Decree 4/2004, which approved the Consolidated Text of the Spanish Company Tax Act. Specifically, the planned non-monetary transaction, governed by Article 94 of the aforementioned Royal Legislative Decree, was carried out under the tax rules set out in Chapter VIII of Title VII.

On 30th December 2004, Kanban, S.L. increased its share capital in the amount of 219,098.96 euros through the issue of 7,291 company shares, each with a par value of 30.05060521 euros. The new shares were issued with an issue premium of 455.04939479 euros per share. The increase was subscribed and the shares and issue premium were fully paid up immediately by means of a non-monetary contribution of shares. The operation was performed under the tax rules set out in Royal Legislative Decree 4/2004, which approved the Consolidated Text of the Spanish Company Tax Act. Specifically, the planned non-monetary transaction, governed by Article 94 of the aforementioned Royal Legislative Decree, was carried out under the tax rules set out in Chapter VIII of Title VII.

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Independent Auditors' Report on Review of Interim Consolidated Financial Statements

To the Sole Shareholder of Cerámica Saloni, S.A.U.

Introduction

We have reviewed the accompanying interim consolidated balance sheet of Cerámica Saloni, S.A.U. (the "Company") and its subsidiaries (the "Group") as at 30 June 2018, the interim consolidated income statement, the interim consolidated statement of changes in equity and the interim consolidated statement of cash flows for the six month period then ended, and notes, comprising significant accounting policies and other explanatory information ("the interim consolidated financial statements"). The Directors are responsible for the preparation and fair presentation of these interim consolidated financial statements in accordance with the Spanish General Chart of Accounts approved by Royal Decree 1514/2007 and the Rules for the Preparation of Consolidated Annual Accounts approved by Royal Decree 1159/2010 and subsequent amendments. Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements do not give a true and fair view of the consolidated financial position of Cerámica Saloni, S.A.U. and its subsidiaries as at June 30, 2018, and of its consolidated financial performance and its consolidated cash flows for the six month period then ended, in accordance with the Spanish General Chart of Accounts approved by Royal Decree 1514/2007 and the Rules for the Preparation of Consolidated Annual Accounts approved by Royal Decree 1159/2010 and subsequent amendments.

KPMG Auditores, S.L.

Bernardo Vargas Gomez
October 26, 2018

CERÁMICA SALONI, S.A.U. and subsidiaries

Interim Consolidated financial statements for the six months period ended June 30, 2018

CERÁMICA SALONI, S.A.U. and Subsidiaries

Interim Consolidated Balance Sheet

June 30, 2018

(Expressed in Euros)

	Note	At June 30, 2018(*)	At December 31, 2017
Assets			
Intangible assets	**Note 5**	**139,114**	**189,007**
Patents, licences, trademarks and similar rights		4,669	4,919
Goodwill on consolidation	**Note 6**	0	0
Computer software		134,445	184,088
Property, plant and equipment	**Note 7**	**32,434,679**	**33,388,780**
Land and buildings		14,062,077	14,327,196
Technical installations, machinery, equipment, furniture and other ítems		17,968,130	19,022,585
Under construction and advances		404,472	38,999
Investment property	**Note 8**	**0**	**0**
Land		0	0
Buildings		0	0
Non-current investments in Group companies and associates	**Note 13**	**2,023,293**	**2,246,705**
Equity instruments		375,594	599,006
Loans to Group Companies		1,647,699	1,647,699
Non-current investments	**Note 13**	**125,929**	**133,431**
Other financial assets		125,929	133,431
Deferred tax assets	**Note 20**	**1,437,324**	**1,574,463**
Total non-current assets		**36,160,339**	**37,532,386**
Inventories	**Note 14**	**34,324,307**	**31,860,429**
Goods for resale		9,455,134	10,792,986
Raw materials and other supplies—short cycle		2,684,172	2,351,473
Work in progress—short cycle		703,116	624,411
Finished goods—short cycle		21,481,885	18,091,559
Trade and other receivables	**Note 13**	**34,838,292**	**28,323,310**
Trade receivables—current		30,243,754	25,202,712
Trade receivables from Group companies and associates—current		4,475,620	2,859,154
Other receivables		14,155	168,252
Personnel		104,763	93,192
Current investments in Group companies and associates	**Note 13**	**2,826,599**	**3,547,825**
Other financial assets		2,826,599	3,547,825
Current investments		**305,615**	**312,836**
Other financial assets		305,615	312,836
Prepayments for current assets		**291,309**	**504,696**
Cash and cash equivalents		**11,529,774**	**8,768,416**
Cash		11,529,774	8,768,416
Total current assets		**84,115,896**	**73,317,512**
Total assets		**120,276,235**	**110,849,898**

(*) Non-audited.

The accompanying notes form an integral part of the Interim Consolidated financial statements.

CERÁMICA SALONI, S.A.U. and Subsidiaries

Interim Consolidated Balance Sheet (Continued)

June 30, 2018

(Expressed in Euros)

	Note	At June 30, 2018(*)	At December 31, 2017
Equity and Liabilities			
Capital and reserves	**Note 15**	**13,894,790**	**9,459,790**
Capital			
Registered capital		4,958,415	4,958,415
Reserves			
Legal and statutory reserves		991,683	991,683
Other reserves		3,509,692	(1,994,753)
Profit for the period/year attributable to the Parent		4,435,000	22,850,067
(Interim dividend)		0	(17,345,622)
Conversion differences	**Note 15**	**(112,431)**	**(111,709)**
Grants, donations and bequests received	**Note 16**	**204,172**	**111,665**
Non-controlling interests		**391**	**377**
Total equity		**13,986,922**	**9,460,123**
Non-current payables	**Note 19**	**1,869,749**	**2,071,501**
Finance lease payables	**Note 9**	122,840	167,569
Other financial liabilities		1,746,909	1,903,932
Group companies and associates, non-current	**Note 19**	**49,694,041**	**46,860,729**
Deferred tax liabilities	**Note 20**	**531,101**	**591,102**
Total non-current liabilities		**52,094,891**	**49,523,332**
Current provisions		**311,228**	**312,617**
Provision for greenhouse gas emission allowances		311,228	312,617
Current payables	**Note 19**	**1,316,858**	**4,729,072**
Loans and borrowings		153,055	3,565,093
Finance lease payables	**Note 9**	88,699	86,036
Other financial liabilities		1,075,104	1,077,943
Group companies and associates, current	**Note 19**	**1,974,429**	**3,832,947**
Trade and other payables	**Note 19**	**50,591,907**	**42,991,807**
Current payables to suppliers		42,123,593	36,368,577
Suppliers, Group companies and associates, current		702,668	998,403
Other payables		1,312,690	1,342,715
Personnel (salaries payable)		3,219,534	2,698,871
Current tax liabilities	**Note 20**	1,703,197	—
Public entities, other	**Note 20**	1,530,225	1,583,241
Total current liabilities		**54,194,422**	**51,866,443**
Total equity and liabilities		**120,276,235**	**110,849,898**

(*) Non-audited.

The accompanying notes form an integral part of the Interim Consolidated financial statements.

CERÁMICA SALONI, S.A.U. and subsidiaries

Interim Consolidated Income Statement for the six months period ended June 30, 2018

(Expressed in Euros)

	Note	At June 30, 2018(*)	At June 30, 2017(*)
Revenues	**Note 23**	**61,193,534**	**60,121,078**
Sales		61,028,065	59,943,738
Services rendered		165,469	177,340
Changes in inventories of finished goods and work in progress	**Note 14**	**3,469,031**	**(144,492)**
Supplies	**Note 23**	**(24,996,897)**	**(23,481,114)**
Merchandise used		(8,766,096)	(10,106,401)
Raw materials and other consumables used		(15,540,302)	(13,119,923)
Subcontracted work		(690,499)	(447,735)
Impairment of merchandise, raw materials and other supplies	**Note 14**	0	192,945
Other operating income		**119,841**	**355,084**
Non-trading and other operating income		119,841	355,084
Personnel expenses		**(12,910,256)**	**(12,991,786)**
Salaries and wages		(10,002,449)	(10,203,699)
Employee benefits expense	**Note 23**	(2,907,807)	(2,788,087)
Other operating expenses		**(15,514,170)**	**(15,454,077)**
External services		(15,225,113)	(15,076,495)
Taxes		(280,646)	(219,575)
Losses, impairment and changes in trade provisions	**Note 13**	2,789	(157,810)
Other operating expenses		(11,200)	(197)
Amortisation and depreciation	**Notes 5 and 7**	**(2,090,928)**	**(1,786,378)**
Non-financial and other capital grants	**Note 16**	**8,148**	**8,148**
Impairment and losses on disposal of fixed assets		**(15,022)**	**(291,429)**
Impairment and losses	**Note 6**	0	(266,000)
Profit/Losses on disposal and other		(15,022)	(25,429)
Other income		**41,755**	**(233)**
Results from operating activities		**9,305,036**	**6,334,801**
Finance income	**Notes 12,18 and 19**	**20,546**	**94,716**
Marketable securities and other financial instruments			
Group companies and associates		0	78,382
Other		20,546	16,334
Finance costs	**Note 18**	**(2,948,956)**	**(303,312)**
Other		(2,948,956)	(303,312)
Exchange losses		**29,091**	**(24,806)**
Impairment and losses on disposal of financial instruments		**66,450**	**0**
Gains/(losses) on disposal and other		66,450	0
Net finance cost/income		**(2,832,869)**	**(233,402)**
Profit before income tax		**6,472,167**	**6,101,399**
Income tax	**Note 20**	**(2,037,153)**	**(1,616,414)**
Consolidated Profit for the period		**4,435,014**	**4,484,985**
Consolidated Profit for the period attributable to the Parent		**4,435,000**	**4,484,966**
Consolidated Profit for the period attributable to non-controlling interests		**14**	**19**

(*) Non-audited

The accompanying notes form an integral part of the Interim Consolidated financial statements.

CERÁMICA SALONI, S.A.U. and subsidiaries

Interim Consolidated Statement of Changes in Equity for the six months period ended June 30, 2018

A) Interim statement of Recognised Income and Expenses for the six months period ended June 30, 2018

(Expressed in Euros)

	At June 30, 2018(*)	At June 30, 2017(*)
Consolidated profit for the period	4,435,014	4,484,985
Income and expense recognised directly in consolidated equity		
Grants, donations and bequests	98,618	—
Conversion differences	(722)	6,991
Total income and expense recognised directly in consolidated equity	97,896	6,991
Amounts transferred to the consolidated income statement		
Grants, donations and bequests	(8,148)	(8,148)
Tax effect	2,037	2,037
Total amounts transferred to the consolidated income statement	(6,111)	(6,111)
Total consolidated recognised income and expense for the period	4,526,799	4,485,865
Total consolidated recognised income and expense attributable to the Parent	4,526,785	4,485,846
Total consolidated recognised income and expense attributable to non-controlling interests	14	19

(*) Non-audited

The accompanying notes form an integral part of the Interim Consolidated financial statements.

CERÁMICA SALONI, S.A.U. and subsidiaries

Interim Consolidated Statement of Changes in Equity for the six months period ended June 30, 2018

B) Interim Statement of Total Changes in Equity for the six months period ended June 30, 2018(*)

(Expressed in Euros)

	Registered capital	Legal reserve	Voluntary reserves	Reserves in consolidated companies	Profit for the year attributable to the parent	Interim dividend	Grants, donations and bequests received	Conversion differences	Non-controlling interests	Total
Balance at January 1, 2018	4,958,415	991,683	4,095,281	(6,090,034)	22,850,067	(17,345,622)	111,665	(111,709)	377	9,460,123
Consolidated recognised income and expense	—	—	—	—	4,435,000	—	92,507	(722)	14	4,526,799
Distribution of profit for 2017										
Reserves	—	—	4,497,645	1,006,800	(22,850,067)	17,345,622	—	—	—	—
Balance at June 30, 2018	4,958,415	991,683	8,592,926	(5,083,234)	4,435,000	—	204,172	(112,431)	391	13,986,922

(*) Non-audited

The accompanying notes form an integral part of the Interim Consolidated financial statements.

CERÁMICA SALONI, S.A.U. and subsidiaries

Interim Consolidated Statement of Changes in Equity
for the six months period ended June 30, 2018

B) Interim Statement of Total Changes in Equity for the six months period ended June 30, 2017(*)

(Expressed in Euros)

	Registered capital	Legal reserve	Voluntary reserves	Reserves in consolidated companies	Profit for the year attributable to the parent	Grants, donations and bequests received	Conversion differences	Non-controlling interests	Total
Balance at January 1, 2017	4,958,415	991,683	38,976,272	(5,754,022)	4,540,162	120,220	(119,925)	152	43,712,957
Consolidated recognised income and expense	—	—	—	—	4,484,966	(6,111)	6,991	19	4,485,865
Transactions with shareholders or owners									
Distribution of profit for 2016									
Reserves	—	—	4,876,174	(336,012)	(4,540,162)	—	—	—	—
Balance at June 30, 2017	4,958,415	991,683	43,852,446	(6,090,034)	4,484,966	114,109	(112,934)	171	48,198,822

(*) Non-audited

The accompanying notes form an integral part of the Interim Consolidated financial statements.

CERÁMICA SALONI, S.A.U. and subsidiaries

Interim Consolidated Statement of Cash Flow
for the six months period ended June 30, 2018

(Expressed in Euros)

	At June 30, 2018(*)	At June 30, 2017(*)
Cash flows from operating activities		
Profit for the period before tax	**6,472,167**	**6,101,399**
Adjustments for:		
Amortisation and depreciation	2,090,928	1,786,378
Impairment	189,590	423,810
Change in provisions	(1,389)	(280,538)
Grants recognised	(8,148)	(8,148)
Profits / Losses on disposals of fixed assets	15,022	25,429
Proceeds from disposals of financial instruments	(66,450)	—
Finance income	(20,546)	(94,716)
Finance costs	2,948,956	303,312
Exchange losses	(29,091)	24,806
Changes in operating assets and liabilities		
Inventories	(2,656,257)	490,314
Trade and other receivables	(6,512,193)	(5,092,810)
Other current assets	213,387	60,756
Trade and other payables	5,669,854	7,724,068
Other non-current assets/liabilities	(2,839)	—
Other cash flows from operating activities		
Interest paid	(863,330)	(283,102)
Interest received	20,546	91,176
Cash flows from operating activities	**7,460,207**	**11,272,134**
Cash flows from investing activities		
Payments for investments		
Group companies and associates	—	(8,986,876)
Intangible assets	(134)	(51,761)
Property, plant and equipment	(1,107,075)	(419,617)
Proceeds from sale of investments		
Group companies and associates	1,011,088	—
Property, plant and equipment	5,890	32,453
Other financial assets	14,723	23,129
Cash flows used in investing activities	**(75,508)**	**(9,402,672)**
Cash flows from financing activities		
Receipts and payments resulting from equity instruments		
Grants, donations and bequests	98,618	—
Proceeds from and payments for financial liability instruments		
Issue		
Loans and borrowings	—	72,274
Redemption and repayment of		
Loans and borrowings	(3,454,104)	(263,122)
Group companies and associates	(1,110,832)	—
Other payables	(157,023)	(178,746)
Cash flows used in financing activities	**(4,623,341)**	**(369,594)**
Net increase/decrease in cash and cash equivalents	**2,761,358**	**1,499,868**
Cash and cash equivalents at beginning of period	**8,768,416**	**1,084,960**
Cash and cash equivalents at period end	**11,529,774**	**2,584,828**

(*) Non-audited

The accompanying notes form an integral part of the Interim Consolidated financial statements.

(1) Nature and Activities of the Company and Composition of the Group

Cerámica Saloni, S.A U. (hereinafter the Company or Parent Company) (together with its subsidiaries, the Group) was incorporated with limited liability under Spanish law on 27 November 1971. Its statutory and principal activity consists of the development, manufacture, finance, import, export, trading, exhibition, purchase and sale of all types of ceramic and construction materials and products and bathroom and kitchen furniture and accessories.

The Company operates throughout Spain and in several other countries through its factory in San Juan de Moró (Castellón) and subsidiaries in Portugal, the UK and France. In 2016 the Parent Company acquired the trading company Atlantic Tiles. The Company also carries out its activity through a network of stores in Spain. Its registered office is located at Carretera de Castellón a Alcora, km. 17, San Juan de Moró (Castellón).

At June 30, 2018 and December 31, 2017 the Company formed part of the Mosaiq Group, (previously named Obinesa Group), the parent of which is Obinesa, S.L. The Company's direct parent is Obinesa Grupo Industrial, S.L.U. Both companies are domiciled in Castellón. The directors of Obinesa, S.L. have prepared statutory consolidated annual accounts for 2017 within the legally established period, which are to be filed at the Castellón Mercantile Registry.

In turn, since December 2017 the Mosaiq Group formed part of the Atitlan Group, which is domiciled in Valencia. The statutory consolidated annual accounts of the Atitlan Group which are to be filed at the Valencia Mercantile Registry. At December 31, 2017 the Company was wholly owned, by its sole shareholder is Obinesa Grupo Industrial, S.L.U.

On August 7, 2018, Victoria PLC, through an indirectly wholly-owned subsidiary named Sandover Investments, S.L.U., acquired the entire share capital of Cerámica Saloni S.A.U. (see note 27).

The Company holds investments in subsidiaries. Details of investments in subsidiaries are provided in Appendix I. All subsidiaries have been consolidated. No investees are listed on any stock exchange market.

During the six months periods ended June 30, 2018 and June 30, 2017 there have not been changes in the perimeter of consolidation.

(2) Basis of Presentation

(a) True and fair view

The directors have authorised the interim consolidated financial statements for the six-month period ended June 30, 2018 for issue and the interim consolidated financial statements for the six-month period ended June 30, 2018 have been prepared in accordance with prevailing legislation, the Spanish General Chart of Accounts approved by Royal Decree 1514/2007 and the Rules for the Preparation of Consolidated Annual Accounts approved by Royal Decree 1159/2010 and subsequent amendments to give a true and fair view of the interim consolidated equity and interim consolidated financial position at June 30, 2018 and interim consolidated results of operations, interim consolidated changes in equity, and interim consolidated cash flows for the six months period ended June 30, 2018.

In accordance with prevailing legislation, the Company is the parent of a group of companies. In accordance with financial reporting framework applicable to the Group in Spain, consolidated financial statements must be prepared to give a true and fair view of the financial position of the Group, the results of operations and changes in its equity and cash flows for the period of six months ended June 30, 2018. Nevertheless, as permitted by section 2 of article 43 of the Spanish Code of Commerce, the Company does not prepare statutory consolidated annual accounts as they are a subgroup of the Mosaiq Group mentioned in note 1, who files statutory consolidated annual accounts in Spain.

The accompanying interim consolidated financial statements for the six months period ended June 30, 2018 have not been prepared to comply with legal requirements in Spain, but in relation to a possible bond issuance process which is planned to be carried out by the current ultimate parent company of the Group.

(2) Basis of Presentation (Continued)

(b) Comparative information

As mentioned in note 1, the Group was integrated in the Mosaiq Group, a higher-level Spanish group, meaning that the Parent Company is not obliged to present statutory consolidated annual accounts as provided in section 2 of article 43 of the Commercial Code, as the Mosaiq Group filed statutory consolidated annual accounts. However, according to note 2.a), 2017 was the first year in which the Group had voluntarily prepared interim consolidated financial statements. As a consequence, the acquisition date of the consolidated companies, to the effect of applying the consolidation method, must be referred to the acquisition/constitution date in the Mosaiq Group to which they belonged at June 30, 2018.

The unaudited interim consolidated balance sheet at June 30, 2018 and the notes thereto include corresponding figures for December 31, 2017. The unaudited interim consolidated income statement, unaudited interim consolidated statement of changes in equity, unaudited interim consolidated statement of cash flows and the notes thereto for the six months period ended June 30, 2018 include unaudited corresponding figures for the six month period ended June, 30 2017.

As a result of the acquisition of the Company by the Victoria group in August 2018, certain corporate and financing transactions have taken place and are considered to have a significant impact at the end of financial year 2018 (see note 27) and therefore the results and equity of the accompanying interim consolidated financial statements for the six months period ended June 30, 2018 are not representative of the results that are expected for the full year 2018.

(c) Functional and presentation currency

The figures disclosed in the interim consolidated financial statements are expressed in Euros, the Parent Company functional and presentation currency.

(d) Critical issues regarding the valuation and estimation of relevant uncertainties and judgements used when applying accounting principles

Relevant accounting estimates and judgements and other estimates and assumptions have to be made when applying the Group's accounting principles to prepare the interim consolidated financial statements. A summary of the items requiring a greater degree of judgement or which are more complex, or where the assumptions and estimates made are significant to the preparation of the interim consolidated financial statements, is as follows:

(i) Relevant accounting estimates and assumptions

Valuation allowances for bad debts, which require a high degree of judgement by management and a review of individual balances based on customers' credit ratings.

The Group makes estimates and judgements with respect to provisions for impairment of inventories based on its own experience and historical information.

The Group estimates the useful life of intangible assets and property, plant and equipment to reasonably recognise the amortisation and depreciation of these types of assets.

The recoverability of the tax credits is based on the business projections made in the year, and on the basis of which it is considered likely that future taxable profits will be obtained that will enable these assets to be used.

(ii) Changes in accounting estimates

Although estimates are calculated by the Company's directors are based on the best information available at June 30, 2018, future events may require changes to these estimates in subsequent years. Any effect on the interim consolidated financial statements of adjustments to be made in subsequent years would be recognised prospectively.

(3) Distribution of Profit

The distribution of the Parent's profit for the year ended December 31, 2017, proposed by the directors and approved by the decision of the Sole Shareholder as of June 30, 2018 is as follows:

	In Euros
Basis of allocation	
Profit for the year	19,627,803.61
Distribution	
Other reserves	2,282,181.20
Interim dividends	17,345,622.41
	19,627,803.61

(4) Significant Accounting Policies

(a) Subsidiary Companies

Subsidiaries are considered to be the companies, including those with a special purpose, on which the Parent Company, directly or indirectly through other subsidiaries, exercises control as stated in art. 42 of the Spanish Commercial Code. Control by means of empowerment to manage the financial and operative policies, with the purpose of obtaining a profit from its business activities, considering to these effects, the potential exercisable or convertible voting rights at the accounting year end in hands of the Group or others.

To the effects of presentation and breakdown, Group Companies are considered to be those which are controlled by any means by a sole or group of natural or legal people, which act together or are found by the same management due to agreements or clauses.

Subsidiary companies have been consolidated using the global integration method.

Information of the subsidiary companies included in the Group consolidation can be found in Appendix I.

Revenues, expenses and cash flows of subsidiary companies are included in the interim consolidated financial statements from the acquisition date, which is the date from which the Group effectively obtains the control over them. Subsidiary companies are excluded from the consolidation process from the date on which control is lost.

The transactions and balances maintained with subsidiary companies as well as the related profit or loss, have been eliminated in the consolidation process. However, losses not externally obtained, have been considered as an indicator of value impairment of those assets which have been transmitted.

The accounting policies of the subsidiary companies have been adapted to the Group's accounting policies.

The financial statements of subsidiary companies used in the consolidation process are referred at the same date and period to those of the Group.

(b) Non-controlling interests

Non-controlling interests in subsidiaries are recognised at the acquisition date at the proportional part of the fair value of the identifiable net assets. Non-controlling interests in subsidiaries acquired prior to the transition date were recognised at the proportional part of the equity of the subsidiaries at the date of first consolidation. Non-controlling interests are presented in the interim consolidated balance sheet within equity, separately from equity attributable to the Parent. Non-controlling interests' share in profit or loss for the period is also presented separately in the interim consolidated income statement.

The profit or loss for the year and changes in equity of the subsidiaries attributable to the Group and non-controlling interests, after consolidation adjustments and eliminations, are determined in accordance with the percentage ownership at year end.

(4) Significant Accounting Policies (Continued)

The profit/loss and recognised income and expense of subsidiaries are allocated to equity attributable to the Parent and to non-controlling interests in proportion to their investments, even if this results in a balance receivable from non-controlling interests. Agreements entered into between the Group and non-controlling interests are recognised as a separate transaction.

(c) Business combinations

The Group applies the acquisition method for business combinations.

The acquisition date is the date on which the Group obtains control of the acquiree.

The cost of the business combination is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred or assumed, the equity instruments issued and any consideration contingent on future events or compliance with certain conditions in exchange for control of the business acquired.

The cost of a business combination excludes any payments that do not form part of the consideration given in exchange for the acquired business. Acquisition costs are recognised as an expense when incurred.

The costs of issuing equity and liability instruments do not form part of the cost of the business combination, but are recognised using the measurement criteria applicable to these transactions.

The Group recognises the assets acquired and liabilities assumed at their acquisition-date fair value. Non-controlling interests in the acquiree are recognised at the proportionate interest in the fair value of the net assets acquired. Liabilities assumed include any contingent liabilities that represent present obligations arising from past events for which the fair value can be reliably measured.

The income, expenses and cash flows of the acquiree are included in the interim consolidated financial statements from the acquisition date.

The excess of the cost of the business combination, plus the value assigned to non-controlling interests, over the value of the identifiable net assets of the acquiree is recognised as goodwill under intangible assets if the acquisition has been recognised in the individual annual accounts of the consolidated companies, or as goodwill on consolidation if the acquisition of the business has been included in the interim consolidated financial statements.

(d) Foreign currency transactions, balances and cash flows

(i) Foreign currency transactions, balances and cash flows

Transactions in foreign currency have been converted into euros by applying to the amount in foreign currency, the spot exchange rate at date on which they were performed.

Monetary assets and liabilities denominated in foreign currency have been converted into euros by applying the exchange rate at the year end, while non-monetary assets, valued at historical cost, have been converted by applying the exchange rate at the date on which the transactions took place.

In the presentation of the interim consolidated statement of cash flow, the cash flows from transactions in foreign currency, have been converted to euros by applying to the amount in foreign currency, the spot exchange rate at the date on which they are performed.

The positive and negative differences which appear both, in the liquidation of transactions in foreign currency, and in the conversion to euros of assets and liabilities in foreign currency, are stated in the interim consolidated income statement.

(4) Significant Accounting Policies (Continued)

(ii) Conversion of businesses abroad

The conversion to euros of businesses abroad whose functional currency is not the one from a country which suffers a hyperinflationary economy, has been performed by applying the following criteria:

- Assets and liabilities, including goodwill and the adjustments of net assets derived from the acquisition of businesses, are converted at the exchange rate at the balance closing date.
- Revenues and expenses, are converted at the date of each transaction by the average exchange rate of the period which finishes at the balance sheet date.
- Exchange rate differences as the result of the enforcement of the criteria previously described, are recognized as conversion differences inside the consolidated net equity.

In the interim consolidated statement of cash flow, the cash flows coming from businesses abroad, have been converted to euros by applying to the amount in foreign currency, the exchange rate at the date when they are performed.

The conversion differences registered in the consolidated net equity, are stated in the interim consolidated income statement at the date in which the disposal or disposition in another way of businesses or companies takes place. The disposal can be produced by liquidation, reimbursement of the investment or abandonment. The payment of a dividend represents a disposition in the sense from which it supposes a reimbursement of the investment.

The functional currency of the subsidiary companies located abroad, is the currency from the countries in which they are domiciled.

(e) Intangible assets

Intangible assets are measured at acquisition or production cost. Capitalised production costs are recognised under self-constructed assets in the interim consolidated income statement. Intangible assets are carried at cost, less any accumulated amortisation and impairment.

(i) Goodwill on consolidation

Goodwill on consolidation reflects the excess of the cost of business combination over the acquisition-date fair value of the assets acquired and liabilities and contingent liabilities assumed in the acquisition.

(ii) Research and development

Expenditure on research is recognised as an expense when it is incurred.

The Group capitalises development expenses incurred by each specific project that meets the following conditions:

- Payments attributable to the performance of the project can be measured reliably.
- The allocation, assignment and timing of costs for each project are clearly defined.
- There is evidence of the project's technical success, in terms of direct operation or sale to a third party of the results thereof once completed and if a market exists.
- The economic and commercial feasibility of the project is reasonably assured.
- Financing to develop the project, the availability of adequate technical and other resources to complete the development and to use or sell the resulting intangible asset are reasonably assured.
- There is an intention to complete the intangible asset for its use or sale.

Development expenditure is reclassified under patents, licences, trademarks and similar rights at the date of registration. Capitalised costs are amortised on a straight-line basis over a period of five years.

(4) Significant Accounting Policies (Continued)

When there are reasonable doubts as to the technical success or economic and commercial feasibility of capitalised projects, the amounts in the balance sheet are recognised directly as a loss for the period.

(iii) Industrial property

Industrial property includes the cost of obtaining different patents, trademarks or similar rights and is amortised on a straight-line basis over a period of 10 years.

(iv) Computer software

Computer software acquired and produced by the Group, including website costs, is recognised when it meets the conditions for consideration as development costs. Computer software maintenance costs are charged as expenses when incurred. Computer software maintenance costs are amortised on a straight-line basis over a period of four years.

(v) Subsequent costs

Subsequent costs incurred on intangible assets are recognised in the interim consolidated income statement, unless they increase the expected future economic benefits attributable to the intangible asset.

(vi) Useful life and amortisation rates

Development expenditure is amortised on a straight-line basis from the date on which the project is completed.

The depreciable amount of intangible assets is measured as the cost of the asset, less any residual value.

The Group reviews the residual value, useful life and amortisation method for intangible assets at each year end. Changes to initially established criteria are accounted for as a change in accounting estimates.

(vii) Impairment losses

The Group measures and determines impairment to be recognised or reversed based on the criteria in section (h) Impairment of non-financial assets subject to amortisation or depreciation.

(f) Property, plant and equipment

(i) Initial recognition

Property, plant and equipment are measured at cost of acquisition or production. Property, plant and equipment are carried at cost less any accumulated depreciation and impairment.

Items of property, plant and equipment recognised prior to 31 December 1996 are carried at a revalued amount as permitted by pertinent legislation.

Spare parts used to replace similar parts in facilities, equipment and machinery are measured applying the aforementioned criteria. Parts with a warehouse cycle of less than one year are recognised as inventories. Parts with a warehouse cycle of more than one year and which are related to certain specific assets are recognised and depreciated on a systematic basis consistent with the depreciation policy for the assets in question, and those not related to specific assets are recognised as other fixed assets and depreciated using the same process as for the part to be replaced, if this can be identified. In general, these latter spare parts are depreciated from the date they are incorporated into the asset, considering their technical obsolescence and the weighted technical or economic useful life of the assets in which they are to be incorporated.

Non-current investments in property held by the Group under operating leases are classified as property, plant and equipment. Assets are depreciated over the shorter of the lease term and their useful life.

(4) Significant Accounting Policies (Continued)

(ii) Depreciation

Property, plant and equipment are depreciated by allocating the depreciable amount of the asset on a systematic basis over its useful life. The depreciable amount is the cost of an asset, less its residual value. The Group determines the depreciation charge separately for each component of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the asset and with a useful life that differs from the remainder of the asset.

Property, plant and equipment are depreciated using the following criteria:

	Depreciation method	Estimated years of useful life
Buildings	Straight-line	33.33–50
Technical installations and machinery	Straight-line	5.55–10
Other installations, equipment and furniture	Straight-line	3.33–10
Motor vehicles	Straight-line	6.25
Information technology equipment	Straight-line	4
Other property, plant and equipment	Straight-line	5–6.66

The Group reviews residual values, useful lives and depreciation methods at each year end. Changes to initially established criteria are accounted for as a change in accounting estimates.

(iii) Subsequent costs

Subsequent to initial recognition of the asset, only the costs incurred which increase capacity or productivity or which lengthen the useful life of the asset are capitalised. The carrying amount of parts that are replaced is derecognised. Costs of day-to-day servicing are recognised in the interim consolidated income statement as incurred.

(iv) Impairment

The Group measures and determines impairment to be recognised or reversed based on the criteria in section (h) Impairment of non-financial assets subject to amortisation or depreciation.

(g) Investment property

The Group classifies under this heading all investment property, including those in progress or under development, which are totally or partially destined to obtain rental revenues, capital gains or both, instead from its use in the production or supplying process of goods and services, or for administrative activities of the Group or its disposal in the current fiscal year.

The Group recognizes and appraise investment property, following the established criteria for fixed assets.

(4) Significant Accounting Policies (Continued)

Depreciation of Investment property is determined by the application of the criteria mentioned below:

	Depreciation method	Estimated years of useful life
Buildings	Straight-line	30–50

(h) Impairment of non-financial assets subject to amortisation or depreciation

At least at the end of each reporting period, the Group assesses whether there is any indication that its non-current assets or cash-generating units may be impaired. If any such indication exists, it estimates the recoverable amounts of these items.

The recoverable amount is the higher of fair value less costs to sell and value in use. An asset is impaired when its carrying amount exceeds its recoverable amount. Value in use is the present value of the expected future cash flows, discounted at a risk-free market interest rate and adjusted for any risks specific to the asset. For assets which do not generate cash flows that are largely independent of those from other assets or groups of assets, the recoverable amount is determined for the cash-generating units to which these assets belong.

Impairment losses are recognised in the interim consolidated income statement.

(i) Leases

(i) Lessee accounting

Leases in which, upon inception, the Group assumes substantially all the risks and rewards incidental to ownership are classified as finance leases, otherwise they are classified as operating leases.

- *Finance leases*

At the commencement of the lease term, the Group recognises finance leases as assets and liabilities at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Initial direct costs are added to the asset's carrying amount. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. Interest is expensed using the effective interest method.

Contingent rents are recognised as an expense when it is probable that they will be incurred.

The accounting policies applied to the assets used by the Group by virtue of finance lease contracts are the same as those set out in section (f). However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the assets are fully depreciated over the shorter of the lease term and their useful lives.

- *Operating leases*

Lease payments under an operating lease, net of incentives received, are recognised as an expense on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the lease's benefit.

Contingent rents are recognised as an expense when it is probable that they will be incurred.

(j) Financial instruments

(i) Classification and separation of financial instruments

Financial instruments are classified on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the economic substance of the contractual arrangement and the definitions of a financial asset, a financial liability and an equity instrument.

(4) Significant Accounting Policies (Continued)

The Group classifies financial instruments into different categories based on the nature of the instruments and the Group's intentions on initial recognition.

(ii) Loans and receivables

Loans and receivables comprise trade and non-trade receivables with fixed or determinable payments that are not quoted in an active market other than those classified in other financial asset categories. These assets are initially recognised at fair value, including transaction costs, and are subsequently measured at amortised cost using the effective interest method.

Nevertheless, financial assets which have no established interest rate, which mature or are expected to be received in the short term, and for which the effect of discounting is immaterial, are measured at their nominal amount.

The Group measures loans and receivables at amortised cost provided that reliable cash flow estimates can be made based on contractual terms.

(iii) Interest and dividends

Interest is recognised using the effective interest method.

Dividends from investments in equity instruments are recognised when the Group is entitled to receive them. If the dividends are clearly derived from profits generated prior to the acquisition date because amounts higher than the profits generated by the investment since acquisition have been distributed, the carrying amount of the investment is reduced.

(iv) Derecognition of financial assets

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received, net of transaction costs, including any new asset obtained less any new liability assumed and any cumulative gain or loss deferred in recognised income and expense, is recorded in interim consolidated income statement.

(v) Investments in group companies excluded from the scope of consolidation

Investments in group companies are initially recognized at cost, which is equivalent to the fair value of the consideration paid, and are subsequently valued at cost, less the accumulated amount of impairment losses. Investments in group companies acquired prior to 1 January 2010 include the transaction costs incurred in the cost of acquisition.

(vi) Impairment of financial assets

A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and the event or events have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group recognises impairment of loans and receivables and debt instruments when estimated future cash flows are reduced or delayed due to debtor insolvency.

Impairment of financial assets carried at amortised cost

The amount of the impairment loss of financial assets carried at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows

(4) Significant Accounting Policies (Continued)

(excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. For variable income financial assets, the effective interest rate corresponding to the measurement date under the contractual conditions is used.

The impairment loss is recognised in interim consolidated income statement and may be reversed in subsequent periods if the decrease can be objectively related to an event occurring after the impairment has been recognised. The loss can only be reversed to the limit of the amortised cost of the assets had the impairment loss not been recognised.

(vii) Financial liabilities

Financial liabilities, including trade and other payables, that are not classified as held for trading or as financial liabilities at fair value through the interim consolidated income statement are initially recognised at fair value less any transaction costs directly attributable to the issue of the financial liability. After initial recognition, liabilities classified under this category are measured at amortised cost using the effective interest method.

Nevertheless, financial liabilities which have no established interest rate, which mature or are expected to be settled in the short term, and for which the effect of discounting is immaterial, are measured at their nominal amount.

The Group measures financial liabilities at amortised cost provided that reliable estimates of cash flows can be made based on the contractual terms.

(viii)Reverse factoring

The Group has contracted reverse factoring facilities with various financial institutions to manage payments to suppliers. Trade payables settled under the management of financial institutions are recognised under trade and other payables in the balance sheet until they are settled, repaid or have expired.

(ix) Security deposits

Security deposits paid are measured using the same criteria as for financial assets.

(x) Derecognition and modifications of financial liabilities

The Group derecognises all or part of a financial liability when it either discharges the liability by paying the creditor, or is legally released from primary responsibility for the liability either by process of law or by the creditor.

The difference between the carrying amount of a financial liability, or part of a financial liability, extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the interim consolidated income statement. If the Group transfers non-monetary assets in settlement of the debt, the difference between their fair value and their carrying amount is recognised as results from operating activities, and the difference between the value of the debt being settled and the fair value of the assets as net finance income/cost. If the Group transfers inventories, the corresponding sale transaction is recognised at their fair value and the change in inventories at their carrying amount.

(k) Inventories

(i) General

Inventories are initially measured at cost of purchase or production.

(4) Significant Accounting Policies (Continued)

The purchase price comprises the amount invoiced by the seller, after deduction of any discounts, rebates or other similar items, such as interest incorporated into the nominal amount, plus any additional costs incurred to bring the goods to a saleable condition and other costs directly attributable to the acquisition and indirect taxes not recoverable from the Spanish taxation authorities.

Trade discounts are recognised as a reduction in the cost of inventories when it is probable that the conditions for discounts to be received will be met. Unallocated discounts are recognised as a decrease on the purchase.

Purchase returns are recognised as a reduction in the carrying amount of inventories returned, except where it is not feasible to identify these items, in which case they are accounted for as a reduction in inventories.

Sales returns are recognised at purchase price or cost of production, except where the net realisable value is lower, in which case they are recognised at that amount.

The production cost of inventories comprises the purchase price of raw materials and consumables, costs directly related to the units of production and systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. The allocation of fixed indirect overheads is based on the higher of normal production capacity or actual production.

Advances on account of inventories are measured at cost.

The cost of raw materials, other supplies and merchandise is allocated to each inventory unit on a weighted average cost basis.

When the cost of inventories exceeds net realisable value, materials are written down to net realisable value. For these purposes, net realisable value is understood as follows:

- For raw materials and other supplies, replacement cost. Raw materials and other supplies are not written down below cost if the finished goods in which they will be incorporated are expected to be sold at or above cost of production;
- For merchandise and finished goods, estimated selling price less costs to sell;
- For work in progress, estimated selling price of the related finished goods, less the estimated costs of completion and the estimated costs necessary to make the sale;

The previously recognised write-down is reversed against the interim consolidated income statement when the circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances. The reversal of the valuation adjustment is limited to the lower of the cost and the revised net realisable value of the inventories.

Write-downs to net realisable value recognised or reversed on inventories are classified under changes in inventories of finished goods and work in progress or supplies, depending on their nature.

(ii) Emission allowances

Emission allowances, which are recognised when the Group becomes entitled to such allowances, are measured at cost of acquisition or production under raw materials and other supplies. Emission allowances which are expected to be consumed within a period of more than one year are recognised under raw materials and other supplies—long cycle. Emission allowances acquired through an onerous contract are accounted for by applying the same criteria as for inventories. Allowances acquired free of charge, or, at a price substantially lower than fair value, are carried at fair value. Any difference between fair value and the consideration given is recognised as a non-refundable grant associated with the emission allowances and credited to equity. These grants are recognised as income and matched with the associated costs which the grants are intended to compensate, using the same criteria as for capital grants.

(4) Significant Accounting Policies (Continued)

Emission allowances deriving from a certified emission reduction or an emission reduction unit, generated through clean development mechanisms or joint implementation projects, are carried at cost of production.

Provision is systematically made under current provisions for liabilities and charges for expenses related to the emission of greenhouse gases. This provision is maintained until the obligation is cancelled, through the conveyance of the corresponding allowances. Provisions released or surplus provisions reversed are recognised as operating income. The provision is determined on the basis that it will be cancelled, as follows:

- Firstly, through allocated emission allowances, which are then used to cancel actual emissions in proportion to total forecast emissions for the entire period to which they have been allocated. The expense corresponding to this part of the obligation is determined based on the carrying amount of the transferred emission allowances;
- Secondly, through the remaining emission allowances recorded. Expenditure on this part of the obligation is measured as the weighted average cost of the emission allowances.

  If the emission of gases necessitates the acquisition or production of emission allowances because actual emissions exceed those which can be cancelled through the allocated emission allowances, or through surplus emission allowances, whether acquired or produced. Provision is made for the shortfall in allowances. The expense is determined using the best estimate of the amount necessary to cover the shortfall in emission allowances.

(l) Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits in financial institutions. They also include other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. An investment normally qualifies as a cash equivalent when it has a maturity of less than three months from the date of acquisition.

The Group recognises cash payments and receipts for financial assets and financial liabilities in which turnover is quick on a net basis in the statement of cash flows. Turnover is considered to be quick when the period between the date of acquisition and maturity does not exceed six months.

(m) Grants, donations and bequests

Grants are recorded in recognised income and expense when, where applicable, they have been officially awarded, the conditions attached to them have been met or there is reasonable assurance that they will be received.

Monetary grants are measured at the fair value of the sum received, whilst non-monetary grants received are accounted for at the fair value of the asset received.

In subsequent years, grants are recognised as income as they are applied.

Capital grants are recognised as income over the same period and in the proportions in which depreciation on those assets is charged or when the assets are disposed of, derecognised or impaired.

Grants awarded to finance specific expenses are recognised as income when the financed expenses are accrued.

(n) Provisions

Provisions are recognised when the Group has a present obligation (legal, contractual, constructive or tacit) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

(4) Significant Accounting Policies (Continued)

If it is not probable that an outflow of resources will be required to settle an obligation, the provision is reversed.

(o) Revenue from the sale of goods and rendering of services

Revenue from the sale of goods or services is measured at the fair value of the consideration received or receivable. Volume rebates, prompt payment and any other discounts, as well as the interest added to the nominal amount of the consideration, are recognised as a reduction in the consideration.

Discounts granted to customers are recognised as a reduction in sales revenue when it is probable that the discount conditions will be met.

Advances on account of future sales are measured at the value received.

(i) Revenue from sales

The Group recognises revenue from the sale of goods when:

- It has transferred to the buyer the significant risks and rewards of ownership of the goods;
- It retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue and the costs incurred or to be incurred can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

(p) Income tax

The income tax expense or tax income for the year comprises current tax and deferred tax.

Current tax assets or liabilities are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantially enacted at the reporting date.

Current and deferred tax are recognised as income or an expense and included in the interim consolidated income statement for the year, except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different year, directly in equity, or from a business combination.

The Company files consolidated tax returns with Obinesa, S.L. (Parent) and other Group companies until 2017.

In addition to the factors to be considered for individual taxation, set out previously, the following factors were taken into account when determining the accrued income tax expense for the companies which formed the consolidated tax group:

- Temporary and permanent differences which arose from the elimination of profits and losses on transactions between Group companies, derived from the process of determining consolidated taxable income.
- Deductions and credits corresponding to each company which formed the consolidated tax group. For these purposes, deductions and credits were allocated to the company that carried out the activity or obtained the profit necessary to obtain the right to the deduction or tax credit.

Temporary differences which arose from the elimination of profits and losses on transactions between tax group companies were allocated to the company which recognised the profit/loss and are were valued using the tax rate of that company.

(4) Significant Accounting Policies (Continued)

A reciprocal credit and debit which arose between the companies that contribute tax losses to the consolidated Group and the rest of the companies that offset those losses. Where a tax loss cannot be offset by the other consolidated Group companies, these tax credits for loss carry forwards were recognised as deferred tax assets using the applicable recognition criteria, considering the tax group as a taxable entity.

The Parent of the Tax Group recorded the total consolidated income tax payable (recoverable) with a debit (credit) to receivables (payables) from/to Group companies and associates.

The amount of the debt (credit) relating to the subsidiaries was recognised with a credit (debit) to payables (receivables) to/from Group companies and associates.

(i) Recognition of deferred tax liabilities

The Group recognises deferred tax liabilities in all cases except:

- where they arise from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable income;
- where they correspond to taxable temporary differences related to investments in subsidiaries, associates and jointly-controlled entities over which the Group has the ability to control the moment of its reversal and it is not probable that its reversal will occur in the foreseeable future.

(ii) Recognition of deferred tax assets

The Group recognises deferred tax assets provided that:

- it is probable that sufficient taxable income will be available against which they can be utilised or when tax legislation envisages the possibility of converting deferred tax assets into a receivable from public entities in the future. However, the assets arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and at the date of the transaction do not affect either the accounting result or the taxable income, are not recognized;
- they correspond to deductible temporary differences related to investments in subsidiaries, associates and jointly-controlled entities, to the extent that the temporary differences will revert in the foreseeable future and it is expected to generate future tax profits in order to offset the differences.

The Group recognises the payment obligation deriving from financial contributions as an operating expense with a credit to payables to public entities when it is accrued in accordance with the Spanish Income Tax Law.

In the absence of evidence to the contrary, it is not considered probable that the Group will have future taxable profit when the deferred tax assets are expected to be recovered in a period of more than ten years from the end of the reporting period, irrespective of the nature of the deferred tax asset; or, in the case of tax credits for deductions and other tax relief that are unused due to an insufficient amount of total tax, when there is reasonable doubt—after the activity or the income giving rise to entitlement to the deduction or tax credit has been rendered or received, respectively—as to whether the requirements for their offset will be met.

The Group only recognises deferred tax assets arising from tax loss carry forwards when it is probable that future taxable profit will be generated against which they may be offset within the period stipulated in applicable tax legislation, up to a maximum period of ten years, unless there is evidence that their recovery in a longer period of time is probable and tax legislation provides for their utilisation in a longer period or stipulates no time limit for their utilisation.

Conversely, it is considered probable that the Group will generate sufficient taxable profit to recover deferred tax assets when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which are expected to reverse in the same tax period as the expected

(4) Significant Accounting Policies (Continued)

reversal of the deductible temporary differences or in periods into which a tax loss arising from a deductible temporary difference can be carried back or forward.

The Group recognises deferred tax assets not previously recognised because they were not expected to be utilised within the ten-year recovery period, inasmuch as the future reversal period does not exceed ten years from the end of the reporting period or when there are sufficient taxable temporary differences.

(iii) Measurement of deferred tax assets and liabilities

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the years when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted. The tax consequences that would follow from the manner in which the Group expects to recover or settle the carrying amount of its assets or liabilities are also reflected in the measurement of deferred tax assets and liabilities.

(iv) Classification

Deferred tax assets and liabilities are recognised in the interim consolidated balance sheet under non-current assets or liabilities, irrespective of the expected date of recovery or settlement.

(q) Classification of assets and liabilities as current and non-current

Assets and liabilities are classified as current and non-current based on the Group's normal operating cycle, which is no more than twelve months.

(r) Environmental issues

The Group takes measures to prevent, reduce or repair the damage caused to the environment by its activities.

Expenses derived from environmental activities are recognised as other operating expenses in the period in which they are incurred. Nonetheless, the Group recognises environmental provisions and, where applicable, reimbursement rights by applying the general criteria described in the section on provisions.

Property, plant and equipment acquired by the Group for long-term use to minimise the environmental impact of its activity and protect and improve the environment, including the reduction and elimination of future pollution from the Group's activities, are recognised as assets applying the measurement, presentation and disclosure criteria described in section (f) Property, plant and equipment.

(s) Transactions between Mosaiq Group companies excluded from the consolidation group

Transactions between Mosaiq Group companies excluded from the consolidation group, except those related to mergers, spin-offs and non-monetary contributions, are recognised at the fair value of the consideration given or received. The difference between this value and the amount agreed is recognised in line with the underlying economic substance of the transaction.

(5) Intangible Assets

Details of intangible assets, except goodwill, and movement are as follows:

	Euros		
At June 30, 2018	**Patents, licences, trademarks and similar rights**	**Computer software**	**Total**
Cost at January 1, 2018	77,885	5,863,065	**5,940,950**
Additions	—	134	**134**
Cost at June 30, 2018	77,885	5,863,199	**5,941,084**
Accumulated amortisation at January 1, 2018	(72,966)	(5,678,977)	**(5,751,943)**
Amortisation	(250)	(49,777)	**(50,027)**
Accumulated amortisation at June 30, 2018	(73,216)	(5,728,754)	**(5,801,970)**
Carrying amount at June 30, 2018	**4,669**	**134,445**	**139,114**

	Euros		
At December 31, 2017	**Patents, licences, trademarks and similar rights**	**Computer software**	**Total**
Cost at January 1, 2017	72,885	5,816,454	**5,889,339**
Additions	5,000	46,736	**51,736**
Disposals	—	(125)	**(125)**
Cost at December 31, 2017	77,885	5,863,065	**5,940,950**
Accumulated amortisation at January 1, 2017	(72,882)	(5,570,414)	**(5,643,296)**
Amortisation	(84)	(108,688)	**(108,772)**
Disposals	—	125	**125**
Accumulated amortisation at December 31, 2017	(72,966)	(5,678,977)	**(5,751,943)**
Carrying amount at December 31, 2017	**4,919**	**184,088**	**189,007**

(a) Development

In 2018 and 2017, the Group has not capitalised any research and development expenditure.

At June 30, 2018, the Group has recognised an amount of Euros 6,782 for research expenditure in the interim consolidated income statement (Euros 29,500 at June 30, 2017).

(b) Fully amortised assets

The cost of fully amortised intangible assets in use is as follows:

	Euros	
	At June 30, 2018	**At December 31, 2017**
Trademarks and industrial property	61,409	61,409
Computer software	5,540,883	5,540,883
	5,602,292	**5,602,292**

(6) Goodwill, Goodwill from Consolidated Companies and Value Impairment

Goodwill on consolidation arises as the consequence of the existent excess, between the cost of business combination derived from the acquisition by the Group of the 99,89% of the shares of the subsidiary company Atlantic Tiles, and the corresponding identifiable net assets' value of the acquiree.

At June 30, 2018 and December 31, 2017, the net book value of the goodwill on consolidation is zero, having recorded an impairment for an amount of Euros 266,000 in 2017.

During 2017 and 2016, the Group has impaired the Goodwill arising from the business combination after evaluating the negative evolution of the business, sales and results, and the future forecasts that do not contemplate the recovery of the mentioned asset.

(7) Property, Plant and Equipment

Details of property, plant and equipment and movements are shown in Appendix II.

(a) General

The net amount pending depreciation of property, plant and equipment from the increased value recorded in 1996 in accordance with Royal Decree-Law 7/1996 of 7 June 1996, amounts to Euros 259.386 and Euros 270.996 at June 30, 2018 and December 31, 2017, respectively.

(b) Property, plant and equipment acquired from Group companies

Property, plant and equipment acquired from Mosaiq Group companies at June 30, 2018 mainly reflect land and buildings with a carrying amount of Euros 3,839,872 (Euros 3,933,074 at December 31, 2017) and other installations, furniture and fixtures of Euros 333,137 (Euros 369,184 at December 31, 2017).

(c) Property, plant and equipment located outside Spain

Property, plant and equipment located outside Spain is the following:

	Euros		
At June 30,2018	**Cost**	**Accumulated amortisation**	**Net Value**
Land and buildings	139,003	(112,608)	**26,395**
Technical installations and other fixed assets	822,876	(812,371)	**10,505**
	961,879	**(924,979)**	**36,900**

	Euros		
At December 31, 2017	**Cost**	**Accumulated amortisation**	**Net Value**
Land and buildings	139,003	(105,244)	**33,759**
Technical installations and other fixed assets	822,239	(808,249)	**13,990**
	961,242	**(913,493)**	**47,749**

(7) Property, Plant and Equipment (Continued)

(d) Fully depreciated assets

Details of the cost of fully depreciated property, plant and equipment in use are as follows:

	Euros	
	At June 30, 2018	At December 31, 2017
Buildings	1,661,019	1,655,095
Technical installations and machinery	52,992,761	52,880,803
Other installations, equipment and furniture	16.648,482	15,564,505
Other property, plant and equipment	6,437,737	6,430,134
	77,739,999	**76,530,537**

(e) Government grants received

At June 30, 2018 the acquisition of certain assets classified as buildings, technical installations and machinery and other items with a carrying amount of Euros 2,245,311 (Euros 2,328,458 at December 31, 2017), was partially financed through grants.

(f) Insurance

The Group has taken out insurance policies to cover the risk of damage to its property, plant and equipment. The coverage of these policies is considered to be sufficient at June 30, 2018 and December 31, 2017.

(8) Investment property

At December 31, 2017, the details of Investment property and movement are as follows:

	Euros		
	Land	Buildings	Total
Cost at January 1, 2017	955,682	1,332,298	**2,287,980**
Additions	—	—	**—**
Disposals	(955,682)	(1,332,298)	**(2,287,980)**
Cost at December 31, 2017	—	—	**—**
Accumulated depreciation at January 1, 2017	—	(931,437)	**(931,437)**
Depreciation	—	(31,817)	**(31,817)**
Disposals		963,254	**963,254**
Accumulated depreciation at December 31, 2017	—	—	**—**
Carrying amount at December 31, 2017	—	—	**—**

The disposals in 2017, mainly correspond to investment properties which were subject to mortgage guarantees of debts with financial institutions that signed the refinancing agreements granted to the Mosaiq Group in previous years, and that in accordance to what is stated in those agreements, have been disposed of along with its associated debt (see note 19.c). The disposals in 2017 have represented a profit of Euros 749 thousand, which has been registered in the second half of 2017.

(9) Finance Leases—Lessee

At June 30, 2018 and December 31, 2017, the Group has leased the following types of assets under finance leases:

	Euros	
	Other property, plant and equipment	Total
Initially recognised at:		
Fair value	394,388	**394,388**
Accumulated depreciation and impairment losses	(136,940)	**(136,940)**
Carrying amount at June 30, 2018	257,448	**257,448**
Initially recognised at:		
Fair value	394,388	**394,388**
Accumulated depreciation and impairment losses	(105,390)	**(105,390)**
Carrying amount at December 31, 2017	288,998	**288,998**

At June 30, 2018 and December 31, 2017, future minimum lease payments were reconciled with their present value as follows:

	Euros	
	At June 30, 2018	At December 31, 2017
Future minimum payments	169,565	217,465
Purchase option	53,545	53,545
Unaccrued finance costs	(11,571)	(17,405)
Present value	**211,539**	**253,605**

At June 30, 2018 and December 31, 2017, details of minimum payments and the present value of finance lease liabilities, by maturity date, are as follows:

	Euros			
	At June 30, 2018		At December 31, 2017	
	Minimum payments	Present value	Minimum payments	Present value
Less than one year	97,041	88,699	96,605	86,036
One to five years	126,069	122,840	174,405	167,569
	223,110	211,539	271,010	253,605
Less current portion	(97,041)	(88,699)	(96,605)	(86,036)
Total non-current	**126,069**	**122,840**	**174,405**	**167,569**

Finance lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

(10) Operating Leases—Lessee

Operating leases mainly relate to commercial premises used for the sale and distribution of Group products. The remaining operating leases are on vehicles, forklifts and IT equipment.

(10) Operating Leases—Lessee (Continued)

Operating lease payments have been recognised as an expense for the year as follows:

	Euros	
	At June 30, 2018	At June 30, 2017
Minimum lease payments	888,882	891,970

Future minimum payments under non-cancellable operating leases are as follows:

	Euros	
	At June 30, 2018	At December 31, 2017
Less than one year	1,376,860	1,249,063
One to five years	2,355,034	2,309,882
	3,731,894	**3,558,945**

(11) Risk Management Policy

(a) Financial risk factors

The Group's activities are exposed to various financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk, and cash flow interest rate risk. The Group's global risk management programme focuses on uncertainty in the financial markets and aims to minimise potential adverse effects on the Group's profits.

During the six months period ended June 30, 2018 and during 2017 risks were managed by the Finance Management of the Mosaiq Group. This Management identifies, evaluates and mitigates financial risks in close collaboration with the Group's operational units. Since the acquisition mentioned in note 27 risks are managed by the Victoria Group.

(i) Currency risk

Currency risk is the risk of possible losses due to changes in the fair value of and cash flows from financial instruments as a result of exchange rate fluctuations. The Group's exposure to exchange rate fluctuations arises mainly from sales performed, assets and liabilities in currencies other than the functional currency.

The Group makes sales in Euros, US Dollars and Pounds Sterling.

The Treasury Department is responsible for managing the net position in each foreign currency.

(ii) Credit risk

The Group has policies to limit the amount of risk with any one financial institution and manages its customer portfolio adequately.

Valuation allowances for bad debts and the review of individual balances based on customers' credit ratings require a high degree of judgement. The credit rating of the country, based on information provided by external agencies, is used to calculate the individual country-specific valuation allowance for bad debts.

The Group has set up an on-line consultation service with a specialised agency to assess customers' credit risk.

The Group has also contracted several credit insurance policies to cover export and domestic sales, which cover at a coverage rate between 95% and 85%, respectively, on the credit limits approved by insurance companies.

(11) Risk Management Policy (Continued)

For uninsured customers, the Group may grant credit limits in cases or circumstances where it considers appropriate.

(iii) Liquidity risk

The Group applies a prudent policy to cover its liquidity risks based on having sufficient cash and marketable securities, as well as sufficient financing through credit facilities, to settle market positions. The management of the Group regularly monitors liquidity forecasts based on expected cash flows. Group policy is to invest cash surpluses in short-term, non-speculative and highly liquid instruments, through leading financial institutions.

(iv) Cash flow and fair value interest rate risks

Income and cash flows from the Group's operating activities are not significantly affected by fluctuations in market interest rates.

Interest rate risk arises mainly from non-current borrowings.

(12) Financial Assets by Category

(a) Classification of financial assets by category

At June 30, 2018 and December 31, 2017 all financial assets are loans, receivables, and equity investments. The carrying amount of financial assets does not differ significantly from their fair value.

(i) Net losses and gains by category of financial assets

Net losses and gains by category of financial asset are as follows:

	Euros	
	Loans and receivables	**Total**
For the six months period ended June 30, 2018		
Finance income at amortised cost	20,546	**20,546**
Impairment losses	(77,006)	**(77,006)**
Impairment reversals	79,795	**79,795**
Net gains/(losses) in the interim consolidated income statement	23,335	**23,335**
Total	23,335	**23,335**

	Euros	
	Loans and receivables	**Total**
For the six months period ended June 30, 2017		
Finance income at amortised cost	94,716	**94,716**
Impairment losses	(337,121)	**(337,121)**
Impairment reversals	179,311	**179,311**
Net gains/(losses) in the interim consolidated income statement	(63,094)	**(63,094)**
Total	(63,094)	**(63,094)**

(13) Investments, Trade and other receivables

(a) Investments in Group companies and associates

At June 30, 2018 and December 31, 2017 current investments in Group companies and associates reflect the current account with the Mosaiq Group companies and include amounts extended to the parent of the Mosaiq Group, derived from the centralised cash management of the companies of the Mosaiq Group. In 2017, and as part of the Framework Refinancing Agreement entered into in 2017 (see note 19.c), the Company assigned receivables from a Mosaiq Group companies to the parent of the Mosaiq Group, and when dividends were declared by the Company, these were compensated against the receivables previously assigned.

At June 30, 2018 and December 31, 2017 non-current investments in Group companies include a loan formalized by a subsidiary company with Obinesa, S.L. amounting to Euros 1,647 thousand. Such credit had a duration of five years, accrued interest pegged to Euribor plus a market spread. This transaction was carried out as part of the Framework Refinancing Agreement entered into in 2017 (see note 19.c).

At December 31, 2017 Equity instruments includes the 18.74% investment in Activos Clys, S.A. During the six months period ended June 30, 2018 the Company has partially sold this investment obtaining a profit of Euros 66 thousand.

(b) Trade and other receivables

Details of trade and other receivables are as follows:

	Euros	
	At June 30, 2018	At December 31, 2017
	Current	Current
Group		
Trade receivables	4,475,620	2,859,154
Unrelated parties		
Trade receivables	43,696,906	38,664,856
Other receivables	191	7,463
Personnel	104,763	93,192
Public Administration	13,964	160,789
Impairment	(13,453,152)	(13,462,144)
Total	**34,838,292**	**28,323,310**

Trade receivables include discounted notes pending maturity of Euros 3,410,932 at December 31, 2017 (none as at June 30, 2018).

(c) Impairment

An analysis of the changes in allowance accounts related to impairment of financial assets measured at amortised cost due to credit risk is as follows:

	Euros	
	At June 30, 2018	
	Trade receivables	Total
Current		
Balance at January 1, 2018	(13,462,144)	**(13,462,144)**
Charges	(70,803)	**(70,803)**
Reversals	79,795	**79,795**
Balance at June 30, 2018	**(13,453,152)**	**(13,453,152)**

(13) Investments, Trade and other receivables (Continued)

	Euros	
	At December 31, 2017	
	Trade receivables	Total
Current		
Balance at January 1, 2017	(13,329,980)	**(13,329,980)**
Charges	(362,971)	**(362,971)**
Reversals	230,807	**230,807**
Balance at December 31, 2017	**(13,462,144)**	**(13,462,144)**

The Group recognised additional losses on bad trade debts of Euros 6,203 in the six-month period ended to June 30, 2018, and Euros 183,855 at December 31, 2017.

(d) Classification by maturity

At June 30, 2018 all of the financial assets mature in the short term, except for Euros 125.929 in other financial assets, which mature in 2019, and the loan to Obinesa, S.L. whose maturity date is 2022. In July 2018, these loans have been cancelled.

(e) Amounts denominated in foreign currencies

Details of monetary financial assets denominated in foreign currencies are as follows:

	Euros		
At June 30, 2018	US Dollar	Pound Sterling	Total
Trade and other receivables			
Trade receivables—current	1,041,201	722,954	**1,764,155**
Personnel	—	18,505	**18,505**
Current Investments			
Other Financial assets	—	—	**—**
Cash and cash equivalents			
Cash	156,839	143,232	**300,071**
Total current financial assets	1,198,040	884,691	**2,082,731**
Total financial assets	**1,198,040**	**884,691**	**2,082,731**

	Euros		
At December 31, 2017	US Dollar	Pound Sterling	Total
Trade and other receivables			
Trade receivables—current	612,314	570,061	**1,182,375**
Personnel	—	17,491	**17,491**
Current Investments			
Other Financial assets	—	43,106	**43,106**
Prepayments for current assets	—	45,436	**45,436**
Cash and cash equivalents			
Cash	69,957	33,657	**103,614**
Total current financial assets	682,271	709,751	**1,392,022**
Total financial assets	**682,271**	**709,751**	**1,392,022**

(13) Investments, Trade and other receivables (Continued)

Details of exchange differences recognised in profit or loss in relation to financial instruments, except those measured at fair value through the interim consolidated income statement, distinguishing between settled and outstanding transactions are as follows:

	Euros			
	For the six months ending June 30, 2018		For the six months ending June 30, 2017	
	Settled	Outstanding	Settled	Outstanding
Trade and other receivables				
Trade receivables—current	15,317	37,613	(22,555)	(20,910)
Trade receivables from Group companies and associates—current	—	(6,843)	—	(15,230)
Total current financial assets	**15,317**	**30,770**	**(22,555)**	**(36,140)**
Total financial assets	**15,317**	**30,770**	**(22,555)**	**(36,140)**

(14) Inventories

(a) General

Detail of inventories are as follows:

	Euros	
	At June 30, 2018	At December 31, 2017
Goods for resale	10,147,978	11,485,830
Raw materials and other supplies	2,779,258	2,446,559
Work in progress and semi-finished goods	703,116	624,411
Finished goods	23,424,336	19,841,631
Impairment	(2,730,381)	(2,538,002)
	34,324,307	**31,860,429**

Detail of value impairment of inventories are as follows:

	Euros	
	At June 30, 2018	At December 31, 2017
Goods for resale	(692,844)	(692,844)
Raw materials and other supplies	(95,086)	(95,086)
Finished goods	(1,942,451)	(1,750,072)
	(2,730,381)	**(2,538,002)**

The carrying amount of goods for resale, finished goods and work in progress is Euros 31,640 thousand (Euros 29,509 thousand in 2017). During the six-month period to June 30, 2018 the Group has registered expenses due to impairment for a total amount of Euros 192 thousand (an expense due to impairment of Euros 289 thousand in 2017).

(14) Inventories (Continued)

(b) Emission allowances

Emission allowances recognised as raw materials and other supplies are as follows:

	Euros	
	At June 30, 2018	At December 31, 2017
Emission allowances—short cycle	444,880	**281,401**
	444,880	**281,401**

Movements in emission allowances are as follows:

	Euros	
	At June 30, 2018	At December 31, 2017
Cost at 1 January	281,401	284,342
Additions due to onerous acquisition	44,325	74,200
Additions due to free-of-charge acquisition	442,721	203,398
Disposals due to application	(323,567)	(280,539)
Cost at balance sheet date	444,880	281,401
Valuation allowance at balance sheet date	—	—
Carrying amount at balance sheet date	**444,880**	**281,401**

At June 30, 2018 Euros 445 thousand (Euros 281 thousand in 2017) was paid to public entities with a charge to the provision for emission allowances.

Details of emission allowances allocated during the trading period and their annual distribution are as follows:

	At June 30, 2018			
	Number of allowances		Euros	
	Free of charge	Interest-bearing	Free of charge	Interest-bearing
2018	38,364	—	442,721	—
2019	37,591	—	—	—
2020	36,817	—	—	—
Total	**112,772**	**—**	**442,721**	**—**

	At December 31, 2017			
	Number of allowances		Euros	
	Free of charge	Interest-bearing	Free of charge	Interest-bearing
2017	39,126	10,000	203,398	74,200
2018	38,364	—	—	—
2019	37,591	—	—	—
2020	36,817	—	—	—
Total	**151,898**	**10,000**	**203,398**	**74,200**

(14) Inventories (Continued)

Movement in the number of allowances is as follows:

Description	Free of charge	Interest-bearing	Total
Balances at January 1, 2017	50,315	—	**50,315**
Additions	39,126	10,000	**49,126**
Disposals	(49,642)	—	**(49,642)**
Balance at December 31, 2017	**39,799**	**10,000**	**49,799**
Balances at January 1, 2018	39,799	10,000	**49,799**
Additions	38,364	4,500	**42,864**
Disposals	(39,799)	(14,140)	**(53,939)**
Balance at June 30, 2018	**38,364**	**360**	**38,724**

(15) Equity

Details of equity and movement during the period are shown in the statement of changes in equity.

(a) Capital

At June 30, 2018 and December 31, 2017 the Parent Company's share capital is represented by 16,500 ordinary bearer shares of Euros 300.51 par value each, subscribed and fully paid. All shares have the same voting and profit-sharing rights.

At June 30, 2018 and December 31, 2017, the entire capital was held by Obinesa Grupo Industrial, S.L.U. As mentioned in note 27, the entire capital is currently held by Sandover Investments, S.L.U., a subsidiary of Victoria PLC.

(b) Reserves

(i) Legal reserve

The legal reserve has been appropriated in compliance with article 274 of the Revised Spanish Companies Act, which requires that companies transfer 10% of profits for the year to a legal reserve until this reserve reaches an amount equal to 20% of share capital.

The legal reserve is not distributable to shareholders and if it is used to offset losses, in the event that no other reserves are available, the reserve must be replenished with future profits.

At June 30, 2018 and December 31, 2017 the Group has appropriated to the legal reserve the minimum amount required by law.

(ii) Voluntary reserves

These reserves are freely distributable.

(15) Equity (Continued)

(iii) Reserves in consolidated companies

The detail by company of reserves of fully consolidated companies at June 30, 2018 and December 31, 2017 is as follows:

Company	Euros At June 30, 2018	Euros At December 31, 2017
Atlantic Tiles SL	(2,275,066)	(873,199)
Saloni France SAS	(1,928,730)	(3,287,890)
Saloni Portugal LDA	2,859,693	1,733,511
Saloni UK Limited	(3,739,131)	(3,662,456)
Total	**(5,083,234)**	**(6,090,034)**

(iv) Profit/Loss attributable to the Parent

The contribution of each company included in consolidation perimeter to the interim consolidated profit in the six-month period to June 30, 2018 is as follows:

Company	Euros Interim consolidated profit/loss	Euros Profit/Loss attributable to the parent	Euros Profit attributable to non-controlling interests
Cerámica Saloni,S.A.U.	3,028,085	3,028,085	—
Subsidiary companies			
Atlantic Tiles SL	278,948	278,948	—
Saloni France SAS	1,057,351	1,057,351	—
Saloni Portugal LDA	68,933	68,919	14
Saloni UK Limited	1,697	1,697	—
Total	**4,435,014**	**4,435,000**	**14**

The contribution of each company included in consolidation perimeter to the interim consolidated profit in the six-month period to June 30, 2017 is as follows:

Company	Euros Consolidated profit/loss	Euros Profit/Loss attributable to the parent	Euros Profit attributable to non-controlling interests
Cerámica Saloni,S.A.U.	3,916,786	3,916,786	—
Subsidiary companies			
Atlantic Tiles SL	(406,220)	(406,220)	—
Saloni France Sas	941,349	941,349	—
Saloni Portugal Lda	93,894	93,875	19
Saloni UK Limited	(60,824)	(60,824)	—
Total	**4,484,985**	**4,484,966**	**19**

(c) Dividends/Interim dividend

On December 18, 2017, the sole shareholder of the Parent Company approved the distribution of a dividend in kind with a charge to voluntary reserves of Euros 17,439,715. On December 31, 2017 the sole

(15) Equity (Continued)

shareholder approved the distribution of an additional dividend in kind with a charge to voluntary reserves of Euros 16,157,446 and a dividend on account of profits for 2017 of Euros 17,345,622.

The amount of the dividend on account distributed does not exceed the amount of profits obtained since the end of the previous year, less the amounts that should be allocated to mandatory or statutory reserves, prior years' losses, and the estimated income tax payable for these profits.

These distributions of dividends were carried out by offsetting balances receivable from a current account with the Mosaiq Group companies by the aforementioned amounts. As the distribution of the dividend on account of 2017 profits is in kind, comprising a receivable, it does not affect the liquidity of the Parent Company. These distributions of dividends were carried out by virtue of the agreements to offset and eliminate balances and transactions with the Mosaiq Group companies set out in the Framework Refinancing Agreement entered into in 2017.

(d) Dividend restrictions

There were certain restrictions to the distribution of dividends, in accordance with the Framework Refinancing Agreement entered into on August 8, 2017.

(e) Conversion differences

The conversion differences amounting to Euros 112,431 at June 30, 2018 (Euros 111,709 in 2017) correspond entirely to Saloni UK, Ltd.

(16) Grants, donations and bequests received

(a) Grants

At June 30, 2018 the Group has capital grants with a net amount of Euros 204,172 (Euros 111,665 at December 31, 2017) extended by different public entities.

The amount of grants transferred to the interim consolidated income statement at June 30, 2018 is Euros 8,148 (Euros 8,148 at June 30, 2017).

(i) Capital grants

	Euros			
Grantor	**At June 30, 2018**	**At December 31, 2017**	**Purpose**	**Grant date**
Ministry of the Economy	201,504	109,734	Civil works and equipment	2000
Other	2,668	1,931	R&D	2009–2011
	204,172	**111,665**		

(17) Provisions and Other Contingencies

As a result of the financial debt restructuring carried out by the Mosaiq Group, the Parent Company was joint guarantor, together with certain Mosaiq Group companies, of the balances payable on the revolving credit facilities extended by financial institutions for a total amount of Euros 93.3 million at June 30, 2018 (Euros 96.3 million at December 31, 2017), included in the new Framework Refinancing Agreement. The guarantee facilities were renewed by the financial institutions in accordance with the new Framework Refinancing Agreement (see note 19.c), with a joint limit of Euros 65 million. These guarantees have been cancelled in 2018 (see note 27).

At June 30, 2018 and December 31, 2017 the Parent Company and other Mosaiq Group companies were also guarantors of the Euros 50 million participating loan extended to the Parent Company by Atitlan

(17) Provisions and Other Contingencies (Continued)

Group, the new shareholder of Mosaiq Group in 2017. These guarantees have been cancelled in 2018 (see note 27).

At June 30, 2018 and December 31, 2017 the Group has contingent liabilities for bank and other guarantees related to its normal business operations amounting to Euros 120 thousand. The Group does not expect any significant liabilities to arise from these guarantees.

(18) Financial Liabilities by Category

(a) Classification of financial liabilities by category

At June 30, 2018 and December 31, 2017 all financial liabilities are debts and payables.

The carrying amount of financial liabilities is acceptably close to their fair value.

The amount of finance costs on debts and payables accrued in the six-month period to June 30, 2018 is Euros 2,948,956 (Euros 303,312 for the six-month period ended June 30, 2017).

(19) Payables and Trade and other payables

(a) Group companies and associates

Details of Group companies and associates are as follows:

	Euros			
	At June 30, 2018		At December 31, 2017	
	Non-current	Current	Non-current	Current
Group				
Other payables	—	293,485	—	1,596,794
Payables	49,694,041	1,680,944	46,860,729	2,039,271
Interest	—	—	—	196,882
Total	**49,694,041**	**1,974,429**	**46,860,729**	**3,832,947**

At December 31, 2017 other payables to Group companies mainly comprised payables arising from the tax effect of filing consolidated tax returns. This balance was payable to Obinesa, S.L., the head of the tax group. At June 30, 2018 other payables to Group companies mainly corresponded to unpaid balances related to the acquisition of property, plant and equipment.

Payables non-current and current included the balance amount at June 30, 2018 and December 31, 2017 of the loan granted by an affiliated company of the Atiltan Group (Balaenoptera Borealis Loans, S.L.U.). In the context of the arrival of Atitlan Group (see note 1) and the Group's Refinancing Contract (see note 19.c), a participating loan of Euros 50 million was arranged on December 18, 2017. The initial term of the loan was two years, which may be extended up to five years. Nevertheless, it must remain in force and will be understood to be automatically extended for the outstanding balance until working capital funding has been repaid under the terms of the Framework Refinancing Agreement. This loan accrued fixed interest tied to Euribor plus a spread, and variable interest linked to the Company's EBITDA. Furthermore, a minimum amount of accrued interest and a maximum amount of interest payments were stipulated for the first two years in accordance with the provisions of the Framework Refinancing Agreement. The borrower has undertaken to use the proceeds from the loan for the partial repayment of the initial debt of the Mosaiq Group under the terms stipulated in the Framework Refinancing Agreement. As mentioned in note 27, this loan and its accrued interest has been repaid by the Victoria Group.

(19) Payables and Trade and other payables (Continued)

(b) Payables

Details of payables are as follows:

	Euros			
	At June 30, 2018		At December 31, 2017	
	Non-current	Current	Non-current	Current
Unrelated parties				
Loans and borrowings	—	153,055	—	3,563,115
Interest	—	—	—	1,978
Finance lease payables	122,840	88,699	167,569	86,036
Suppliers of fixed assets	—	705.371	—	717,874
Other debts	1,746,909	369,733	1,903,932	360,069
Total	**1,869,749**	**1,316,858**	**2,071,501**	**4,729,072**

Other debts comprise loans from public entities amounting to Euros 2,094,480 at June 30, 2018 and Euros 2,251,503 in 2017. Loans from public entities are used to finance certain innovation projects and machinery.

At June 30, 2018 loans and borrowings include bank loans by an amount of Euros 153,055. At December 31, 2017, loans and borrowings include discount lines for an amount of Euros 3,410,932 (see note 19.c) and bank loans for an amount of Euros 152,183.

(c) Other information on payables

(i) Main characteristics of payables

On August 8, 2017 the Mosaiq Group formalised a new Framework Refinancing Agreement with a syndicate of financial institutions in order to restructure its financial debt, aligning it with its short- and medium-term financing needs, and to pave the way for the arrival of a new investor to the Mosaiq Group. As part of the renegotiation of its financial debt, Mosaiq Group management approved a new Business Plan which was drawn up in collaboration with independent experts and which will ensure the survival and stability of the Mosaiq Group's activity in the short, medium and long-term.

The Framework Refinancing Agreement was signed by a number of financial institutions representing over 80% of the Group's financial debt, and the Mosaiq Group therefore applied for a court-sanctioned workout to make the terms of the Framework Refinancing Agreement applicable to non-signatory institutions. On September 15, 2017 the Mosaiq Group filed an application with the Castellón Commercial Court for a court-sanctioned workout of the Framework Refinancing Agreement. On October 11, 2017 the Castellón Commercial Court issued an injunction extending the financial restructuring agreement for all intents and purposes to the institutions that had not subscribed the agreement. The injunction for the court-sanctioned workout was published in the Official State Gazette on October 17, 2017. Once the period of 15 business days following the publication in the Official State Gazette has elapsed without the creditors affected by the court-sanctioned workout that have not subscribed the financial restructuring agreement impugning the court injunction, the court-sanctioned workout should be considered final.

The conclusion of the aforementioned court-sanctioned workout forms part of the condition precedent established in the Framework Refinancing Agreement. The rest of the terms of the condition precedent of the Framework Refinancing Agreement were considered to have been met on December 18, 2017, the date on which the Refinancing Agreement went into effect.

(19) Payables and Trade and other payables (Continued)

The main terms of the Refinancing Agreement are as follows:

- On entry into force of the Refinancing Agreement, the Mosaiq Group paid the creditor financial institutions that signed the Agreement Euros 58 million as partial repayment of its financial debt. For the remaining debt, which amounted to Euros 413 million, not including revolving credit facilities or ring-fenced property, debt amounting to Euros 8 million was novated along with the associated conditions. The financial institutions granted a waiver for the entire outstanding balance of Euros 346 million, which was recognised as finance income in the Mosaiq Group consolidated income statement. At December 31, 2017, the novated debt was partially repaid, leaving an outstanding balance at December 31, 2017 of Euros 697 thousand, Euros 692 thousand at June 30, 2018.
- The Refinancing Agreement stipulates that the financial institutions must maintain the current limits on the revolving credit facilities granted to certain Group companies for a three-year period.
- The Refinancing Agreement, once the debt has been partially repaid, cancels all mortgage and personal guarantees and pledged assets related to Mosaiq Group's initial debt granted to ensure fulfilment of the obligations of any Mosaiq Group company under the previous refinancing agreements.
- In addition, it stipulates that the Mosaiq Group must fulfil certain formal obligations vis-à-vis the creditor entities, as well as certain financial ratios or covenants for the years ended on or after December 31, 2018. At December 31, 2017, the Refinancing Agreement does not require compliance with covenants.

Following the signing of the aforementioned Framework Agreement, the Group recognised in the second half of 2017 a finance income amounting to Euros 22,016 thousand for the debt waiver granted to the Company by the financial institutions.

The Group has the following credit facilities and discount lines at 31 December:

	In Euros			
	At June 30, 2018		At December 31, 2017	
	Drawn down	Limit	Drawn down	Limit
Credit facilities	—	—	—	—
Discount lines	—	—	3,410,932	—
	—	**—**	**3,410,932**	**—**

At December 31, 2017 as provided in the aforementioned Framework Refinancing Agreement, certain Mosaiq Group companies had a joint revolving credit facility of up to Euros 17.4 million to finance their sales. At December 31, 2017 the amount drawn down by these companies totals Euros 7.8 million. At June 30, 2018 the amount is zero euros.

Loans and borrowings accrue interest at market rates.

(19) Payables and Trade and other payables (Continued)

(d) Trade and other payables

Details of trade and other payables are as follows:

	Euros	
	At June 30, 2018	At December 31, 2017
	Current	Current
Group		
Suppliers	702,668	998,403
Unrelated parties		
Suppliers	42,123,593	36,368,577
Payables	1,312,690	1,342,715
Personnel	3,219,534	2,698,871
Public entities, other	3,233,422	1,583,241
Total	**50,591,907**	**42,991,807**

(e) Classification by maturity

The classification of financial liabilities by maturity is provided in Appendix III.

(f) Amounts denominated in foreign currencies

	Euros	
At June 30, 2018	Pound Sterling	Total
Current Payables		
Other financial liabilities	3,056	**3,056**
Trade and other payables		
Current payables to suppliers	240,771	**240,771**
Personnel	102,754	**102,754**
Public entities, other	137,906	**137,906**
Total current liabilities	484,487	**484,487**
Total liabilities	**484,487**	**484,487**

	Euros	
At December 31, 2017	Pound Sterling	Total
Current Payables		
Loans and borrowings	2,359	**2,359**
Other financial liabilities		
Trade and other payables	131,749	**131,749**
Current payables to suppliers	40,672	**40,672**
Personnel	102,648	**102,648**
Public entities, other	—	**—**
Total current liabilities	277,428	**277,428**
Total liabilities	**277,428**	**277,428**

(19) Payables and Trade and other payables (Continued)

At June 30, 2018 exchange differences recognised in the interim consolidated income statement in relation to financial instrument transactions settled during the year amounted to Euros 16,996 (Euros 33,889 at June 30, 2017).

(20) Taxation

Details of balances with public entities are as follows:

	Euros			
	At June 30, 2018		At December 31, 2017	
	Non-current	Current	Non-current	Current
Assets				
Deferred tax assets	1,437,324	—	1,574,463	—
	1,437,324	**—**	**1,574,463**	**—**
Liabilities				
Deferred tax liabilities	531,101	—	591,102	—
Current tax liabilities	—	1,703,197	—	—
Social Security	—	754,588	—	652,692
Withholdings	—	775,637	—	930,549
	531,101	**3,233,422**	**591,102**	**1,583,241**

At December 31, 2017, the balance payable to Obinesa, S.L. arising from the tax effect of filing consolidated tax returns amounts to Euros 1,522,529 (Note 19.a) and is registered in Group companies and associates, current liabilities.

At June 30, 2018, the Parent company and other companies taxed in Spain had the following main applicable taxes open to inspection by the Spanish taxation authorities:

Tax	Years open to inspection
Income tax	2013 to 2017
Value added tax	2014 to 2018
Personal income tax	2014 to 2018
Capital gains tax	2014 to 2018
Tax on Economic Activities	2014 to 2018
Social Security	2014 to 2018
Non-resident income tax	2014 to 2018

Nonetheless, the taxation authorities' right to examine or investigate tax loss carry forwards (whether available or already offset), double taxation relief and tax credits aimed at incentivising certain activities (whether applied or available) becomes statute-barred ten years as from the day after the filing deadline for the tax return or self-assessment for the tax period in which the right of offset or application was generated. After this period, the Group must justify the tax loss carry forwards or tax credits by presenting the assessment or self-assessment and its accounts, together with evidence of their having been filed during the aforementioned period at the Mercantile Registry.

Due to different possible interpretations of prevailing tax legislation, additional tax liabilities could arise in the event of inspection. In any event, any such liabilities that could arise are not expected to have a significant effect on the interim consolidated financial statements.

(20) Taxation (Continued)

(a) Income tax

In 2017 and previous financial years, the Parent Company filed consolidated tax returns with Obinesa Group, S.L. (parent) and other Group companies. In financial year 2018, the Group left this tax consolidation group.

A reconciliation of net income and expenses with taxable income for the period is shown in Appendix IV.

The relationship between the tax expense/(income) and accounting profit/(loss) for the period is provided in Appendix V.

Details of the tax expense/(income) in the interim consolidated income statement are as follows:

	In Euros	
	For the six months period ended June 30, 2018	For the six months period ended June 30, 2017
Current income tax		
Present period	2,114,291	1,707,008
	2,114,291	1,707,008
Deferred tax		
Source and reversal of temporary differences		
Property, plant and equipment	33,014	33,014
Portfolio provisions	(57,964)	—
Others	(2,037)	(123,608)
Previously recognised tax deductions applied	110,728	—
Unused tax deductions generated during the period	(6,603)	—
	(77,138)	**(90,594)**
From continuing activities	**2,037,153**	**1,616,414**

In accordance with prevailing tax legislation, the depreciation/amortisation charge for property, plant and equipment and intangible assets for 2014 and 2013 was capped at 70% of the depreciation/amortisation charge for accounting purposes. At June 30, 2018 and June 30, 2017 temporary differences amounting to Euros 132,055 were reversed.

Details of deferred tax assets and liabilities by type of asset and liability are as follows:

	In Euros			
	Assets		Liabilities	
	At June 30, 2018	At December 31, 2017	At June 30, 2018	At December 31, 2017
Portfolio provision	—	—	499,275	557,239
Non-repayable grants	—	—	31,826	33,863
Other adjustments	279,024	279,024	—	—
Limit on amortisation/depreciation	429,179	462,193	—	—
Rights to tax deductions and credits	729,121	833,246	—	—
Total assets/liabilities	1,437,324	1,574,463	531,101	591,102

The Tax Group may offset unused tax loss carry forwards against future profits generated in subsequent tax periods, up to a maximum of 25% of taxable income prior to application of the capitalisation reserve and the offset. Nevertheless, in any event tax loss carry forwards up to a maximum of Euros 1 million may be offset in the tax period.

(20) Taxation (Continued)

During 2017, certain Group companies domiciled outside of Spain have offset tax losses from previous years, the tax effect of which was not recorded as deferred tax assets, amounting to approximately Euros 1.4 million.

Certain Group companies have not recognized as deferred tax assets the tax effect of the tax loss carryforwards whose amounts are as follows:

	Euros	
Year	At June 30, 2018	At December 31, 2017
2005	184,558	184,558
2006	427,248	427,248
2007	434,808	434,808
2008	453,898	453,898
2009	249,937	249,937
2010	57,712	57,712
2011	90,295	1,080,562
2012	2,171,995	2,210,565
2013	706,520	706,520
2014	1,023,195	1,023,195
2016	98,596	98,596
2017	76,581	76,581
	5,975,343	7,004,180

The period in which these tax bases can be offset depends on the tax legislation of each country.

For the tax expenses accrual as of June 30, 2018, the Group has estimated the use of unrecorded tax loss carryforwards amounting to Euro 1 million.

The Group has recognised deductions for Research, development and investigation activities, professional training and export activity as deferred tax assets, the amounts and reversal periods of which are as follows:

	In Euros		
Year	At June 30, 2018	At December 31, 2017	Final year
2008	—	87,398	2023
2009	27,469	50,799	2024
2009	412,491	412,491	2027
2010	17,185	17,185	2025
2010	147,697	147,697	2028
2011	832	832	2026
2011	93,074	93,074	2029
2015	5,282	5,282	2030
2016	13,206	13,206	2031
2017	5,282	5,282	2032
June 30, 2018	6,603	—	2033
	729,121	**833,246**	

(b) Value added tax

On December 14, 2015 the sole shareholder approved the adoption of the special VAT group regime regulated in article 163.1 of VAT Law 37/1992 of 28 December 1992, under the special group regime option provided in Chapter IX of Title IX of the VAT Law, effective for transactions on which tax will

(20) Taxation (Continued)

accrue as from January 1, 2016. Consequently, the Parent Company began settling value added tax under the consolidated tax regime in 2016, with Obinesa, S.L. as the tax group parent. In September 2018, the Parent Company has notified the Public Administration as to the exit of the Parent Company from the Obinesa Consolidated Tax Group.

(21) Environmental Information and Greenhouse Gas Emission Allowances

Details of property, plant and equipment used to minimise the Group's impact on the environment are as follows:

	In Euros		
	At June 30, 2018		
Description	**Cost**	**Accumulated depreciation**	**Net**
Buildings	18,850	(9,425)	9,425
Technical installations	2,023,445	(1,992,869)	30,576
Machinery	80,184	(44,965)	35,219
Other installations	40,450	(28,443)	12,007
	2,162,929	**(2,075,702)**	**87,227**

	At December 31, 2017		
Description	**Cost**	**Accumulated depreciation**	**Net**
Buildings	18,850	(9,142)	9,708
Technical installations	2,023,445	(1,989,634)	33,811
Machinery	80,184	(41,946)	38,238
Other installations	40,450	(28,184)	12,266
	2,162,929	**(2,068,906)**	**94,023**

The Parent Company is included in the National Allocation Plan for greenhouse gas emission allowances.

In the course of carrying out its activities, the Group makes the necessary investments to ensure strict compliance with all legal requirements relating to the environment and to minimise its impact (atmospheric emissions, waste, consumption of natural resources, noise emissions, etc.).

Details of environmental costs incurred by the Group are as follows:

	In Euros	
	At June 30, 2018	**At June 30, 2017**
Pollutant waste treatment	107,800	100,278
Other expenses associated with protecting the environment	8,763	13,225
	116,563	**113,503**

At June 30, 2018 and at December 31, 2017, the Group considers that there are no significant contingencies in connection with the protection and improvement of the environment and, accordingly, no provision has been made in this regard.

(22) Related Party Balances and Transactions

(a) Related party balances

Details of balances receivable from and payable to Group companies, associates, jointly controlled entities and related parties are presented in notes 13 and 19.

(22) Related Party Balances and Transactions (Continued)

(b) Transactions with the sole shareholder

At June 30, 2018 and at June 30, 2017 the Group has not carried out any transactions with its sole shareholder, Obinesa Grupo Industrial, S.L.U., except for that mentioned in note 15.c).

(c) Related party transactions

The Group's transactions with related parties are as follows:

	Euros		
	Parent	Mosaiq Group companies	Total
For the six months period ended June 30, 2018			
Income			
Net sales			
Sales	**—**	**6,719,105**	**6,719,105**
Services rendered	**—**	**76**	**76**
Other services rendered	**—**	**—**	**—**
Total income	**—**	**6,719,181**	**6,719,181**
Expenses			
Net purchases			
Purchases	**—**	**135,573**	**135,573**
Other services received	**—**	**120,645**	**120,645**
Total expenses	**—**	**256,218**	**256,218**

	Euros		
	Parent	Mosaiq Group companies	Total
For the six months period ended June 30, 2017			
Income			
Net sales			
Sales	—	5,742,206	5,742,206
Financial instruments			
Finance income	78,382	—	78,382
Total income	78,382	5,742,206	5,820,588
Expenses			
Net purchases			
Purchases	—	195,157	195,157
Other services received	430,395	94,667	525,062
Financial instruments			
Finance costs	—	—	—
Total expenses	430,395	289,824	720,219

From January 1, 2017 to December 18, 2017 transactions with the parent were related to Obinesa, S.L. There were no transactions with the parent company of Atitlan Group from December 18, 2017 to December 31, 2017.

(d) Information on the Company directors and senior management personnel

On December 12, 2017, the sole shareholder approved changing the composition of the governing body of the Parent Company from a sole director to two joint directors, which was carried out on said date.

(22) Related Party Balances and Transactions (Continued)

For the six months period ended June 30, 2018 and June 30, 2017 the directors of the Parent Company did not receive any remuneration in respect of their duties, nor did they receive any loans or advances, nor did the Group extend any guarantees on their behalf. The Parent Company has no pension or life insurance obligations with its former or current directors. In 2018 and 2017 no civil liability insurance premiums have been paid for damage or loss caused by actions or omissions in the performance of their duties.

Senior management personnel, including directors, have accrued remuneration for the six months period ended June 30, 2018 and June 30, 2017, of Euros 593 thousand and Euros 553 thousand, respectively.

(23) Income and Expenses

(a) Revenues

Details of revenues by category of activity and geographical market are shown in Appendix VI.

(b) Supplies

Details of merchandise, raw materials and other supplies used are as follows:

	In Euros	
	For the six months period ended June 30, 2018	**For the six months period ended June 30, 2017**
Merchandise used		
Domestic purchases	7,428,244	10,260,499
Change in inventories	1,337,852	(154,098)
	8,766,096	10,106,401
Raw materials and other supplies used		
Domestic purchases	15,873,001	13,298,997
Purchase discounts and returns	—	
Change in inventories	(332,699)	(179,074)
	15,540,302	13,119,923
Subcontracted work	690,499	447,735
Impairment/Reversal of merchandise, raw materials and Other supplies (note 14)	—	(192,945)
	24,996,897	**23,481,114**

(c) Employee benefits expense

Details of employee benefits expense are as follows:

	Euros	
	For the six months period ended June 30, 2018	**For the six months period ended June 30, 2017**
Employee benefits expense		
Social Security payable by the Group	2,781,153	2,670,380
Other employee benefits expenses	126,654	117,707
	2,907,807	**2,788,087**

(23) Income and Expenses (Continued)

(d) Foreign currency transactions

Details of income and expenses denominated in foreign currencies are as follows:

	Euros	
	For the six months period ended June 30, 2018	For the six months period ended June 30, 2017
Revenues	2,999,598	2,833,114
Supplies	(971,233)	(1,075,542)
Other operating income	822	541
Personnel expenses	(397,595)	(406,628)
Other operating expenses	(481,374)	(517,200)
Amortisation	(3,007)	(3,061)
Other income	171	—
	1,147,382	**831,224**

(24) Employee Information

The average headcount of the Group for the six months period ended June 30, 2018 and June 30, 2017, distributed by category, is as follows.

	Number	
	For the six months period ended June 30, 2018	For the six months period ended June 30, 2017
Directors	2	1
Engineers and technicians	24	24
Administrative staff	77	70
Factory and warehouse staff	307	290
Sales and distribution personnel	102	93
Management	8	8
	520	**486**

At June 30, 2018 and June 30, 2017 the distribution by gender of personnel and the directors is as follows:

	Number			
	At June 30, 2018		At June 30, 2017	
	Female	Male	Female	Male
Directors	—	2	—	1
Management	—	8	—	8
Engineers and technicians	—	24	—	24
Administrative staff	38	40	33	38
Factory and warehouse staff	6	304	7	297
Sales and distribution personnel	29	75	28	66
	73	**453**	**68**	**434**

(24) Employee Information (Continued)

The average number of Group employees with a disability rating of 33% or higher (or equivalent local rating), distributed by category, is as follows:

	Number	
	At June 30, 2018	At June 30, 2017
Manual workers and auxiliary staff	8	8

(25) Audit Fees

The auditor of the consolidated financial statements of the Group invoiced the Company the following net fees for professional services during 2018 and 2017:

	In Euros	
	At June 30, 2018	At December 31, 2017
Audit services	—	33,387
Other services	1,995	3,705
	1,995	**37,092**

Others auditors have invoiced fees for auditing services to the Group during 2017 amounting to Euros 19,303.

The amounts detailed in the above table include the total fees for services rendered in 2018 and 2017, irrespective of the date of invoice.

(26) Segment Reporting

An operating segment, is a Group component which develops business activities from operating revenue can be obtained and also expenses can be incurred, whose operating results are regularly reviewed by the highest authority of the Group's operative decisions making, in order to decide over the resources which should be allocated to the segment, evaluate its performance, and the relation by which differentiated financial information is available. The Group is internally organized by operating segments, which are the strategic units of the business. The financial information by segments is presented in Appendix VII, which forms an integral part of this note.

(27) Events after the Reporting Period

On July 27, 2018, the sole shareholder of Cerámica Saloni, S.A.U., agreed the distribution of dividends in kind with charge to unrestricted reserves for an amount of Euros 4,241 thousand. This dividend distribution has been carried out by means of assignments of credit accounts of Mosaiq Group companies. Additionally, on July 27, 2018, the Board of Directors, agreed the distribution of interim dividends in favour of the sole shareholder for an amount of Euros 498 thousand.

Change of control and financing of the acquisition

On August 7, 2018, Victoria PLC (Victoria), through an indirectly wholly-owned subsidiary named Sandover Investments, S.L.U. (Sandover), acquired the entire share capital of Cerámica Saloni S.A.U. (Cerámica Saloni or Saloni) in exchange for a cash consideration paid to Obinesa Grupo Industrial, S.L. (the "Seller").

In connection with the above, several contracts and agreements between Victoria PLC, Sandover and Cerámica Saloni S.A.U. have been signed.

(27) Events after the Reporting Period (Continued)

As a result of the early repayment by Victoria of the PPL between Balaenoptera Borealis Loans, S.L.U. ("BBL") (see note 19.a), a related company of the Seller and Cerámica Saloni, Victoria entered into a new profit participating loan with Saloni (the "New PPL") for an amount equal to the outstanding amount of the previous PPL (thus, Euros 52,380,617.22) and whose terms and conditions were similar to those of the current PPL.

In addition, as a result of that early repayment of the previous PPL between Cerámica Saloni and BBL, certain cancellation costs amounting to Euros 8,634,382.78 have been paid to BBL. Victoria funded this amount to Cerámica Saloni, S.A.U. by means of a shareholder's loan.

Payments that have been carried out by Victoria in favour of the Seller:

- The acquisition of the Saloni's shares
- The cancellation of the previous PPL
- The cancellation costs.

Organizational effects of the acquisition

- Settlement and cancellation of debt with sellers' banks. To highlight the removal of the joint and several liability of Cerámica Saloni S.A.U.
- Termination of the former Management Board and appointment of the new Management Board
- Revocation of powers (of outgoing members and others) and issuance of new powers of attorney
- Current General Managing and employees are maintained. However, a reorganization and restructuring of the workforce could be carried out following the results of a productivity analysis currently in process.
- Dissociation from Mosaiq Group in all areas except that temporarily, they will continue to give support relating to the Communication and Information systems.

As included in the agreements, the Company has been released of their joint guarantees obligations to the Mosaiq Group upon first request provided, according from obligations of the joint guarantors of the Mosaiq Group against all and each of the group's working capital financing entities, which have formed part of the Mosaiq Group until the entry of the new shareholders. In July 2018, the shares that the Parent Company held in Activos Cly, S.A., were sold.

CERÁMICA SALONI, S.A.U. and SUBSIDIARIES

Information relating to Group companies for the six months period ended June 30, 2018(*) (Expressed in Euros)

Name	Registered office	Activity	Auditor	% ownership Direct	% ownership Total	Carrying amount of investment
SALONI PORTUGAL LDA	Portugal	Trading	—	99.98	99.98	1,181,296
SALONI FRANCE, SAS	France	Trading	Compass Audit Expertise&Conseils	100.00	100.00	3,774,503
SALONI UK LIMITED	United Kingdom	Trading	Trevor Jones	100.00	100.00	211,899
ATLANTIC TILES, S.L.	Spain	Trading	—	100.00	100.00	—
						5,167,698

(*) Non audited

This appendix forms an integral part of notes 1 and 4 to the consolidated financial statements, in conjunction with which it should be read.

CERÁMICA SALONI, S.A.U. and SUBSIDIARIES

Information relating to Group companies for the year ended December 31, 2017 (Expressed in Euros)

Name	Registered office	Activity	Auditor	% ownership Direct	% ownership Total	Carrying amount of investment
SALONI PORTUGAL LDA .	Portugal	Trading	—	99.98	99.98	1,181,296
SALONI FRANCE, SAS . . .	France	Trading	Compass Audit Expertise&Conseils	100.00	100.00	4,808,881
SALONI UK LIMITED	United Kingdom	Trading	Trevor Jones	100.00	100.00	211,899
ATLANTIC TILES, S.L. . . .	Spain	Trading	—	100.00	100.00	—
						6,202,076

This appendix forms an integral part of notes 1 and 4 to the consolidated financial statements, in conjunction with which it should be read.

CERÁMICA SALONI, S.A.U. and SUBSIDIARIES

Details of property, plant and equipment and movement for the six months period ended June 30, 2018(*)

June 30, 2018	Euros						
	Land	Buildings	Technical installations and machinery	Other installations, equipment and furniture	Under construction and advances	Other property, plant and equipment	Total
Cost at January 1, 2018	1,594,681	26,547,304	74,406,021	25,581,785	38,999	7,787,425	**135,956,215**
Additions	—	101,855	218,270	381,700	399,646	5,604	**1,107,075**
Disposals	—	—	(1,744)	(4,433)	(18,032)	—	**(24,209)**
Transfers	—	16,141	—	—	(16,141)	—	**—**
Translation differences	—	—	—	637	—	—	**637**
Cost at June 30, 2018	1,594,681	26,665,300	74,622,547	25,959,689	404,472	7,793,029	**137,039,718**
Accumulated depreciation at January 1, 2018	—	(13,814,789)	(60,371,546)	(21,478,063)	—	(6,903,037)	**(102,567,435)**
Depreciation	—	(383,115)	(1,019,322)	(503,898)	—	(134,566)	**(2,040,901)**
Disposals	—	—	711	2,586	—	—	**3,297**
Translation differences	—	—	—	—	—	—	**—**
Accumulated depreciation at June 30, 2018	—	(14,197,904)	(61,390,157)	(21,979,375)	—	(7,037,603)	**(104,605,039)**
Carrying amount at June 30, 2018	**1,594,681**	**12,467,396**	**13,232,390**	**3,980,314**	**404,472**	**755,426**	**32,434,679**

(*) Non audited

This appendix forms an integral part of note 7 to the consolidated financial statements, in conjunction with which it should be read.

CERÁMICA SALONI, S.A.U. and SUBSIDIARIES

Details of property, plant and equipment and movement for the year ended December 31, 2017

	Euros						
December 31, 2017	**Land**	**Buildings**	**Technical installations and machinery**	**Other installations, equipment and furniture**	**Under construction and advances**	**Other property, plant and equipment**	**Total**
Cost at January 1, 2017	1,594,681	25,550,846	66,872,354	25,057,236	3,150,753	7,715,371	**129,941,241**
Additions	—	1,035,429	5,247,487	908,296	16,141	105,855	**7,313,208**
Disposals	—	(95,176)	(769,582)	(364,668)	(15,928)	(33,801)	**(1,279,155)**
Transfers	—	56,205	3,055,762	—	(3,111,967)	—	**—**
Translation differences	—	—	—	(19,079)	—	—	**(19,079)**
Cost at December 31, 2017	1,594,681	26,547,304	74,406,021	25,581,785	38,999	7,787,425	**135,956,215**
Accumulated depreciation at January 1, 2017	—	(13,104,767)	(59,460,731)	(20,598,998)	—	(6,648,096)	**(99,812,592)**
Depreciation	—	(753,803)	(1,680,397)	(1,065,398)	—	(264,190)	**(3,763,788)**
Disposals	—	43,781	769,582	168,844	—	9,249	**991,456**
Translation differences	—	—	—	17,489	—	—	**17,489**
Accumulated depreciation at December 31, 2017	—	(13,814,789)	(60,371,546)	(21,478,063)	—	(6,903,037)	**(102,567,435)**
Carrying amount at December 31, 2017	**1,594,681**	**12,732,515**	**14,034,475**	**4,103,722**	**38,999**	**884,388**	**33,388,780**

This appendix forms an integral part of note 7 to the consolidated financial statements, in conjunction with which it should be read.

CERÁMICA SALONI, S.A.U. and SUBSIDIARIES

Classification of Financial Liabilities by Maturity for the six months period ended June 30, 2018(*)

	Euros							
	June 30, 2018							
	2018	2019	2020	2021	2022	Subsequent years	Less current portion	Total non-current
Payables								
Loans and borrowings	153,055	—	—	—	—	—	(153,055)	—
Finance lease payables	88,699	90,546	32,294	—	—	—	(88,699)	122,840
Other financial liabilities	1,075,104	347,574	252,567	252,567	252,567	641,634	(1,075,104)	1,746,909
Group companies and associates	1,974,429	3,467,400	1,402,420	3,465,594	41,358,627	—	(1,974,429)	49,694,041
Trade and other payables								
Suppliers	42,123,593	—	—	—	—	—	(42,123,593)	—
Suppliers, Group companies and associates	702,668	—	—	—	—	—	(702,668)	—
Other payables	1,312,690	—	—	—	—	—	(1,312,690)	—
Personnel	3,219,534	—	—	—	—	—	(3,219,534)	—
Total financial liabilities	**50,649,772**	**3,905,520**	**1,687,281**	**3,718,161**	**41,611,194**	**641,634**	**(50,649,772)**	**51,563,790**

(*) Non audited

This appendix forms an integral part of note 19 to the consolidated financial statements, in conjunction with which it should be read.

CERÁMICA SALONI, S.A.U. and SUBSIDIARIES

Classification of Financial Liabilities by Maturity
for the year ended December 31, 2017

	Euros							
	December 31, 2017							
	2018	2019	2020	2021	2022	Subsequent years	Less current portion	Total non-current
Payables								
Loans and borrowings	3,565,093	—	—	—	—	—	(3,565,093)	—
Finance lease payables	86,036	90,546	77,023	—	—	—	(86,036)	167,569
Other financial liabilities	1,077,943	347,571	300,072	252,567	252,567	751,155	(1,077,943)	1,903,932
Group companies and associates	3,832,947	2,035,595	2,777,770	3,524,114	38,523,250	—	(3,832,947)	46,860,729
Trade and other payables								
Suppliers	36,368,577	—	—	—	—	—	(36,368,577)	—
Suppliers, Group companies and associates	998,403	—	—	—	—	—	(998,403)	—
Other payables	1,342,715	—	—	—	—	—	(1,342,715)	—
Personnel	2,698,871	—	—	—	—	—	(2,698,871)	—
Total financial liabilities	**49,970,585**	**2,473,712**	**3,154,865**	**3,776,681**	**38,775,817**	**751,155**	**(49,970,585)**	**48,932,230**

This appendix forms an integral part of note 19 to the consolidated financial statements, in conjunction with which it should be read.

Appendix IV

CERÁMICA SALONI, S.A.U. and SUBSIDIARIES

A reconciliation of net income and expenses with taxable income for the six months period ended June 30, 2018(*)

June 30, 2018	Euros			
	Interim consolidated Income statement			
	Increases	Decreases	Net	Total
Income and expenses for the period			4,435,014	4,435,014
Income tax			2,037,153	2,037,153
Profit before income tax			6,472,167	6,472,167
Permanent differences	3,213,202	(159,333)	3,053,869	3,053,869
Individual companies	3,213,202	—	3,213,202	3,213,202
Consolidation adjustments	—	(159,333)	(159,333)	(159,333)
Temporary differences:				
Individual companies	371,618	(132,055)	239,563	239,563
originating in prior years	371,618	(132,055)	239,563	239,563
Offsetting of tax losses from prior financial years	—	(1,028,837)	(1,028,837)	(1,028,837)
Taxable income			**8,736,762**	**8,736,762**

(*) Non audited

This appendix forms an integral part of note 20 to the consolidated financial statements, in conjunction with which it should be read.

CERÁMICA SALONI, S.A.U. and SUBSIDIARIES

A reconciliation of net income and expenses with taxable income for the six months period ended June 30, 2017(*)

	In Euros			
	Interim consolidated Income statement			
June 30, 2017	Increases	Decreases	Net	Total
Income and expenses for the period			4,484,985	4,484,985
Income tax			1,616,414	1,616,414
Profit before income tax			6,101,399	6,101,399
Permanent differences	1,170,968	—	1,170,968	1,170,968
Individual companies	638,742	—	638,742	638,742
Consolidation adjustments	532,226	—	532,226	532,226
Temporary differences:				
Individual companies	1,085,738	(723,362)	362,376	362,376
originating in prior years	1,085,738	(723,362)	362,376	362,376
Offsetting of tax losses from prior financial years	—	(941,349)	(941,349)	(941,349)
Taxable income			**6,693,394**	**6,693,394**

(*) Non audited

This appendix forms an integral part of note 20 to the consolidated financial statements, in conjunction with which it should be read.

CERÁMICA SALONI, S.A.U. and SUBSIDIARIES

Relationship between the income tax expense and accounting profit for the six months period ended June 30, 2018(*)

	In Euros	
	Interim consolidated income statement	Total
Income and expenses for the period before tax	6,472,167	6,472,167
Tax applicable	1,537,499	1,537,499
Non-deductible expenses/ Non-taxable income		
Fines and penalties	75	75
Charge to non-deductible provisions	112,448	112,448
Non deductible PPL financial expenses	690,776	690,776
Other adjustments	(39,833)	(39,833)
Deductions and credits for the current period	(6,603)	(6,603)
Tax credits no recognized applied during the period	(257,209)	(257,209)
Income tax expense/(income)	**2,037,153**	**2,037,153**

(*) Non audited

This appendix forms an integral part of note 20 to the consolidated financial statements, in conjunction with which it should be read.

CERÁMICA SALONI, S.A.U. and SUBSIDIARIES

Relationship between the income tax expense and accounting profit for the six months period ended June 30, 2017(*)

	In Euros	
	Interim consolidated income statement	Total
Income and expenses for the period	6,101,399	6,101,399
Tax applicable	1,559,009	1,559,009
Non-deductible expenses/ Non-taxable income		
Fines and penalties	88	88
Charge to non-deductible provisions	159,598	159,598
Other adjustments	133,056	133,056
Tax credits no recognised applied during the period	(235,337)	(235,337)
Income tax expense/(income)	**1,616,414**	**1,616,414**

(*) Non audited

This appendix forms an integral part of note 20 to the consolidated financial statements, in conjunction with which it should be read.

CERÁMICA SALONI, S.A.U. and SUBSIDIARIES

Details of revenues by category of activity and geographical market for the six months period ended June 30, 2018 and June 30, 2017(*)

(Expressed in Euros)

	Domestic		Rest of European Union		Rest of the world		Total	
	For the six months period ended June 30, 2018	For the six months period ended June 30, 2017	For the six months period ended June 30, 2018	For the six months period ended June 30, 2017	For the six months period ended June 30, 2018	For the six months period ended June 30, 2017	For the six months period ended June 30, 2018	For the six months period ended June 30, 2017
Revenues	30,040,125	30,818,464	20,786,944	18,742,749	10,366,465	10,559,865	61,193,534	60,121,078
	30,040,125	**30,818,464**	**20,786,944**	**18,742,749**	**10,366,465**	**10,559,865**	**61,193,534**	**60,121,078**

(*) Non audited

This appendix forms an integral part of note 23 to the consolidated financial statements, in conjunction with which it should be read.

CERÁMICA SALONI, S.A.U. and SUBSIDIARIES

Segment Reporting
for the six months period ended June 30, 2018 and June 30, 2017(*)

	For the six months period ended June 30, 2018		
	Domestic and rest of the world	France, UK and Portugal	Total
Net turnover	45,978,095	15,215,439	61,193,534
Variation in inventories	3,469,031	—	3,469,031
Supplies	(15,611,002)	(9,385,895)	(24,996,897)
Other operating income	100,795	19,046	119,841
Personnel expenses	(11,218,695)	(1,691,561)	(12,910,256)
Operating expenses	(12,506,891)	(3,007,279)	(15,514,170)
Asset amortisation	(2,078,832)	(12,096)	(2,090,928)
Allocation of grants for non-financial assets and others	8,148	—	8,148
Impaiment and profit/loss on disposals and others	(15,022)	—	(15,022)
Other results	41,584	171	41,755
Financial income	11,751	8,795	20,546
Financial expenses	(2,948,956)	—	(2,948,956)
Exchange rate differences	29,091	—	29,091
Impairment and profit/loss on disposals of financial instruments	66,450	—	66,450
Profit (Loss) before tax	5,325,547	1,146,620	6,472,167
Segment assets	110,280,035	9,996,200	120,276,235
Segment liabilities	102,312,628	3,976,685	106,289,313
Acquisitions of non-current assets during the period	1,107,209	—	1,107,209
Statements of Cash Flows			
Operating activities	6,818,988	641,219	7,460,207
Investing activities	(44,282)	(31,226)	(75,508)
Financing activities	(3,726,522)	(896,805)	(4,623,341)

(*) Non audited

This appendix forms an integral part of note 26 to the consolidated financial statements, in conjunction with which it should be read.

CERÁMICA SALONI, S.A.U. and SUBSIDIARIES

Segment Reporting
for the six months period ended June 30, 2018 and June 30, 2017(*)

	For the six months period ended June 30, 2017		
	Domestic and rest of the world	France, UK and Portugal	Total
Net turnover	46,352,890	13,768,188	60,121,078
Variation in inventories	(144,492)	—	(144,492)
Supplies	(15,052,824)	(8,428,290)	(23,481,114)
Other operating income	261,668	93,416	355,084
Personnel expenses	(11,440,249)	(1,551,537)	(12,991,786)
Operating expenses	(12,602,785)	(2,851,292)	(15,454,077)
Asset amortisation	(1,742,085)	(44,293)	(1,786,378)
Allocation of grants for non financial assets and others	8,148	—	8,148
Impaiment and profit/loss on disposals and others	(291,429)	—	(291,429)
Other results	(1,488)	1,255	(233)
Financial income	91,176	3,540	94,716
Financial expenses	(295,906)	(7,406)	(303,312)
Exchange rate differences	(24,806)	—	(24,806)
Impairment and profit/loss on disposals of financial instruments	—	—	—
Profit (Loss) before tax	5,117,818	983,581	6,101,399
Segment assets	124,306,429	8,848,932	133,155,361
Segment liabilities	79,564,170	5,392,369	84,956,539
Acquisitions of non-current assets during the period	471,378	—	471,378
Statements of Cash Flows			
Operating activities	11,516,867	(244,733)	11,272,134
Investing activities	(9,376,415)	(26,257)	(9,402,672)
Financing activities	(441,730)	72,136	(369,594)

(*) Non audited

This appendix forms an integral part of note 26 to the consolidated financial statements, in conjunction with which it should be read.

KPMG Auditores, S.L.
Edificio Condes de Buñol
Isabel la Católica, 8
46004 Valencia

Independent Auditors' Report in accordance with International Standards on Auditing on the Consolidated Financial Statements

To the Sole Shareholder of Cerámica Saloni, S.A.U.

Opinion

We have audited the consolidated financial statements of Cerámica Saloni, S.A.U. (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated balance sheet as at December 31, 2017, the consolidated income statement, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give, in all material respects, a true and fair view of the consolidated financial position of the Group as at December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Spanish General Chart of Accounts approved by Royal Decree 1514/2007 and the Rules for the Preparation of Consolidated Annual Accounts approved by Royal Decree 1159/2010 and subsequent amendments.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance the IESBA Code.

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

Other matter

As mentioned in note 2, the accompanying consolidated financial statements have not been prepared to comply with legal requirements in Spain but in relation to a possible bond issuance to be carried out by the ultimate shareholder of the Group and have been audited in accordance with International Standards on Auditing. In this regard, statutory consolidated annual accounts as at December 31, 2016 were neither prepared nor audited as they did not meet the requirements established by prevailing legislation. Consequently, the corresponding figures included in the accompanying consolidated financial statements are identified as "unaudited". Under no circumstances may this report be considered an audit report in the terms provided in prevailing legislation regulating the audit of accounts in Spain.

Directors' Responsibilities for the Consolidated Financial Statements

The Company's Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the Spanish General Chart of Accounts approved by Royal Decree 1514/2007 and the Rules for the Preparation of Consolidated Annual Accounts, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements, represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance of Cerámica Saloni, S.A.U. regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG Auditores, S.L.

Bernardo Vargas Gómez

October 26, 2018

CERÁMICA SALONI, S.A.U. and Subsidiaries

Consolidated financial statements
for the year ended December 31, 2017

CERÁMICA SALONI, S.A.U. and Subsidiaries

Consolidated Balance Sheet

December 31, 2017

(Expressed in Euros)

	Note	2017	2016(*)
Assets			
Intangible assets	**Note 5**	**189,007**	**512,043**
Patents, licences, trademarks and similar rights		4,919	3
Goodwill on consolidation	**Note 6**	0	266,000
Computer software		184,088	246,040
Property, plant and equipment	**Note 7**	**33,388,780**	**30,128,649**
Land and buildings		14,327,196	14,040,760
Technical installations, machinery, equipment, furniture and other ítems		19,022,585	12,937,136
Under construction and advances		38,999	3,150,753
Investment property	**Note 8**	**0**	**1,356,543**
Land		0	955,682
Buildings		0	400,861
Non-current investments in Group companies and associates	**Note 14**	**2,246,705**	**599,007**
Equity instruments		599,007	599,007
Loans to Group Companies		1,647,698	0
Non-current investments	**Note 14**	**133,431**	**145,844**
Other financial assets		133,431	145,844
Deferred tax assets	**Note 21**	**1,574,463**	**7,735,350**
Total non-current assets		**37,532,386**	**40,477,436**
Inventories	**Note 15**	**31,860,429**	**29,682,065**
Goods for resale		10,792,986	9,535,871
Raw materials and other supplies—short cycle		2,351,473	2,110,829
Work in progress—short cycle		624,411	724,646
Finished goods—short cycle		18,091,559	17,310,719
Trade and other receivables	**Note 14**	**28,323,310**	**33,351,002**
Trade receivables—current		25,202,712	28,563,936
Trade receivables from Group companies and associates— current		2,859,154	4,250,711
Other receivables		168,252	454,601
Personnel		93,192	81,754
Current investments in Group companies and associates	**Note 14**	**3,547,825**	**10,996,215**
Other financial assets		3,547,825	10,996,215
Current investments		**312,836**	**325,356**
Other financial assets		312,836	325,356
Prepayments for current assets		**504,696**	**402,075**
Cash and cash equivalents		**8,768,416**	**1,084,960**
Cash		8,768,416	1,084,960
Total current assets		**73,317,512**	**75,841,673**
Total assets		**110,849,898**	**116,319,109**

(*) Non-audited

The accompanying notes form an integral part of the Consolidated financial statements.

CERÁMICA SALONI, S.A.U. and Subsidiaries

Consolidated Balance Sheet (Continued)

December 31, 2017

(Expressed in Euros)

	Note	2017	2016(*)
Equity and Liabilities			
Capital and reserves	**Note 16**	**9,459,790**	**43,712,510**
Capital			
Registered capital		4,958,415	4,958,415
Reserves			
Legal and statutory reserves		991,683	991,683
Other reserves		(1,994,753)	33,222,250
Profit for the year attributable to the Parent		22,850,067	4,540,162
(Interim dividend)		(17,345,622)	0
Conversion differences		**(111,709)**	**(119,925)**
Grants, donations and bequests received	**Note 17**	**111,665**	**120,220**
Non-controlling interests		**377**	**152**
Total equity		**9,460,123**	**43,712,957**
Non-current payables	**Note 20**	**2,071,501**	**34,319,408**
Loans and borrowings		0	31,814,300
Finance lease payables	**Note 9**	167,569	253,605
Other financial liabilities		1,903,932	2,251,503
Group companies and associates, non-current	**Note 20**	**46,860,729**	**0**
Deferred tax liabilities	**Note 21**	**591,102**	**1,137,637**
Total non-current liabilities		**49,523,332**	**35,457,045**
Current provisions		**312,617**	**280,538**
Provision for greenhouse gas emission allowances		312,617	280,538
Current payables	**Note 20**	**4,729,072**	**2,459,693**
Loans and borrowings		3,565,093	1,598,239
Finance lease payables	**Note 9**	86,036	81,758
Other financial liabilities		1,077,943	779,696
Group companies and associates, current	**Note 20**	**3,832,947**	**92,019**
Trade and other payables	**Note 20**	**42,991,807**	**34,303,335**
Current payables to suppliers		36,368,577	29,469,805
Suppliers, Group companies and associates, current		998,403	665,867
Other payables		1,342,715	925,788
Personnel (salaries payable)		2,698,871	1,960,068
Public entities, other	**Note 21**	1,583,241	1,281,807
Prepayments		**0**	**13,522**
Total current liabilities		**51,866,443**	**37,149,107**
Total equity and liabilities		**110,849,898**	**116,319,109**

(*) Non-audited

The accompanying notes form an integral part of the Consolidated financial statements.

CERÁMICA SALONI, S.A.U. and subsidiaries

Consolidated Income Statement

for the year ended December 31, 2017

(Expressed in Euros)

	Note	2017	2016(*)
Revenues	**Note 24**	**114,166,463**	**104,891,845**
Sales		113,872,630	104,483,855
Services rendered		293,833	407,990
Changes in inventories of finished goods and work in progress	**Note 15**	**680,605**	**(3,597,314)**
Supplies	**Note 24**	**(46,426,266)**	**(40,778,961)**
Merchandise used		(19,637,617)	(16,493,938)
Raw materials and other consumables used		(26,259,822)	(23,676,566)
Subcontracted work		(847,137)	(537,414)
Impairment of merchandise, raw materials and other supplies	**Note 15**	318,310	(71,043)
Other operating income		**661,321**	**1,111,567**
Non-trading and other operating income		638,688	1,094,279
Operating grants taken to income		22,633	17,288
Personnel expenses		**(26,380,103)**	**(21,378,416)**
Salaries and wages		(20,517,323)	(16,715,400)
Employee benefits expense	**Note 24**	(5,862,780)	(4,663,016)
Other operating expenses		**(30,897,822)**	**(29,201,330)**
External services		(30,036,912)	(28,388,079)
Taxes		(435,475)	(371,216)
Losses, impairment and changes in trade provisions	**Note 14**	(316,019)	(368,433)
Other operating expenses		(109,416)	(73,602)
Amortisation and depreciation	**Notes 5,7 and 8**	**(3,904,377)**	**(3,546,193)**
Non-financial and other capital grants	**Note 17**	**12,223**	**30,159**
Impairment and losses on disposal of fixed assets		**258,589**	**(579,503)**
Impairment and losses	**Note 6**	(266,000)	(534,000)
Profit/Losses on disposal and other	**Notes 7 and 8**	524,589	(45,503)
Other income		**136,209**	**113,746**
Results from operating activities		**8,306,842**	**7,065,600**
Finance income	**Notes 13,19 and 20**	**22,490,096**	**176,374**
Marketable securities and other financial instruments			
Group companies and associates		194,068	145,619
Other		22,296,028	30,755
Finance costs	**Note 19**	**(662,892)**	**(484,342)**
Group companies and associates		0	(371)
Other		(662,892)	(483,971)
Exchange losses	**Notes 14 and 20**	**(64,786)**	**(135,863)**
Impairment and losses on disposal of financial instruments		**0**	**(30,192)**
Gains/(losses) on disposal and other		0	(30,192)
Net finance cost/income		**21,762,418**	**(474,023)**
Profit before income tax		**30,069,260**	**6,591,577**
Income tax	**Note 21**	**(7,218,968)**	**(2,051,399)**
Consolidated Profit for the year		**22,850,292**	**4,540,178**
Consolidated Profit for the year attributable to the Parent		**22,850,067**	**4,540,162**
Consolidated Profit for the year attributable to non-controlling interests		**225**	**16**

(*) Non-audited

The accompanying notes form an integral part of the Consolidated financial statements.

CERÁMICA SALONI, S.A.U. and subsidiaries

Consolidated Statement of Changes in Equity for the year ended December 31, 2017

A) Statement of Recognised Income and Expenses for the year ended December 31, 2017

(Expressed in Euros)

	2017	2016(*)
Consolidated profit for the year	**22,850,292**	**4,540,178**
Income and expense recognised directly in consolidated equity		
Conversion differences	8,216	36,461
Total income and expense recognised directly in consolidated equity	**8,216**	**36,461**
Amounts transferred to the consolidated income statement		
Grants, donations and bequests	(12,223)	(30,159)
Tax effect	3,668	9,047
Total amounts transferred to the consolidated income statement	**(8,555)**	**(21,112)**
Total consolidated recognised income and expense for the year	**22,849,953**	**4,555,527**
Total consolidated recognised income and expense attributable to the Parent	**22,849,728**	**4,555,511**
Total consolidated recognised income and expense attributable to non-controlling interests	**225**	**16**

(*) Non-audited

The accompanying notes form an integral part of the Consolidated financial statements.

CERÁMICA SALONI, S.A.U. and subsidiaries

Consolidated Statement of Changes in Equity for the year ended December 31, 2017

B) Statement of Total Changes in Equity for the year ended December 31, 2017

(Expressed in Euros)

	Registered capital	Legal reserve	Voluntary reserves	Reserves in consolidated companies	Profit for the year attributable to the parent	Interim dividend	Grants, donations and bequests received	Conversion differences	Non-controlling interests	Total
Balance at January 1, 2017	**4,958,415**	**991,683**	**38,976,272**	**(5,754,022)**	**4,540,162**	**—**	**120,220**	**(119,925)**	**152**	**43,712,957**
Consolidated recognised income and expense	—	—	—	—	22,850,067	—	(8,555)	8,216	225	**22,849,953**
Distribution of profit for 2016										
Reserves	—	—	4,876,174	(336,012)	(4,540,162)	—	—	—	—	**—**
Dividends	—	—	(33,597,161)	—	—	(17,345,622)	—	—	—	**(50,942,783)**
Operations with shareholders (note 16.b)	—	—	(6,160,004)	—	—	—	—	—	—	**(6,160,004)**
Balance at December 31, 2017	**4,958,415**	**991,683**	**4,095,281**	**(6,090,034)**	**22,850,067**	**(17,345,622)**	**111,665**	**(111,709)**	**377**	**9,460,123**

The accompanying notes form an integral part of the Consolidated financial statements.

CERÁMICA SALONI, S.A.U. and subsidiaries

Consolidated Statement of Changes in Equity
for the year ended December 31, 2017

B) Statement of Total Changes in Equity for the year ended December 31, 2016(*)

(Expressed in Euros)

	Registered capital	Legal reserve	Other reserves	Reserves in consolidated companies	Profit for the year attributable to the parent	Grants, donations and bequests received	Conversion differences	Non-controlling interests	Total
Balance at January 1, 2016	**4,958,415**	**991,683**	**38,044,733**	**(6,918,349)**	**1,618,221**	**141,332**	**(156,386)**	**136**	**38,679,785**
Consolidated recognised income and expense	—	—	—	—	4,540,162	(21,112)	36,461	16	**4,555,527**
Transactions with shareholders or owners									
Distribution of profit for 2015									
Reserves	—	—	1,941,435	(323,214)	(1,618,221)	—	—	—	**—**
Changes in consolidation perimeter	—	—	(1,009,896)	1,487,541		—	—	—	**477,645**
Balance at December 31, 2016	**4,958,415**	**991,683**	**38,976,272**	**(5,754,022)**	**4,540,162**	**120,220**	**(119,925)**	**152**	**43,712,957**

(*) Non-audited

The accompanying notes form an integral part of the Consolidated financial statements.

CERÁMICA SALONI, S.A.U. and subsidiaries

Consolidated Statement of Cash Flow for the year ended December 31, 2017

(Expressed in Euros)

	2017	2016(*)
Cash flows from operating activities		
Profit for the year before tax	30,069,260	6,591,577
Adjustments for:		
Amortisation and depreciation	3,904,377	3,546,193
Impairment	870,632	742,933
Change in provisions	32,079	(78,365)
Grants recognised	(12,223)	(30,159)
Profits / Losses on disposals of fixed assets	(524,589)	45,503
Proceeds from disposals of financial instruments	—	37,858
Finance income	(22,490,096)	(175,807)
Finance costs	662,892	484,342
Exchange losses	64,786	134,538
Changes in operating assets and liabilities		
Inventories	(2,466,977)	(3,744,745)
Trade and other receivables	1,844,631	(2,116,945)
Other current assets	(102,621)	3,323
Trade and other payables	7,533,492	3,344,428
Other non-current assets/liabilities	284,725	(48,593)
Other cash flows from operating activities		
Interest paid	(662,892)	(776,822)
Interest received	413,677	175,807
Cash flows from operating activities	**19,421,153**	**8,135,066**
Cash flows from investing activities		
Payments for investments		
Group companies and associates	—	(2,606,239)
Intangible assets	(51,736)	(64,594)
Property, plant and equipment	(7,255,617)	(6,007,490)
Business unit	—	184,636
Other financial assets	—	(30,812)
Proceeds from sale of investments		
Group companies and associates	—	266
Intangible assets	—	643,296
Property, plant and equipment	35,476	148,022
Investment property	396,249	0
Other financial assets	24,933	56,635
Cash flows used in investing activities	**(6,850,695)**	**(7,676,280)**
Cash flows from financing activities		
Proceeds from and payments for financial liability instruments		
Issue		
Loans and borrowings	731,658	0
Group companies and associates	50,000,000	0
Other payables	0	232
Redemption and repayment of		
Loans and borrowings	(2,139,524)	(1,953,310)
Group companies and associates	(53,131,565)	0
Other payables	(347,571)	(296,203)
Cash flows used in financing activities	**(4,887,002)**	**(2,249,281)**
Net increase/decrease in cash and cash equivalents	**7,683,456**	**(1,790,495)**
Cash and cash equivalents at beginning of year	**1,084,960**	**2,875,455**
Cash and cash equivalents at year end	**8,768,416**	**1,084,960**

(*) Non-audited

The accompanying notes form an integral part of the Consolidated financial statements.

(1) Nature and Activities of the Company and Composition of the Group

Cerámica Saloni, S.A U. (hereinafter the Company or Parent Company) (together with its subsidiaries, the Group) was incorporated with limited liability under Spanish law on 27 November 1971. Its statutory and principal activity consists of the development, manufacture, finance, import, export, trading, exhibition, purchase and sale of all types of ceramic and construction materials and products and bathroom and kitchen furniture and accessories.

The Company operates throughout Spain and in several other countries through its factory in San Juan de Moró (Castellón) and subsidiaries in Portugal, the UK and France. In 2016 the Parent Company acquired the trading company Atlantic Tiles. The Company also carries out its activity through a network of stores in Spain. Its registered office is located at Carretera de Castellón a Alcora, km. 17, San Juan de Moró (Castellón).

At December 31, 2017 the Company formed part of the Mosaiq Group, (previously named Obinesa Group), the parent of which is Obinesa, S.L. The Company's direct parent was Obinesa Grupo Industrial, S.L.U. Both companies are domiciled in Castellón. The directors of Obinesa, S.L. have prepared statutory consolidated annual accounts for 2017 within the legally established period, which are to be filed at the Castellón Mercantile Registry.

In turn, since December 2017 the Mosaiq Group formed part of the Atitlan Group, which is domiciled in Valencia. The statutory consolidated annual accounts of the Atitlan Group which are to be filed at the Valencia Mercantile Registry. At December 31, 2017 the Company was wholly owned by its sole shareholder is Obinesa Grupo Industrial, S.L.U.

On August 7, 2018, Victoria PLC, through an indirectly wholly-owned subsidiary named Sandover Investments, S.L.U., acquired the entire share capital of Cerámica Saloni S.A.U. (see note 28).)

The Company holds investments in subsidiaries. Details of investments in subsidiaries are provided in Appendix I. All subsidiaries have been consolidated. No investees are listed on any stock exchange market.

During 2017 there has not been changes in the perimeter of consolidation. During 2016 the most significant changes in the perimeter of consolidation were the following:

- Exit from the perimeter of consolidation due to liquidation of the subsidiary Saloni Service S.R.L.
- Entry into the perimeter of consolidation of the subsidiary Atlantic Tiles, S.L.

(2) Basis of Presentation

(a) True and fair view

The directors have authorised the 2017 consolidated financial statements for issue and the consolidated financial statements for 2017 have been prepared in accordance with prevailing legislation, the Spanish General Chart of Accounts approved by Royal Decree 1514/2007 and the Rules for the Preparation of Consolidated Annual Accounts approved by Royal Decree 1159/2010 and subsequent amendments to give a true and fair view of the consolidated equity and consolidated financial position at December 31, 2017 and consolidated results of operations, consolidated changes in equity, and consolidated cash flows for the year then ended.

In accordance with prevailing legislation, the Company is the parent of a group of companies. In accordance with financial reporting framework applicable to the Group in Spain, consolidated financial statements must be prepared to give a true and fair view of the financial position of the Group, the results of operations and changes in its equity and cash flows. Nevertheless, as permitted by section 2 of article 43 of the Spanish Code of Commerce, the Company does not prepare statutory consolidated annual accounts as they are a subgroup of Mosaiq Group mentioned in note 1, who file statutory consolidated annual accounts in Spain.

(2) Basis of Presentation (Continued)

Consequently, the accompanying consolidated financial statements have not been prepared to comply with legal requirements in Spain, but in relation to a possible bond issuance process to be carried out by the ultimate shareholder of the Group.

(b) Comparative information

As mentioned in note 1, the Group was integrated in the Mosaiq Group, a higher-level Spanish group, meaning that the Parent Company is not obliged to present statutory consolidated annual accounts as provided in section 2 of article 43 of the Commercial Code, as the Mosaiq Group filed statutory consolidated annual accounts. However, according to note 2.a), 2017 is the first year in which the Group has voluntarily prepared consolidated financial statements. As a consequence, the acquisition date of the consolidated companies, to the effect of applying the consolidation method, must be referred to the acquisition/constitution date in the Mosaiq Group to which they belonged at December 31, 2017.

The consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity, consolidated statement of cash flows and the notes thereto for 2017 include unaudited corresponding figures for 2016.

(c) Functional and presentation currency

The figures disclosed in the consolidated financial statements are expressed in Euros, the Parent Company functional and presentation currency.

(d) Critical issues regarding the valuation and estimation of relevant uncertainties and judgements used when applying accounting principles

Relevant accounting estimates and judgements and other estimates and assumptions have to be made when applying the Group's accounting principles to prepare the consolidated financial statements. A summary of the items requiring a greater degree of judgement or which are more complex, or where the assumptions and estimates made are significant to the preparation of the consolidated financial statements, is as follows:

(i) Relevant accounting estimates and assumptions

Valuation allowances for bad debts, which require a high degree of judgement by management and a review of individual balances based on customers' credit ratings.

The Group makes estimates and judgements with respect to provisions for impairment of inventories based on its own experience and historical information.

The Group estimates the useful life of intangible assets and property, plant and equipment to reasonably recognise the amortisation and depreciation of these types of assets.

The recoverability of the tax credits is based on the business projections made in the year, and on the basis of which it is considered likely that future taxable profits will be obtained that will enable these assets to be used.

(ii) Changes in accounting estimates

Although estimates are calculated by the Company's directors based on the best information available at December 31, 2017, future events may require changes to these estimates in subsequent years. Any effect on the consolidated financial statements of adjustments to be made in subsequent years would be recognised prospectively.

(2) Basis of Presentation (Continued)

(e) Financial situation

In previous years, in view of the on-going financial crisis, the Group prepared a business plan which considered significant cost-cutting measures to adapt the Group's structure to the actual level of demand. This, together with the marketing initiatives carried out, has enabled the Group to increase its sales in 2017, and obtain operating and net profits in both 2016 and 2017.

At December 31, 2017 the Group also shows a balanced equity structure, with net equity of Euros 9,460 thousand, which has decreased because of the distribution of dividends of Euros 50,942 thousand at the end of 2017, by virtue of the agreement to net and eliminate balances and transactions with the Mosaiq Group companies set out in the Framework Refinancing Agreement signed in 2017 (see note 20.c). At December 31, 2017 the Group's working capital is positive in an amount of Euros 21,451 thousand.

(3) Distribution of Profit

The distribution of the Parent's profit for the year ended December 31, 2016, proposed by the directors and approved by the decision of the Sole Shareholder as of December 18, 2017, consisted of its transfer to voluntary reserves.

The distribution of the Parent's 2017 profit approved by the sole shareholder on June 30, 2018 is as follows:

	In Euros
Basis of allocation	
Profit for the year	19,627,803.61
Distribution	
Other reserves	2,282,181.20
Interim dividends	17,345,622.41
	19,627,803.61

(4) Significant Accounting Policies

(a) Subsidiary Companies

Subsidiaries are considered to be the companies, including those with a special purpose, on which the Parent Company, directly or indirectly through other subsidiaries, exercises control as stated in art. 42 of the Spanish Commercial Code. Control by means of empowerment to manage the financial and operative policies, with the purpose of obtaining a profit from its business activities, considering to these effects, the potential exercisable or convertible voting rights at the accounting year end in hands of the Group or others.

To the effects of presentation and breakdown, Group Companies are considered to be those which are controlled by any means by a sole or group of natural or legal people, which act together or are found by the same management due to agreements or clauses.

Subsidiary companies have been consolidated using the global integration method.

Information of the subsidiary companies included in the consolidation Group can be found in Appendix I.

Revenues, expenses and cashflows of subsidiary companies are included in the consolidated financial statements from the acquisition date, which is the date from which the Group effectively obtains the control over them. Subsidiary companies are excluded from the consolidation process from the date on which control is lost.

The transactions and balances maintained with subsidiary companies as well as the related profit or loss, have been eliminated in the consolidation process. However, losses not externally obtained, have been considered as an indicator of value impairment of those assets which have been transmitted.

(4) Significant Accounting Policies (Continued)

The accounting policies of the subsidiary companies have been adapted to the Group's accounting policies.

The financial statements of subsidiary companies used in the consolidation process are referred at the same date and period to those of the Group.

(b) Non-controlling interests

Non-controlling interests in subsidiaries are recognised at the acquisition date at the proportional part of the fair value of the identifiable net assets. Non-controlling interests in subsidiaries acquired prior to the transition date were recognised at the proportional part of the equity of the subsidiaries at the date of first consolidation. Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the Parent. Non-controlling interests' share in profit or loss for the year is also presented separately in the consolidated income statement.

The profit or loss for the year and changes in equity of the subsidiaries attributable to the Group and non-controlling interests, after consolidation adjustments and eliminations, are determined in accordance with the percentage ownership at year end.

The profit/loss and recognised income and expense of subsidiaries are allocated to equity attributable to the Parent and to non-controlling interests in proportion to their investments, even if this results in a balance receivable from non-controlling interests. Agreements entered into between the Group and non-controlling interests are recognised as a separate transaction.

(c) Business combinations

The Group applies the acquisition method for business combinations.

The acquisition date is the date on which the Group obtains control of the acquiree.

The cost of the business combination is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred or assumed, the equity instruments issued and any consideration contingent on future events or compliance with certain conditions in exchange for control of the business acquired.

The cost of a business combination excludes any payments that do not form part of the consideration given in exchange for the acquired business. Acquisition costs are recognised as an expense when incurred.

The costs of issuing equity and liability instruments do not form part of the cost of the business combination, but are recognised using the measurement criteria applicable to these transactions.

The Group recognises the assets acquired and liabilities assumed at their acquisition-date fair value. Non-controlling interests in the acquiree are recognised at the proportionate interest in the fair value of the net assets acquired. Liabilities assumed include any contingent liabilities that represent present obligations arising from past events for which the fair value can be reliably measured.

The income, expenses and cash flows of the acquiree are included in the consolidated financial statements from the acquisition date.

The excess of the cost of the business combination, plus the value assigned to non-controlling interests, over the value of the identifiable net assets of the acquiree is recognised as goodwill under intangible assets if the acquisition has been recognised in the individual annual accounts of the consolidated companies, or as goodwill on consolidation if the acquisition of the business has been included in the consolidated financial statements.

(4) Significant Accounting Policies (Continued)

(d) Foreign currency transactions, balances and cash flows

(i) Foreign currency transactions, balances and cash flows

Transactions in foreign currency have been converted into euros by applying to the amount in foreign currency, the spot exchange rate at date on which they were performed.

Monetary assets and liabilities denominated in foreign currency have been converted into euros by applying the exchange rate at the year end, while non-monetary assets, valued at historical cost, have been converted by applying the exchange rate at the date on which the transactions took place.

In the presentation of the consolidated statement of cashflow, the cashflows from transactions in foreign currency, have been converted to euros by applying to the amount in foreign currency, the spot exchange rate at the date on which they are performed.

The positive and negative differences which appear both, in the liquidation of transactions in foreign currency, and in the conversion to euros of assets and liabilities in foreign currency, are stated in the consolidated income statement.

(ii) Conversion of businesses abroad

The conversion to euros of businesses abroad whose functional currency is not the one from a country which suffers a hyperinflationary economy, has been performed by applying the following criteria:

- Assets and liabilities, including goodwill and the adjustments of net assets derived from the acquisition of businesses, are converted at the exchange rate at the balance closing date.
- Revenues and expenses, are converted at the date of each transaction by the average exchange rate of the annual period which finishes at December 31.
- Exchange rate differences as the result of the enforcement of the criteria previously described, are recognized as conversion differences inside the consolidated net equity.

In the consolidated statement of cash flow, the cashflows coming from businesses abroad, have been converted to euros by applying to the amount in foreign currency, the exchange rate at the date when they are performed.

The conversion differences registered in the consolidated net equity, are stated in the consolidated income statement at the date in which the disposal or disposition in another way of businesses or companies takes place. The disposal can be produced by liquidation, reimbursement of the investment or abandonment. The payment of a dividend represents a disposition in the sense from which it supposes a reimbursement of the investment.

The functional currency of the subsidiary companies located abroad, is the currency from the countries in which they are domiciled.

(e) Intangible assets

Intangible assets are measured at acquisition or production cost. Capitalised production costs are recognised under self-constructed assets in the consolidated income statement. Intangible assets are carried at cost, less any accumulated amortisation and impairment.

(i) Goodwill on consolidation

Goodwill on consolidation of business combinations reflects the excess of the cost of business combination over the acquisition-date fair value of the assets acquired and liabilities and contingent liabilities assumed in the acquisition.

(ii) Research and development

Expenditure on research is recognised as an expense when it is incurred.

(4) Significant Accounting Policies (Continued)

The Group capitalises development expenses incurred by each specific project that meets the following conditions:

- Payments attributable to the performance of the project can be measured reliably.
- The allocation, assignment and timing of costs for each project are clearly defined.
- There is evidence of the project's technical success, in terms of direct operation or sale to a third party of the results thereof once completed and if a market exists.
- The economic and commercial feasibility of the project is reasonably assured.
- Financing to develop the project, the availability of adequate technical and other resources to complete the development and to use or sell the resulting intangible asset are reasonably assured.
- There is an intention to complete the intangible asset for its use or sale.

Development expenditure is reclassified under patents, licences, trademarks and similar rights at the date of registration. Capitalised costs are amortised on a straight-line basis over a period of five years.

When there are reasonable doubts as to the technical success or economic and commercial feasibility of capitalised projects, the amounts in the balance sheet are recognised directly as a loss for the year.

(iii) Industrial property

Industrial property includes the cost of obtaining different patents, trademarks or similar rights and is amortised on a straight-line basis over a period of 10 years.

(iv) Computer software

Computer software acquired and produced by the Group, including website costs, is recognised when it meets the conditions for consideration as development costs. Computer software maintenance costs are charged as expenses when incurred. Computer software maintenance costs are amortised on a straight-line basis over a period of four years.

(v) Subsequent costs

Subsequent costs incurred on intangible assets are recognised in the consolidated income statement, unless they increase the expected future economic benefits attributable to the intangible asset.

(vi) Useful life and amortisation rates

Development expenditure is amortised on a straight-line basis from the date on which the project is completed.

The depreciable amount of intangible assets is measured as the cost of the asset, less any residual value.

The Group reviews the residual value, useful life and amortisation method for intangible assets at each year end. Changes to initially established criteria are accounted for as a change in accounting estimates.

(vii) Impairment losses

The Group measures and determines impairment to be recognised or reversed based on the criteria in section (h) Impairment of non-financial assets subject to amortisation or depreciation.

(4) Significant Accounting Policies (Continued)

(f) Property, plant and equipment

(i) Initial recognition

Property, plant and equipment are measured at cost of acquisition or production. Property, plant and equipment are carried at cost less any accumulated depreciation and impairment.

Items of property, plant and equipment recognised prior to 31 December 1996 are carried at a revalued amount as permitted by pertinent legislation.

Spare parts used to replace similar parts in facilities, equipment and machinery are measured applying the aforementioned criteria. Parts with a warehouse cycle of less than one year are recognised as inventories. Parts with a warehouse cycle of more than one year and which are related to certain specific assets are recognised and depreciated on a systematic basis consistent with the depreciation policy for the assets in question, and those not related to specific assets are recognised as other fixed assets and depreciated using the same process as for the part to be replaced, if this can be identified. In general, these latter spare parts are depreciated from the date they are incorporated into the asset, considering their technical obsolescence and the weighted technical or economic useful life of the assets in which they are to be incorporated.

Non-current investments in property held by the Group under operating leases are classified as property, plant and equipment. Assets are depreciated over the shorter of the lease term and their useful life.

(ii) Depreciation

Property, plant and equipment are depreciated by allocating the depreciable amount of the asset on a systematic basis over its useful life. The depreciable amount is the cost of an asset, less its residual value. The Group determines the depreciation charge separately for each component of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the asset and with a useful life that differs from the remainder of the asset.

Property, plant and equipment are depreciated using the following criteria:

	Depreciation method	Estimated years of useful life
Buildings	Straight-line	33.33–50
Technical installations and machinery	Straight-line	5.55–10
Other installations, equipment and furniture	Straight-line	3.33–10
Motor vehicles	Straight-line	6.25
Information technology equipment	Straight-line	4
Other property, plant and equipment	Straight-line	5–6.66

The Group reviews residual values, useful lives and depreciation methods at each year end. Changes to initially established criteria are accounted for as a change in accounting estimates.

(iii) Subsequent costs

Subsequent to initial recognition of the asset, only the costs incurred which increase capacity or productivity or which lengthen the useful life of the asset are capitalised. The carrying amount of parts that are replaced is derecognised. Costs of day-to-day servicing are recognised in the consolidated income statement as incurred.

(iv) Impairment

The Group measures and determines impairment to be recognised or reversed based on the criteria in section (h) Impairment of non-financial assets subject to amortisation or depreciation.

(g) Investment property

The Group classifies under this heading all investment property, including those in progress or under development, which are totally or partially destined to obtain rental revenues, capital gains or both, instead from its use in the production or supplying process of goods and services, or for administrative activities of the Group or its disposal in the current fiscal year.

(4) Significant Accounting Policies (Continued)

The Group recognizes and appraise investment property, following the established criteria for fixed assets.

Depreciation of Investment property is determined by the application of the criteria mentioned below:

	Depreciation method	Estimated years of useful life
Buildings	Straight-line	30–50

(h) Impairment of non-financial assets subject to amortisation or depreciation

At least at the end of each reporting period, the Group assesses whether there is any indication that its non-current assets or cash-generating units may be impaired. If any such indication exists, it estimates the recoverable amounts of these items.

The recoverable amount is the higher of fair value less costs to sell and value in use. An asset is impaired when its carrying amount exceeds its recoverable amount. Value in use is the present value of the expected future cash flows, discounted at a risk-free market interest rate and adjusted for any risks specific to the asset. For assets which do not generate cash flows that are largely independent of those from other assets or groups of assets, the recoverable amount is determined for the cash-generating units to which these assets belong.

Impairment losses are recognised in the consolidated income statement.

(i) Leases

(i) Lessee accounting

Leases in which, upon inception, the Group assumes substantially all the risks and rewards incidental to ownership are classified as finance leases, otherwise they are classified as operating leases.

- *Finance leases*

At the commencement of the lease term, the Group recognises finance leases as assets and liabilities at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Initial direct costs are added to the asset's carrying amount. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. Interest is expensed using the effective interest method.

Contingent rents are recognised as an expense when it is probable that they will be incurred.

The accounting policies applied to the assets used by the Group by virtue of finance lease contracts are the same as those set out in section (f). However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the assets are fully depreciated over the shorter of the lease term and their useful lives.

- *Operating leases*

Lease payments under an operating lease, net of incentives received, are recognised as an expense on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the lease's benefit.

Contingent rents are recognised as an expense when it is probable that they will be incurred.

(4) Significant Accounting Policies (Continued)

(j) Financial instruments

(i) Classification and separation of financial instruments

Financial instruments are classified on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the economic substance of the contractual arrangement and the definitions of a financial asset, a financial liability and an equity instrument.

The Group classifies financial instruments into different categories based on the nature of the instruments and the Group's intentions on initial recognition.

(ii) Loans and receivables

Loans and receivables comprise trade and non-trade receivables with fixed or determinable payments that are not quoted in an active market other than those classified in other financial asset categories. These assets are initially recognised at fair value, including transaction costs, and are subsequently measured at amortised cost using the effective interest method.

Nevertheless, financial assets which have no established interest rate, which mature or are expected to be received in the short term, and for which the effect of discounting is immaterial, are measured at their nominal amount.

The Group measures loans and receivables at amortised cost provided that reliable cash flow estimates can be made based on contractual terms.

(iii) Interest and dividends

Interest is recognised using the effective interest method.

Dividends from investments in equity instruments are recognised when the Group is entitled to receive them. If the dividends are clearly derived from profits generated prior to the acquisition date because amounts higher than the profits generated by the investment since acquisition have been distributed, the carrying amount of the investment is reduced.

(iv) Derecognition of financial assets

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received, net of transaction costs, including any new asset obtained less any new liability assumed and any cumulative gain or loss deferred in recognised income and expense, is recorded in the consolidated income statement.

(v) Investments in group companies excluded from the scope of consolidation

Investments in group companies are initially recognized at cost, which is equivalent to the fair value of the consideration paid, and are subsequently valued at cost, less the accumulated amount of impairment losses. Investments in group companies acquired prior to 1 January 2010 include the transaction costs incurred in the cost of acquisition.

(vi) Impairment of financial assets

A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and the event or events have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

(4) Significant Accounting Policies (Continued)

The Group recognises impairment of loans and receivables and debt instruments when estimated future cash flows are reduced or delayed due to debtor insolvency.

Impairment of financial assets carried at amortised cost

The amount of the impairment loss of financial assets carried at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. For variable income financial assets, the effective interest rate corresponding to the measurement date under the contractual conditions is used.

The impairment loss is recognised in the consolidated income statement and may be reversed in subsequent periods if the decrease can be objectively related to an event occurring after the impairment has been recognised. The loss can only be reversed to the limit of the amortised cost of the assets had the impairment loss not been recognised.

(vii) Financial liabilities

Financial liabilities, including trade and other payables, that are not classified as held for trading or as financial liabilities at fair value through the consolidated income statement are initially recognised at fair value less any transaction costs directly attributable to the issue of the financial liability. After initial recognition, liabilities classified under this category are measured at amortised cost using the effective interest method.

Nevertheless, financial liabilities which have no established interest rate, which mature or are expected to be settled in the short term, and for which the effect of discounting is immaterial, are measured at their nominal amount.

The Group measures financial liabilities at amortised cost provided that reliable estimates of cash flows can be made based on the contractual terms.

(viii)Reverse factoring

The Group has contracted reverse factoring facilities with various financial institutions to manage payments to suppliers. Trade payables settled under the management of financial institutions are recognised under trade and other payables in the balance sheet until they are settled, repaid or have expired.

(ix) Security deposits

Security deposits paid are measured using the same criteria as for financial assets.

(x) Derecognition and modifications of financial liabilities

The Group derecognises all or part of a financial liability when it either discharges the liability by paying the creditor, or is legally released from primary responsibility for the liability either by process of law or by the creditor.

The difference between the carrying amount of a financial liability, or part of a financial liability, extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the consolidated income statement. If the Group transfers non-monetary assets in settlement of the debt, the difference between their fair value and their carrying amount is recognised as results from operating activities, and the difference between the value of the debt being settled and the fair value of the assets as net finance income/cost. If the Group transfers inventories, the corresponding sale transaction is recognised at their fair value and the change in inventories at their carrying amount.

(4) Significant Accounting Policies (Continued)

(k) Inventories

(i) General

Inventories are initially measured at cost of purchase or production.

The purchase price comprises the amount invoiced by the seller, after deduction of any discounts, rebates or other similar items, such as interest incorporated into the nominal amount, plus any additional costs incurred to bring the goods to a saleable condition and other costs directly attributable to the acquisition and indirect taxes not recoverable from the Spanish taxation authorities.

Trade discounts are recognised as a reduction in the cost of inventories when it is probable that the conditions for discounts to be received will be met. Unallocated discounts are recognised as a decrease on the purchase.

Purchase returns are recognised as a reduction in the carrying amount of inventories returned, except where it is not feasible to identify these items, in which case they are accounted for as a reduction in inventories.

Sales returns are recognised at purchase price or cost of production, except where the net realisable value is lower, in which case they are recognised at that amount.

The production cost of inventories comprises the purchase price of raw materials and consumables, costs directly related to the units of production and systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. The allocation of fixed indirect overheads is based on the higher of normal production capacity or actual production.

Advances on account of inventories are measured at cost.

The cost of raw materials, other supplies and merchandise is allocated to each inventory unit on a weighted average cost basis.

When the cost of inventories exceeds net realisable value, materials are written down to net realisable value. For these purposes, net realisable value is understood as follows:

- For raw materials and other supplies, replacement cost. Raw materials and other supplies are not written down below cost if the finished goods in which they will be incorporated are expected to be sold at or above cost of production;
- For merchandise and finished goods, estimated selling price less costs to sell;
- For work in progress, estimated selling price of the related finished goods, less the estimated costs of completion and the estimated costs necessary to make the sale;

The previously recognised write-down is reversed against the consolidated income statement when the circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances. The reversal of the valuation adjustment is limited to the lower of the cost and the revised net realisable value of the inventories.

Write-downs to net realisable value recognised or reversed on inventories are classified under changes in inventories of finished goods and work in progress or supplies, depending on their nature.

(ii) Emission allowances

Emission allowances, which are recognised when the Group becomes entitled to such allowances, are measured at cost of acquisition or production under raw materials and other supplies. Emission allowances which are expected to be consumed within a period of more than one year are recognised under raw materials and other supplies—long cycle. Emission allowances acquired through an onerous contract are accounted for by applying the same criteria as for inventories. Allowances acquired free of charge, or, at a

(4) Significant Accounting Policies (Continued)

price substantially lower than fair value, are carried at fair value. Any difference between fair value and the consideration given is recognised as a non-refundable grant associated with the emission allowances and credited to equity. These grants are recognised as income and matched with the associated costs which the grants are intended to compensate, using the same criteria as for capital grants.

Emission allowances deriving from a certified emission reduction or an emission reduction unit, generated through clean development mechanisms or joint implementation projects, are carried at cost of production.

Provision is systematically made under current provisions for liabilities and charges for expenses related to the emission of greenhouse gases. This provision is maintained until the obligation is cancelled, through the conveyance of the corresponding allowances. Provisions released or surplus provisions reversed are recognised as operating income. The provision is determined on the basis that it will be cancelled, as follows:

- Firstly, through allocated emission allowances, which are then used to cancel actual emissions in proportion to total forecast emissions for the entire period to which they have been allocated. The expense corresponding to this part of the obligation is determined based on the carrying amount of the transferred emission allowances;
- Secondly, through the remaining emission allowances recorded. Expenditure on this part of the obligation is measured as the weighted average cost of the emission allowances.

  If the emission of gases necessitates the acquisition or production of emission allowances because actual emissions exceed those which can be cancelled through the allocated emission allowances, or through surplus emission allowances, whether acquired or produced. Provision is made for the shortfall in allowances. The expense is determined using the best estimate of the amount necessary to cover the shortfall in emission allowances.

(l) Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits in financial institutions. They also include other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. An investment normally qualifies as a cash equivalent when it has a maturity of less than three months from the date of acquisition.

The Group recognises cash payments and receipts for financial assets and financial liabilities in which turnover is quick on a net basis in the statement of cash flows. Turnover is considered to be quick when the period between the date of acquisition and maturity does not exceed six months.

(m) Grants, donations and bequests

Grants are recorded in recognised income and expense when, where applicable, they have been officially awarded, the conditions attached to them have been met or there is reasonable assurance that they will be received.

Monetary grants are measured at the fair value of the sum received, whilst non-monetary grants received are accounted for at the fair value of the asset received.

In subsequent years, grants are recognised as income as they are applied.

Capital grants are recognised as income over the same period and in the proportions in which depreciation on those assets is charged or when the assets are disposed of, derecognised or impaired.

Grants awarded to finance specific expenses are recognised as income when the financed expenses are accrued.

(4) Significant Accounting Policies (Continued)

(n) Provisions

Provisions are recognised when the Group has a present obligation (legal, contractual, constructive or tacit) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

If it is not probable that an outflow of resources will be required to settle an obligation, the provision is reversed.

(o) Revenue from the sale of goods and rendering of services

Revenue from the sale of goods or services is measured at the fair value of the consideration received or receivable. Volume rebates, prompt payment and any other discounts, as well as the interest added to the nominal amount of the consideration, are recognised as a reduction in the consideration.

Discounts granted to customers are recognised as a reduction in sales revenue when it is probable that the discount conditions will be met.

Advances on account of future sales are measured at the value received.

(i) Revenue from sales

The Group recognises revenue from the sale of goods when:

- It has transferred to the buyer the significant risks and rewards of ownership of the goods;
- It retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue and the costs incurred or to be incurred can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

(p) Income tax

The income tax expense or tax income for the year comprises current tax and deferred tax.

Current tax assets or liabilities are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantially enacted at the reporting date.

Current and deferred tax are recognised as income or an expense and included in the consolidated income statement for the year, except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different year, directly in equity, or from a business combination.

Up until the year 2017, the Company filed consolidated tax returns with Obinesa, S.L. (Parent) and other Mosaiq Group companies.

In addition to the factors to be considered for individual taxation, set out previously, the following factors were taken into account when determining the accrued income tax expense for the companies which formed the consolidated tax group:

- Temporary and permanent differences which arose from the elimination of profits and losses on transactions between Group companies, derived from the process of determining consolidated taxable income.

(4) Significant Accounting Policies (Continued)

- Deductions and credits corresponding to each company which formed the consolidated tax group. For these purposes, deductions and credits were allocated to the company that carried out the activity or obtained the profit necessary to obtain the right to the deduction or tax credit.

Temporary differences which arose from the elimination of profits and losses on transactions between tax group companies were allocated to the company which recognised the profit/loss and were valued using the tax rate of that company.

A reciprocal credit and debit arose between the companies that contribute tax losses to the consolidated Group and the rest of the companies that offset those losses. Where a tax loss cannot be offset by the other consolidated Group companies, these tax credits for loss carry forwards were recognised as deferred tax assets using the applicable recognition criteria, considering the tax group as a taxable entity.

The Parent of the Tax Group recorded the total consolidated income tax payable (recoverable) with a debit (credit) to receivables (payables) from/to Group companies and associates.

The amount of the debt (credit) relating to the subsidiaries was recognised with a credit (debit) to payables (receivables) to/from Group companies and associates.

(i) Recognition of deferred tax liabilities

The Group recognises deferred tax liabilities in all cases except:

- where they arise from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable income;
- where they correspond to taxable temporary differences related to investments in subsidiaries, associates and jointly-controlled entities over which the Group has the ability to control the moment of its reversal and it is not probable that its reversal will occur in the foreseeable future.

(ii) Recognition of deferred tax assets

The Group recognises deferred tax assets provided that:

- it is probable that sufficient taxable income will be available against which they can be utilised or when tax legislation envisages the possibility of converting deferred tax assets into a receivable from public entities in the future. However, the assets arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and at the date of the transaction do not affect either the accounting result or the taxable income, are not recognized;
- they correspond to deductible temporary differences related to investments in subsidiaries, associates and jointly-controlled entities, to the extent that the temporary differences will revert in the foreseeable future and it is expected to generate future tax profits in order to offset the differences.

The Group recognises the payment obligation deriving from financial contributions as an operating expense with a credit to payables to public entities when it is accrued in accordance with the Spanish Income Tax Law.

In the absence of evidence to the contrary, it is not considered probable that the Group will have future taxable profit when the deferred tax assets are expected to be recovered in a period of more than ten years from the end of the reporting period, irrespective of the nature of the deferred tax asset; or, in the case of tax credits for deductions and other tax relief that are unused due to an insufficient amount of total tax, when there is reasonable doubt—after the activity or the income giving rise to entitlement to the deduction or tax credit has been rendered or received, respectively—as to whether the requirements for their offset will be met.

(4) Significant Accounting Policies (Continued)

The Group only recognises deferred tax assets arising from tax loss carry forwards when it is probable that future taxable profit will be generated against which they may be offset within the period stipulated in applicable tax legislation, up to a maximum period of ten years, unless there is evidence that their recovery in a longer period of time is probable and tax legislation provides for their utilisation in a longer period or stipulates no time limit for their utilisation.

Conversely, it is considered probable that the Group will generate sufficient taxable profit to recover deferred tax assets when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which are expected to reverse in the same tax period as the expected reversal of the deductible temporary differences or in periods into which a tax loss arising from a deductible temporary difference can be carried back or forward.

The Group recognises deferred tax assets not previously recognised because they were not expected to be utilised within the ten-year recovery period, inasmuch as the future reversal period does not exceed ten years from the end of the reporting period or when there are sufficient taxable temporary differences.

(iii) Measurement of deferred tax assets and liabilities

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the years when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted. The tax consequences that would follow from the manner in which the Group expects to recover or settle the carrying amount of its assets or liabilities are also reflected in the measurement of deferred tax assets and liabilities.

(iv) Classification

Deferred tax assets and liabilities are recognised in the consolidated balance sheet under non-current assets or liabilities, irrespective of the expected date of recovery or settlement.

(q) Classification of assets and liabilities as current and non-current

Assets and liabilities are classified as current and non-current based on the Group's normal operating cycle, which is no more than twelve months.

(r) Environmental issues

The Group takes measures to prevent, reduce or repair the damage caused to the environment by its activities.

Expenses derived from environmental activities are recognised as other operating expenses in the period in which they are incurred. Nonetheless, the Group recognises environmental provisions and, where applicable, reimbursement rights by applying the general criteria described in the section on provisions.

Property, plant and equipment acquired by the Group for long-term use to minimise the environmental impact of its activity and protect and improve the environment, including the reduction and elimination of future pollution from the Group's activities, are recognised as assets applying the measurement, presentation and disclosure criteria described in section (f) Property, plant and equipment.

(s) Transactions between Mosaiq Group companies excluded from the consolidation group.

Transactions between Mosaiq Group companies excluded from the consolidation group, except those related to mergers, spin-offs and non-monetary contributions, are recognised at the fair value of the consideration given or received. The difference between this value and the amount agreed is recognised in line with the underlying economic substance of the transaction.

(5) Intangible Assets

Details of intangible assets, except goodwill, and movement are as follows:

	Euros		
2017	**Patents, licences, trademarks and similar rights**	**Computer software**	**Total**
Cost at January 1, 2017	72,885	5,816,454	**5,889,339**
Additions	5,000	46,736	**51,736**
Disposals	—	(125)	**(125)**
Cost at December 31, 2017	77,885	5,863,065	**5,940,950**
Accumulated amortisation at January 1, 2017	(72,882)	(5,570,414)	**(5,643,296)**
Amortisation	(84)	(108,688)	**(108,772)**
Disposals	—	125	**125**
Accumulated amortisation at December 31, 2017	(72,966)	(5,678,977)	**(5,751,943)**
Carrying amount at December 31, 2017	4,919	184,088	**189,007**

	Euros			
2016	**Development**	**Patents, licences, trademarks and similar rights**	**Computer software**	**Total**
Cost at January 1, 2016	2,675,971	72,885	5,614,633	**8,363,489**
Additions	—	—	64,594	**64,594**
Disposals	(2,675,971)	—	—	**(2,675,971)**
Transfers (note 7)	—	—	137,227	**137,227**
Cost at December 31, 2016	—	72,885	5,816,454	**5,889,339**
Accumulated amortisation at January 1, 2016	(2,472,359)	(72,882)	(5,532,243)	**(8,077,484)**
Amortisation	(203,612)	—	(38,171)	**(241,783)**
Disposals	2,675,971	—	—	**2,675,971**
Accumulated amortisation at December 31, 2016	—	(72,882)	(5,570,414)	**(5,643,296)**
Carrying amount at December 31, 2016	—	3	246,040	**246,043**

(a) Development

During 2016, the Group wrote off fully amortised development expenditure capitalised in prior years.

During 2017 and 2016, the Group has not capitalised any research and development expenditure.

The Group has also recognised an amount of Euros 50,330 for research expenditure in the consolidated income statement for 2017 (Euros 30,176 in 2016).

(b) Fully amortised assets

The cost of fully amortised intangible assets in use at 31 December is as follows:

	Euros	
	2017	**2016**
Trademarks and industrial property	61,409	61,409
Computer software	5,540,883	5,491,095
	5,602,292	**5,552,504**

(6) Goodwill, Goodwill from Consolidated Companies and Value Impairment

Goodwill on consolidation arises as the consequence of the existent excess, between the cost of business combination derived from the acquisition by the Group of the 99.89% of the shares of the subsidiary company Atlantic Tiles, and the corresponding identifiable net assets' value of the acquiree.

At December 31, 2017, the net book value of the goodwill on consolidation is zero Euros (Euros 266,000 in 2016), having recorded an impairment for an amount of Euros 266,000 in 2017 (Euros 534,000 in 2016).

During years 2017 and 2016, the Group has impaired the Goodwill arising from the business combination after evaluating the negative evolution of the business, sales and results, and the future forecasts that do not contemplate the recovery of the mentioned asset.

(7) Property, Plant and Equipment

Details of property, plant and equipment and movements are shown in Appendix II.

(a) General

The net amount pending depreciation of property, plant and equipment from the increase in value recorded in 1996 in accordance with Royal Decree-Law 7/1996 of 7 June 1996, amounts to Euros 270,996 and Euros 294,266 at December 31, 2017 and 2016, respectively.

The disposal of property, plant and equipment during 2017 have resulted in a loss of an amount of Euros 224 thousand, which has been registered under the heading "Profit/Losses on disposal and other" in the consolidated income statement.

(b) Property, plant and equipment acquired from Group companies

Property, plant and equipment acquired from Mosaiq Group companies at December 31, 2017 mainly reflect land and buildings with a carrying amount of Euros 3,933,074 (Euros 4,125,694 in 2016) and other installations, furniture and fixtures of Euros 369,184 (Euros 435,970 in 2016).

(c) Property, plant and equipment located outside Spain

Property, plant and equipment located outside Spain is the following:

	Euros		
2017	**Cost**	**Accumulated amortisation**	**Net Value**
Land and buildings	139,003	(105,244)	**33,759**
Technical installations and other fixed assets	822,239	(808,249)	**13,990**
	961,242	**(913,493)**	**47,749**

	Euros		
2016	**Cost**	**Accumulated amortisation**	**Net Value**
Land and buildings	84,849	(33,627)	**51,222**
Technical installations and other fixed assets	777,911	(750,626)	**27,285**
	862,760	**(784,253)**	**78,507**

(7) Property, Plant and Equipment (Continued)

(d) Fully depreciated assets

Details of the cost of fully depreciated property, plant and equipment in use at 31 December are as follows:

	Euros	
	2017	**2016**
Buildings	1,655,095	1,498,051
Technical installations and machinery	52,880,803	52,028,712
Other installations, equipment and furniture	15,564,505	14,849,715
Other property, plant and equipment	6,430,134	6,372,218
	76,530,537	**74,748,696**

(e) Government grants received

The acquisition of certain assets classified as buildings, technical installations and machinery and other items with a carrying amount of Euros 2,328,458 (Euros 2,494,806 in 2016), was partially financed through grants.

(f) Insurance

The Group has taken out insurance policies to cover the risk of damage to its property, plant and equipment. The coverage of these policies is considered to be sufficient in 2017 and 2016.

(8) Investment property

Details of Investment property and movement are as follows:

	Euros		
2017	**Land**	**Buildings**	**Total**
Cost at January 1, 2017	955,682	1,332,298	**2,287,980**
Additions	—	—	**—**
Disposals	(955,682)	(1,332,298)	**(2,287,980)**
Cost at December 31, 2017	—	—	**—**
Accumulated depreciation at January 1, 2017	—	(931,437)	**(931,437)**
Depreciation	—	(31,817)	**(31,817)**
Disposals		963,254	**963,254**
Accumulated depreciation at December 31, 2017	—	—	**—**
Carrying amount at December 31, 2017	—	—	**—**

(8) Investment property (Continued)

2016	Euros		
	Land	Buildings	Total
Cost at January 1, 2016	955,682	1,332,298	**2,287,980**
Additions	—	—	**—**
Disposals			
Cost at December 31, 2016	955,682	1,332,298	**2,287,980**
Accumulated depreciation at January 1, 2016	—	(867,804)	**(867,804)**
Depreciation	—	(63,633)	**(63,633)**
Disposals			
Accumulated depreciation at December 31, 2016	—	(931,437)	**(931,437)**
Carrying amount at December 31, 2016	**955,682**	**400,861**	**1,356,543**

The disposals in 2017, mainly correspond to investment properties which were subject to mortgage guarantees of debts with financial institutions that signed the refinancing agreements granted to the Mosaiq Group in previous years, and that in accordance to what is stated in those agreements, have been disposed of along with its associated debt (see note 20.c). The disposals in 2017 have represented a profit of Euros 749 thousand, which has been registered under the heading "Profit/Losses on disposal and other" in the consolidated income statement.

(a) Investment property located outside Spain

Investment property located outside Spain at December 31, 2016 is the following:

2016	Euros		
	Cost	Accumulated amortisation	Net Value
Land and buildings	2,287,980	(931,437)	**1,356,543**
	2,287,980	(931,437)	**1,356,543**

(9) Finance Leases—Lessee

At December 31, 2017 and 2016 the Group has leased the following types of assets under finance leases:

	Euros	
	Other property, plant and equipment	Total
Initially recognised at:		
Fair value	394,388	**394,388**
Accumulated depreciation and impairment losses	(105,390)	**(105,390)**
Carrying amount at December 31, 2017	288,998	**288,998**
Initially recognised at:		
Fair value	394,388	**394,388**
Accumulated depreciation and impairment losses	(42,288)	**(42,288)**
Carrying amount at December 31, 2016	352,100	**352,100**

(9) Finance Leases—Lessee (Continued)

At December 31, 2017 and 2016, future minimum lease payments were reconciled with their present value as follows:

	Euros	
	2017	2016
Future minimum payments	217,465	314,069
Purchase option	53,545	53,544
Unaccrued finance costs	(17,405)	(32,250)
Present value	**253,605**	**335,363**

At December 31, 2017 and 2016 details of minimum payments and the present value of finance lease liabilities, by maturity date, are as follows:

	Euros			
	2017		2016	
	Minimum payments	Present value	Minimum payments	Present value
Less than one year	96,605	86,036	96,604	81,758
One to five years	174,405	167,569	271,009	253,605
	271,010	253,605	367,613	335,363
Less current portion	(96,605)	(86,036)	(96,604)	(81,758)
Total non-current	**174,405**	**167,569**	**271,009**	**253,605**

Finance lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

(10) Operating Leases—Lessee

Operating leases mainly relate to commercial premises used for the sale and distribution of Group products. The remaining operating leases are on vehicles, forklifts and IT equipment.

Operating lease payments have been recognised as an expense for the year as follows:

	Euros	
	2017	2016
Minimum lease payments	1,799,232	1,404,608

Future minimum payments under non-cancellable operating leases are as follows:

	Euros	
	2017	2016
Less than one year	1,249,063	1,263,422
One to five years	2,309,882	2,403,141
	3,558,945	**3,666,563**

(11) Operating Leases—Lessor

At December 31, 2016 the Group leased the following assets to third parties under operating leases:

	Euros				
	Computer software	Technical installations and machinery	Other installations, equipment and furniture	Other property, plant and equipment	Total
Cost	216,034	4,626,532	3,946,911	64,231	**8,853,708**
Accumulated depreciation and impairment losses	(216,034)	(2,309,732)	(1,999,688)	(64,231)	**(4,589,685)**
Carrying amount at December 31, 2016	—	2,316,800	1,947,223	—	**4,264,023**

During 2016 collections totalling Euros 720 thousand for the lease of a part of the Group's installations were recognised as income. The lease contract was signed in 2013 with a term of one year, which could be extended to up to five years, and with subsequent annual renewals. In December 2016 this lease contract was cancelled early and therefore there were no non-cancellable future minimum lease collections at December 31, 2017.

(12) Risk Management Policy

(a) Financial risk factors

The Group's activities are exposed to various financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk, and cash flow interest rate risk. The Group's global risk management programme focuses on uncertainty in the financial markets and aims to minimise potential adverse effects on the Group's profits.

During 2017 and 2016 risks were managed by the Finance Management of the Mosaiq Group. This Management identifies, evaluates and mitigates financial risks in close collaboration with the Group's operational units. Since the acquisition mentioned in note 28 risks are managed by the Victoria Group.

(i) Currency risk

Currency risk is the risk of possible losses due to changes in the fair value of and cash flows from financial instruments as a result of exchange rate fluctuations. The Group's exposure to exchange rate fluctuations arises mainly from sales performed, assets and liabilities in currencies other than the functional currency.

The Group makes sales in Euros, US Dollars and Pounds Sterling.

The Group Treasury Department is responsible for managing the net position in each foreign currency.

(ii) Credit risk

The Group has policies to limit the amount of risk with any one financial institution and manages its customer portfolio adequately.

Valuation allowances for bad debts and the review of individual balances based on customers' credit ratings require a high degree of judgement. The credit rating of the country, based on information provided by external agencies, is used to calculate the individual country-specific valuation allowance for bad debts.

The Group has set up an on-line consultation service with a specialised agency to assess customers' credit risk.

The Group has also contracted several credit insurance policies for the foreign and domestic markets, which cover between 95% and 85%, respectively, of customer payables accepted by the insurance firm.

(12) Risk Management Policy (Continued)

For uninsured customers, the Group may grant credit limits in cases or circumstances where it considers appropriate.

(iii) Liquidity risk

The Group applies a prudent policy to cover its liquidity risks based on having sufficient cash and marketable securities, as well as sufficient financing through credit facilities, to settle market positions. The management of the Group regularly monitors liquidity forecasts based on expected cash flows. Group policy is to invest cash surpluses in short-term, non-speculative and highly liquid instruments, through leading financial institutions.

(iv) Cash flow and fair value interest rate risks

Income and cash flows from the Group's operating activities are not significantly affected by fluctuations in market interest rates.

Interest rate risk arises mainly from non-current borrowings.

(13) Financial Assets by Category

(a) Classification of financial assets by category

At December 31, 2017 and 2016 all financial assets are loans, receivables, and equity investments. The carrying amount of financial assets does not differ significantly from their fair value.

(i) Net losses and gains by category of financial assets

Net losses and gains by category of financial asset are as follows:

	Euros	
2017	**Loans and receivables**	**Total**
Finance income at amortised cost	473,788	**473,788**
Impairment losses	(546,826)	**(546,827)**
Impairment reversals	230,807	**230,808**
Net gains/(losses) in the consolidated income statement	157,769	**157,769**
Total	157,769	**157,769**

	Euros	
2016	**Loans and receivables**	**Total**
Finance income at amortised cost	176,374	**176,374**
Impairment losses	(565,892)	**(565,892)**
Impairment reversals	197,459	**197,459**
Net gains/(losses) in the consolidated income statement	(192,059)	**(192,059)**
Total	(192,059)	**(192,059)**

(14) Investments, Trade and other receivables

(a) Investments in Group companies and associates

In 2017 and 2016 current investments in Group companies and associates reflect the current account with the Mosaiq Group companies and include amounts extended to the parent of the Mosaiq Group, derived from the centralised cash management of the companies of the Mosaiq Group. In 2017, and as part of the

(14) Investments, Trade and other receivables (Continued)

Framework Refinancing Agreement entered into in 2017 (see note 20.c), the Company assigned receivables from a Mosaiq Group company to the parent of the Mosaiq Group, and when dividends were declared by the Company, these were compensated against the receivables previously assigned. During 2017 and 2016 this account accrued variable interest pegged to Euribor plus a market spread.

At December 31, 2017 non-current investments in Group companies include a loan formalized by a subsidiary company with Obinesa, S.L. amounting to Euros 1,647 thousand. This loan had a duration of five years, accrued interest pegged to Euribor plus a market spread. This transaction was carried out as part of the Framework Refinancing Agreement entered into in 2017 (see note 20.c).

At December 31, 2017 Equity instruments includes the 18.74% investment in Activos Clys, S.A.

(b) Trade and other receivables

Details of trade and other receivables are as follows:

	Euros	
	2017	2016
	Current	Current
Group		
Trade receivables	2,859,154	4,250,711
Unrelated parties		
Trade receivables	38,664,856	41,893,916
Other receivables	7,463	46,720
Personnel	93,192	81,754
Public Administration	160,789	407,881
Impairment	(13,462,144)	(13,329,980)
Total	**28,323,310**	**33,351,002**

Trade receivables include discounted notes pending maturity of Euros 3,410,932 and Euros 117,961 at December 31, 2017 and 2016, respectively.

(c) Impairment

An analysis of the changes in allowance accounts related to impairment of financial assets measured at amortised cost due to credit risk is as follows:

	Euros	
	2017	
	Trade receivables	Total
Current		
Balance at January 1, 2017	(13,329,980)	**(13,329,980)**
Charges	(362,971)	**(362,971)**
Reversals	230,807	**230,807**
Balance at December 31, 2017	**(13,462,144)**	**(13,462,144)**

(14) Investments, Trade and other receivables (Continued)

	Euros	
	2016	
	Trade receivables	Total
Current		
Balance at January 1, 2016	(13,070,424)	**(13,070,424)**
Charges	(457,015)	**(457,015)**
Reversals	197,459	**197,459**
Balance at December 31, 2016	**(13,329,980)**	**(13,329,980)**

The Group recognised additional losses on bad trade debts of Euros 183,855 in 2017 and Euros 108,877 in 2016.

(d) Classification by maturity

At December 31, 2016, most of the financial assets were to mature in the short term, except Euros 145,844 classified as other financial assets, with maturity in 2018.

At December 31, 2017 all of the financial assets mature in the short term, except for Euros 133,431 in other financial assets, which mature in 2019, and the loan to Obinesa, S.L. whose maturity date is 2022. In July 2018, these loans have been cancelled.

(e) Amounts denominated in foreign currencies

Details of monetary financial assets denominated in foreign currencies are as follows:

	Euros		
2017	US Dollar	Pound Sterling	Total
Trade and other receivables			
Trade receivables—current	612,314	570,061	**1,182,375**
Personnel	—	17,491	**17,491**
Current Investments			
Other Financial assets	—	43,106	**43,106**
Prepayments for current assets	—	45,436	**45,436**
Cash and cash equivalents			
Cash	69,957	33,657	**103,614**
Total current financial assets	682,271	709,751	**1,392,022**
Total financial assets	**682,271**	**709,751**	**1,392,022**

(14) Investments, Trade and other receivables (Continued)

2016	Euros US Dollar	Pound Sterling	Total
Trade and other receivables			
Trade receivables—current	317,244	712,536	**1,029,780**
Personnel	—	26,951	**26,951**
Current Investments			
Other Financial assets	—	44,767	**44,767**
Prepayments for current assets	—	54,872	**54,872**
Cash and cash equivalents			
Cash	11,462	38,367	**49,829**
Total current financial assets	328,706	877,493	**1,206,199**
Total financial assets	**328,706**	**877,493**	**1,206,199**

Details of exchange differences recognised in profit or loss in relation to financial instruments, except those measured at fair value through the consolidated income statement, distinguishing between settled and outstanding transactions are as follows:

	Euros 2017		2016	
	Settled	Outstanding	Settled	Outstanding
Trade and other receivables				
Trade receivables—current	(91,573)	(12,769)	(148,280)	8,994
Trade receivables from Group companies and associates—current	—	2,446	—	8,672
Total current financial assets	**(91,573)**	**(10,323)**	**(148,280)**	**17,666**
Total financial assets	**(91,573)**	**(10,323)**	**(148,280)**	**17,666**

(15) Inventories

(a) General

Detail of inventories are as follows:

	Euros 2017	2016
Goods for resale	11,485,830	10,529,309
Raw materials and other supplies	2,446,559	2,223,632
Work in progress and semi-finished goods	624,411	724,646
Finished goods	19,841,631	18,453,867
Impairment	(2,538,002)	(2,249,389)
	31,860,429	**29,682,065**

(15) Inventories (Continued)

Detail of value impairment of inventories are as follows:

	Euros	
	2017	2016
Goods for resale	(692,844)	(993,438)
Raw materials and other supplies	(95,086)	(112,803)
Finished goods	(1,750,072)	(1,143,148)
	(2,538,002)	**(2,249,389)**

The carrying amount of goods for resale, finished goods and work in progress is Euros 29,509 thousand (Euros 27,571 thousand in 2016). During 2017, the Group has registered expenses due to impairment for a total amount of Euros 289 thousand (there was revenue due to the reversal of impairment of Euros 152 thousand in 2016).

Changes in inventories of finished goods and work-in progress amounts to Euros 681 thousand in 2017 (Euros 3,597 thousand in 2016), including an impairment loss of Euros 607 thousand in the consolidated income statement 2017 (revenue due to impairment reversal of Euros 223 thousand in 2016). Additionally, an impairment reversal on merchandise, raw materials and other supplies has been recorded an amount of Euros 318 thousand in the consolidated income statement 2017 (impairment of an amount of Euros 71 thousand in 2016) (see note 24.b).

(b) Emission allowances

Emission allowances recognised as raw materials and other supplies are as follows:

	Euros	
	2017	2016
Emission allowances—short cycle	281,401	284,342
	281,401	**284,342**

Movements in emission allowances are as follows:

	Euros	
	2017	2016
Cost at 1 January	284,342	362,108
Additions due to onerous acquisition	74,200	74,200
Additions due to free-of-charge acquisition	203,398	206,988
Disposals due to application	(280,539)	(358,954)
Cost at 31 December	281,401	284,342
Valuation allowance at 31 December	—	—
Carrying amount at 31 December	**281,401**	**284,342**

In 2017 Euros 281 thousand (Euros 359 thousand in 2016) was paid to public entities with a charge to the provision for emission allowances.

(15) Inventories (Continued)

Details of emission allowances allocated during the trading period and their annual distribution are as follows:

	2017			
	Number of allowances		Euros	
	Free of charge	Interest-bearing	Free of charge	Interest-bearing
2017	39,126	10,000	203,398	74,200
2018	38,364	—	—	—
2019	37,591	—	—	—
2020	36,817	—	—	—
Total	**151,898**	**10,000**	**203,398**	**74,200**

	2016			
	Number of allowances		Euros	
	Free of charge	Interest-bearing	Free of charge	Interest-bearing
2016	39,882	10,000	206,988	74,200
2017	39,126	—	—	—
2018	38,364	—	—	—
2019	37,591	—	—	—
2020	36,817	—	—	—
Total	**191,780**	**10,000**	**206,988**	**74,200**

Movement in the number of allowances is as follows:

Description	Free of charge	Interest-bearing	Total
Balances at January 1, 2016	49,710	—	**49,710**
Additions	49,882	—	**49,882**
Disposals	(49,277)	—	**(49,277)**
Balance at December 31, 2016	**50,315**	**—**	**50,315**
Balances at January 1, 2017	50,315	—	**50,315**
Additions	39,126	10,000	**49,126**
Disposals	(49,642)	—	**(49,642)**
Balance at December 31, 2017	**39,799**	**10,000**	**49,799**

(16) Equity

Details of equity and movement during the year are shown in the statement of changes in equity.

(a) Capital

At December 31, 2017 and 2016 the Parent Company's share capital is represented by 16,500 ordinary bearer shares of Euros 300.51 par value each, subscribed and fully paid. All shares have the same voting and profit-sharing rights.

At December 31, 2017 and 2016, the entire capital was held by Obinesa Grupo Industrial, S.L.U. As mentioned in note 28, the entire capital is currently held by Sandover Investments, S.L.U., a subsidiary of Victoria PLC.

(16) Equity (Continued)

At December 31, 2016 all of the Parent Company's shares were pledged to ensure compliance with formal obligations and repayment of loans from the previous Framework Refinancing Agreement. These guarantees were cancelled in 2017.

(b) Reserves

(i) Legal reserve

The legal reserve has been appropriated in compliance with article 274 of the Revised Spanish Companies Act, which requires that companies transfer 10% of profits for the year to a legal reserve until this reserve reaches an amount equal to 20% of share capital.

The legal reserve is not distributable to shareholders and if it is used to offset losses, in the event that no other reserves are available, the reserve must be replenished with future profits.

At December 31, 2017 and 2016 the Group has appropriated to the legal reserve the minimum amount required by law.

(ii) Voluntary reserves

These reserves are freely distributable.

On September 30, 2017 and December 11, 2017, a contract and an addendum thereto were signed establishing the sale of receivables from third parties held by the Parent Company for a total amount of Euros 6,160 thousand to the parent of the Mosaiq Group. In accordance with the accounting principles and criteria contained in the applicable financial reporting framework, the difference between the carrying amount and the sale price is recognised with a charge to reserves.

(iii) Reserves in consolidated companies

The detail by company of reserves of fully consolidated companies in 2017 and 2016 is as follows:

	Euros	
Company	**2017**	**2016**
Atlantic Tiles SL	(873,199)	—
Saloni France Sas	(3,287,890)	(3,668,918)
Saloni Portugal Lda	1,733,511	1,654,852
Saloni UK Limited	(3,662,456)	(3,739,956)
Total	**(6,090,034)**	**(5,754,022)**

(16) Equity (Continued)

(iv) Profit/Loss attributable to the Parent

The contribution of each company included in the consolidation perimeter to the consolidated profit in the year 2017 is as follows:

	Euros		
Company	**Consolidated profit/loss**	**Profit/Loss attributable to the parent**	**Profit attributable to non-controlling interests**
Cerámica Saloni,S.A.U.	21,843,267	21,843,267	—
Subsidiary companies			
Atlantic Tiles SL	(1,401,867)	(1,401,867)	—
Saloni France SAS	1,359,160	1,359,160	—
Saloni Portugal LDA	1,126,407	1,126,182	225
Saloni UK Limited	(76,675)	(76,675)	—
Total	**22,850,292**	**22,850,067**	**225**

The contribution of each company included in the consolidation perimeter to the consolidated profit in the year 2016 is as follows:

	Euros		
Company	**Consolidated profit/loss**	**Profit/Loss attributable to the parent**	**Profit attributable to non-controlling interests**
Cerámica Saloni, S.A.U.	4,876,174	4,876,174	—
Subsidiary companies			
Atlantic Tiles SL	(873,199)	(873,199)	—
Saloni France SAS	381,028	381,028	—
Saloni Portugal LDA	78,675	78,659	16
Saloni UK Limited	77,500	77,500	—
Total	**4,540,178**	**4,540,162**	**16**

(c) Dividends/Interim dividend

On December 18, 2017, the sole shareholder of the Parent Company approved the distribution of a dividend in kind with a charge to voluntary reserves of Euros 17,439,715. On December 31, 2017 the sole shareholder approved the distribution of an additional dividend in kind with a charge to voluntary reserves of Euros 16,157,446 and a dividend on account of profits for 2017 of Euros 17,345,622.

The amount of the dividend on account to be distributed does not exceed the amount of profits obtained since the end of the previous year, less the amounts that should be allocated to mandatory or statutory reserves, prior years' losses, and the estimated income tax payable for these profits.

These distributions of dividends were carried out by offsetting balances receivable from a current account with the Mosaiq Group companies by the aforementioned amounts. As the distribution of the dividend on account of 2017 profits is in kind, comprising a receivable, it does not affect the liquidity of the Parent Company. These distributions of dividends were carried out by virtue of the agreements to offset and eliminate balances and transactions with the Mosaiq Group companies set out in the Framework Refinancing Agreement entered into in 2017.

(16) Equity (Continued)

(d) Dividend restrictions

There were certain restrictions to the distribution of dividends, in accordance with the Framework Refinancing Agreement entered into on August 8, 2017.

(e) Conversion differences

The conversion differences amounting to Euros 111,709 (Euros 119,925 in 2016) correspond entirely to Saloni UK, Ltd.

(17) Grants, donations and bequests received

(a) Grants

At December 31, 2017 the Group has capital grants with a net amount of Euros 111,665 (Euros 120,220 in 2016) extended by different public entities.

The amount of grants transferred to the consolidated income statement at December 31, 2017 is Euros 12,223 (Euros 30,159 in 2016).

(i) Capital grants

	Euros			
Grantor	**2017**	**2016**	**Purpose**	**Grant date**
Ministry of the Economy	109,734	118,162	Civil works and equipment	2000
Other	1,931	2,058	R&D	2009–2011
	111,665	**120,220**		

(18) Provisions and Other Contingencies

At December 31, 2017 as a result of the financial debt restructuring carried out by the Mosaiq Group, the Parent Company was joint guarantor, together with certain Mosaiq Group companies, of the balances payable on the revolving credit facilities extended by financial institutions for a total amount of Euros 96.3 million, included in the new Framework Refinancing Agreement. The guarantee facilities were renewed by the financial institutions in accordance with the new Framework Refinancing Agreement (see note 20.c), with a joint limit of Euros 65 million. At December 31, 2016 the Parent Company was joint guarantor, together with the rest of the Mosaiq Group companies, of the balances payable on leases, discounting facilities and loans extended by financial institutions, for an aggregate amount of Euros 409 million in 2016, based on the Framework Refinancing Agreement in force at December 31, 2016. These guarantees were cancelled by virtue of the new Framework Refinancing Agreement.

The Parent Company and other Mosaiq Group companies were also guarantors of the Euros 50 million participating loan extended to the Parent Company by Atitlan Group, the new shareholder of Mosaiq Group in 2017. These guarantees have been cancelled in 2018 (see note 28).

The Group has contingent liabilities for bank and other guarantees related to its normal business operations amounting to Euros 120 thousand (Euros 120 thousand in 2016). The Group does not expect any significant liabilities to arise from these guarantees.

(19) Financial Liabilities by Category

(a) Classification of financial liabilities by category

At December 31, 2017 and 2016 all financial liabilities are debts and payables.

The carrying amount of financial liabilities is acceptably close to their fair value.

(19) Financial Liabilities by Category (Continued)

The amount of finance costs on debts and payables accrued in 2017 and 2016 is Euros 662,892 and Euros 484,342 respectively.

The amount of finance income on debts and payables recognised in 2017 is Euros 22,016,308 (see note 20.b).

(20) Payables and Trade and other payables

(a) Group companies and associates

Details of Group companies and associates are as follows:

	Euros		
	2017		2016
	Non-current	Current	Current
Group			
Other payables	—	1,596,794	92,019
Payables	46,860,729	2,039,271	—
Interest	—	196,882	—
Total	**46,860,729**	**3,832,947**	**92,019**

At December 31, 2017 other payables to Group companies mainly comprised payables arising from the tax effect of filing consolidated tax returns. This balance was payable to Obinesa, S.L., the head of the tax group. At December 31, 2016 other payables to Group companies mainly corresponded to unpaid balances related to the acquisition of property, plant and equipment.

Payables non-current and current included the balance amount at December 31, 2017 of the loan granted by an affiliated company of the Atiltan Group (Balaenoptera Borealis Loans, S.L.U.). In the context of the arrival of Atitlan Group (see note 1) and the Group's Refinancing Contract (see note 20.c), a participating loan of Euros 50 million was arranged on December 18, 2017. The initial term of the loan was two years, which may be extended up to five years. Nevertheless, it must remain in force and will be understood to be automatically extended for the outstanding balance until working capital funding has been repaid under the terms of the Framework Refinancing Agreement. This loan accrued fixed interest tied to Euribor plus a spread, and variable interest linked to the Company's EBITDA. Furthermore, a minimum amount of accrued interest and a maximum amount of interest payments were stipulated for the first two years in accordance with the provisions of the Framework Refinancing Agreement. The borrower has undertaken to use the proceeds from the loan for the partial repayment of the initial debt of the Mosaiq Group under the terms stipulated in the Framework Refinancing Agreement. As mentioned in note 28, this loan and its accrued interest has been repaid by the Victoria Group.

(20) Payables and Trade and other payables (Continued)

(b) Payables

Details of payables are as follows:

	Euros			
	2017		2016	
	Non-current	Current	Non-current	Current
Unrelated parties				
Loans and borrowings	—	3,563,115	31,814,300	1,535,186
Interest	—	1,978	—	63,053
Finance lease payables	167,569	86,036	253,605	81,758
Suppliers of fixed assets	—	717,874	—	388,702
Other debts	1,903,932	360,069	2,251,503	390,994
Total	**2,071,501**	**4,729,072**	**34,319,408**	**2,459,693**

Other debts comprise loans from public entities amounting to Euros 2,251,503 in 2017 and Euros 2,612,642 in 2016. Loans from public entities are used to finance certain innovation projects and machinery.

At December 31, 2017, loans and borrowings include discount lines for an amount of Euros 3,410,932 (Euros 117,961 in 2016) (see note 20.c) and bank loans for an amount of Euros 152,183. As a consequence of the agreed debt release in the new Agreement which is detailed in note 20.c, during 2017 the Group has cancelled bank debts, recording a financial income by an amount of Euros 22,016,308. The remaining amount of non-current bank debt was transferred to the current account with Obinesa, the Mosaiq Group company in charge of repayment of the new negotiated debt.

(c) Other information on payables

(i) Main characteristics of payables

On August 8, 2017 the Mosaiq Group formalised a new Framework Refinancing Agreement with a syndicate of financial institutions in order to restructure its financial debt, aligning it with its short- and medium-term financing needs, and to pave the way for the arrival of a new investor to the Mosaiq Group. As part of the renegotiation of its financial debt, Mosaiq Group management approved a new Business Plan which was drawn up in collaboration with independent experts and which will ensure the survival and stability of the Mosaiq Group's activity in the short-, medium- and long-term.

The Framework Refinancing Agreement was signed by a number of financial institutions representing over 80% of the Group's financial debt, and the Mosaiq Group therefore applied for a court-sanctioned workout to make the terms of the Framework Refinancing Agreement applicable to non-signatory institutions. On September 15, 2017 the Mosaiq Group filed an application with the Castellón Commercial Court for a court-sanctioned workout of the Framework Refinancing Agreement. On October 11, 2017 the Castellón Commercial Court issued an injunction extending the financial restructuring agreement for all intents and purposes to the institutions that had not subscribed the agreement. The injunction for the court-sanctioned workout was published in the Official State Gazette on October 17, 2017. Once the period of 15 business days following the publication in the Official State Gazette has elapsed without the creditors affected by the court-sanctioned workout that have not subscribed the financial restructuring agreement impugning the court injunction, the court-sanctioned workout should be considered final.

The conclusion of the aforementioned court-sanctioned workout forms part of the condition precedent established in the Framework Refinancing Agreement. The rest of the terms of the condition precedent of the Framework Refinancing Agreement were considered to have been met on December 18, 2017, the date on which the Refinancing Agreement went into effect.

(20) Payables and Trade and other payables (Continued)

The main terms of the Refinancing Agreement are as follows:

- On entry into force of the Refinancing Agreement, the Mosaiq Group paid the creditor financial institutions that signed the Agreement Euros 58 million as partial repayment of its financial debt. For the remaining debt, which amounted to Euros 413 million, not including revolving credit facilities or ring-fenced property, debt amounting to Euros 8 million was novated along with the associated conditions. The financial institutions granted a waiver for the entire outstanding balance of Euros 346 million, which was recognised as finance income in the Mosaiq Group consolidated income statement. At year end, the novated debt was partially repaid, leaving an outstanding balance at December 31, 2017 of Euros 697 thousand.
- The Refinancing Agreement stipulates that the financial institutions must maintain the current limits on the revolving credit facilities granted to certain Group companies for a three-year period.
- The Refinancing Agreement, once the debt has been partially repaid, cancels all mortgage and personal guarantees and pledged assets related to Mosaiq Group's initial debt granted to ensure fulfilment of the obligations of any Mosaiq Group company under the previous refinancing agreements.
- In addition, it stipulates that the Mosaiq Group must fulfil certain formal obligations vis-à-vis the creditor entities, as well as certain financial ratios or covenants for the years ended on or after December 31, 2018. At December 31, 2017, the Refinancing Agreement does not require compliance with covenants.

Following the signing of the aforementioned Framework Agreement, the Group recognised finance income amounting to Euros 22,016 thousand for the debt waiver granted to the Company by the financial institutions.

The Third Framework Refinancing Agreement, which was signed in 2015 and was in force in 2016, was amended by the aforementioned agreement. At December 31, 2016 the Mosaiq Group met the required ratios and the rest of the obligations stipulated in the previous Framework Agreement.

The Group has the following credit facilities and discount lines at 31 December:

	In Euros			
	2017		2016	
	Drawn down	Limit	Drawn down	Limit
Credit facilities	—	—	6,656,707	7,607,934
Discount lines	3,410,932	—	117,961	—
	3,410,932	**—**	**6,774,668**	**7,607,934**

At December 31, 2017 as provided in the aforementioned Framework Refinancing Agreement, certain Mosaiq Group companies had a joint revolving credit facility of up to Euros 17.4 million to finance their sales. At December 31, 2017 the amount drawn down by these companies totals Euros 7.8 million.

Loans and borrowings accrue interest at market rates.

(20) Payables and Trade and other payables (Continued)

(d) Trade and other payables

Details of trade and other payables are as follows:

	Euros	
	2017	2016
	Current	Current
Group		
Suppliers	998,403	665,867
Unrelated parties		
Suppliers	36,368,577	29,469,805
Payables	1,342,715	925,788
Personnel	2,698,871	1,960,068
Public entities, other	1,583,241	1,281,807
Total	**42,991,807**	**34,303,335**

(e) Classification by maturity

The classification of financial liabilities by maturity is provided in Appendix III.

(f) Amounts denominated in foreign currencies

2017	Euros		
	US Dollar	Pound Sterling	Total
Current Payables			
Other financial liabilities	—	2,359	**2,359**
Trade and other payables			
Current payables to suppliers	—	131,749	**131,749**
Personnel	—	40,672	**40,672**
Public entities, other	—	102,648	**102,648**
Total current liabilities	—	277,428	**277,428**
Total liabilities	**—**	**277,428**	**277,428**

2016	Euros		
	US Dollar	Pound Sterling	Total
Current Payables			
Loans and borrowings	438,795	225,418	**664,213**
Other financial liabilities	—	2,745	**2,745**
Trade and other payables			
Current payables to suppliers	—	166,492	**166,492**
Personnel	—	56,951	**56,951**
Public entities, other	—	101,654	**101,654**
Total current liabilities	438,795	553,260	**992,055**
Total liabilities	**438,795**	**553,260**	**992,055**

At December 31, 2017 exchange differences recognised in the consolidated income statement in relation to financial instrument transactions settled during the year amounted to Euros 32,468 on loans and borrowings and Euros 4,642 on suppliers (Euros 5,228 and Euros 21, respectively, at December 31, 2016).

(21) Taxation

Details of balances with public entities are as follows:

	Euros			
	2017		2016	
	Non-current	Current	Non-current	Current
Assets				
Deferred tax assets	1,574,463	—	7,735,350	—
	1,574,463	**—**	**7,735,350**	**—**
Liabilities				
Deferred tax liabilities	591,102	—	1,137,637	—
Social Security	—	652,692	—	449,762
Withholdings	—	930,549	—	832,045
	591,102	**1,583,241**	**1,137,637**	**1,281,807**

At December 31, 2017, the balance payable to Obinesa, S.L. arising from the tax effect of filing consolidated tax returns amounts to Euros 1,522,529 (Note 20.a) and is registered in Group companies and associates, current liabilities.

At December 31, 2017, the Tax Group in which Cerámica Saloni, S.A.U. and other companies taxed in Spain are integrated into, had the following main applicable taxes open to inspection by the Spanish taxation authorities:

Tax	Years open to inspection
Income tax	2013 to 2017
Value added tax	2014 to 2017
Personal income tax	2014 to 2017
Capital gains tax	2014 to 2017
Tax on Economic Activities	2014 to 2017
Social Security	2014 to 2017
Non-resident income tax	2014 to 2017

Nonetheless, the taxation authorities' right to examine or investigate tax loss carry forwards (whether available or already offset), double taxation relief and tax credits aimed at incentivising certain activities (whether applied or available) becomes statute-barred ten years as from the day after the filing deadline for the tax return or self-assessment for the tax period in which the right of offset or application was generated. After this period, the Group must justify the tax loss carry forwards or tax credits by presenting the assessment or self-assessment and its accounts, together with evidence of their having been filed during the aforementioned period at the Mercantile Registry.

Due to different possible interpretations of prevailing tax legislation, additional tax liabilities could arise in the event of inspection. In any event, any such liabilities that could arise are not expected to have a significant effect on the consolidated financial statements.

(a) Income tax

The Parent Company filed consolidated tax returns with Obinesa Group, S.L. (parent) and other Group companies.

A reconciliation of net income and expenses with taxable income for the year is shown in Appendix IV.

The relationship between the tax expense/(income) and accounting profit/(loss) for the year is provided in Appendix V.

(21) Taxation (Continued)

Details of the tax expense/(income) in the consolidated income statement are as follows:

	In Euros 2017	In Euros 2016
Current income tax		
Present year	1,573,373	2,072,477
Prior year adjustments	27,576	—
	1,600,949	2,072,477
Deferred tax		
Source and reversal of temporary differences		
Property, plant and equipment	66,028	66,028
Portfolio provisions	(542,869)	(275,027)
Others	164,888	201,127
Unused tax deductions generated during the year	(5,282)	(13,206)
Tax credits recognised and applied during the year	5,935,254	—
	5,618,019	**(21,078)**
From continuing acitivites	**7,218,968**	**2,051,399**

In accordance with prevailing tax legislation, the depreciation/amortisation charge for property, plant and equipment and intangible assets for 2014 and 2013 was capped at 70% of the depreciation/amortisation charge for accounting purposes. In 2017 and 2016, temporary differences amounting to Euros 264,110 were reversed.

Details of deferred tax assets and liabilities by type of asset and liability are as follows:

	In Euros			
	Assets		Liabilities	
	2017	2016	2017	2016
Portfolio provision	—	—	557,239	1,100,108
Non-repayable grants	—	—	33,863	37,529
Other adjustments	279,024	443,911	—	—
Limit on amortisation/depreciation	462,193	528,220	—	—
Tax loss carry forwards	—	5,935,255	—	—
Rights to tax deductions and credits	833,246	827,964	—	—
Total assets/liabilities	1,574,463	7,735,350	591,102	1,137,637

The Tax Group may offset unused tax loss carry forwards against future profits generated in subsequent tax periods, up to a maximum of 25% of taxable income prior to application of the capitalisation reserve and the offset. Nevertheless, in any event tax loss carry forwards up to a maximum of Euros 1 million may be offset in the tax period.

(21) Taxation (Continued)

The Group has recognised unused tax loss carry forwards as deferred tax assets, the amounts of which are as follows:

Year	In Euros 2017	2016
2008	—	1,927,589
2009	—	4,429,450
2010	—	8,666,156
2011	—	97,423
2012	—	8,094,752
2013	—	525,645
	—	**23,741,015**

The Group decided to recognise deferred tax assets, which mainly reflect tax loss carry forwards generated in prior years, on the assumption that it will be able to apply them based on the tax Group's future earnings projections, fulfil the business plan drawn up by Mosaiq Group management for the coming years and sign the refinancing agreement with the financial institutions mentioned in note 20.c).

During 2017, the Spanish tax group has offset tax loss carryforwards from previous financial years that were recorded as deferred tax assets amounting to Euros 5.9 million.

Certain Group companies domiciled outside of Spain have offset tax losses from previous years, the tax effect of which was not recorded as deferred tax assets, amounting to approximately Euros 1.4 million.

Certain Group companies have not recognized as deferred tax assets the tax effect of the tax loss carryforwards whose amounts are as follows:

Year	Euros 2017	2016
2005	184,558	184,558
2006	427,248	427,248
2007	434,808	434,808
2008	453,898	453,898
2009	249,937	249,937
2010	57,712	975,698
2011	1,080,562	1,315,892
2012	2,210,565	2,538,616
2013	706,520	706,520
2014	1,023,195	1,023,195
2015	—	—
2016	98,596	98,596
2017	76,581	—
	7,004,180	8,408,966

The period in which these tax bases can be offset depends on the tax legislation of each country.

(21) Taxation (Continued)

The Group has recognised deductions for Research, development and investigation activities, professional training and export activity as deferred tax assets, the amounts and reversal periods of which are as follows:

Year	In Euros 2017	In Euros 2016	Final year
2008	87,398	87,398	2023
2009	50,799	50,799	2024
2009	412,491	412,491	2027
2010	17,185	17,185	2025
2010	147,697	147,697	2028
2011	832	832	2026
2011	93,074	93,074	2029
2015	5,282	5,282	2030
2016	13,206	13,206	2031
2017	5,282	—	2032
	833,246	**827,964**	

(b) Value added tax

On December 14, 2015 the sole shareholder approved the adoption of the special VAT group regime regulated in article 163.1 of VAT Law 37/1992 of 28 December 1992, under the special group regime option provided in Chapter IX of Title IX of the VAT Law, effective for transactions on which tax will accrue as from January 1, 2016. Consequently, the Parent Company began settling value added tax under the consolidated tax regime in 2016, with Obinesa, S.L. as the tax group parent. In September 2018, the Parent Company has notified the Public Administration as to the exit of the Parent Company from the Obinesa Consolidated Tax Group.

(22) Environmental Information and Greenhouse Gas Emission Allowances

Details of property, plant and equipment used to minimise the Group's impact on the environment are as follows:

Description	In Euros 2017 Cost	Accumulated depreciation	Net
Buildings	18,850	(9,142)	9,708
Technical installations	2,023,445	(1,989,634)	33,811
Machinery	80,184	(41,946)	38,238
Other installations	40,450	(28,184)	12,266
	2,162,929	**(2,068,906)**	**94,023**
	2016		
Buildings	18,850	(8,577)	10,273
Technical installations	2,023,445	(1,975,513)	47,932
Machinery	80,184	(35,748)	44,436
Other installations	40,450	(27,666)	12,784
	2,162,929	**(2,047,504)**	**115,425**

The Parent Company is included in the National Allocation Plan for greenhouse gas emission allowances.

(22) Environmental Information and Greenhouse Gas Emission Allowances (Continued)

In the course of carrying out its activities, the Group makes the necessary investments to ensure strict compliance with all legal requirements relating to the environment and to minimise its impact (atmospheric emissions, waste, consumption of natural resources, noise emissions, etc.).

Details of environmental costs incurred by the Group are as follows:

	In Euros	
	2017	2016
Pollutant waste treatment	266,211	191,247
Other expenses associated with protecting the environment	36,557	19,651
	302,768	**210,898**

At December 31, 2017 and 2016, the Group considers that there are no significant contingencies in connection with the protection and improvement of the environment and, accordingly, no provision has been made in this regard.

(23) Related Party Balances and Transactions

(a) Related party balances

Details of balances receivable from and payable to Group companies, associates, jointly controlled entities and related parties are presented in notes 14 and 20.

(b) Transactions with the sole shareholder

In 2017 and 2016 the Group has not carried out any transactions with its sole shareholder, Obinesa Grupo Industrial, S.L.U., except for that mentioned in note 16.c).

(c) Related party transactions

The Group's transactions with related parties are as follows:

	Euros		
2017	Parent	Mosaiq Group companies	Total
Income			
Net sales			
Sales	**—**	**11,456,818**	**11,456,818**
Services rendered	**38,341**	**—**	**38,341**
Other services rendered	**—**	**(4,983)**	**(4,983)**
Financial instruments			
Finance income	**194,068**	**—**	**194,068**
Total income	**232,409**	**11,451,835**	**11,684,244**
Expenses			
Net purchases			
Purchases	**—**	**383,773**	**383,773**
Other services received	**872,922**	**358,110**	**1,231,032**
Total expenses	**872,922**	**741,883**	**1,614,805**

(23) Related Party Balances and Transactions (Continued)

	Euros		
2016	**Parent**	**Mosaiq Group companies**	**Total**
Income			
Net sales			
Sales	—	12,302,920	12,302,920
Services rendered	—	166	166
Other services rendered	5,533	—	5,533
Financial instruments			
Finance income	145,619	—	145,619
Total income	151,152	12,303,086	12,454,238
Expenses			
Net purchases			
Purchases	—	327,535	327,535
Other services received	473,459	315,868	789,327
Financial instruments			
Finance costs	314	57	371
Total expenses	473,773	643,460	1,117,233

During 2016 and 2017 until December 18, 2017 transactions with the parent were related to Obinesa, S.L. There were no transactions with the parent company of Atitlan Group after December 18, 2017 until December 31, 2017.

(d) Information on the Company directors and senior management personnel

On December 12, 2017, the sole shareholder approved changing the composition of the governing body of the Parent Company from a sole director to two joint directors, which was carried out on said date.

In 2017 and 2016 the directors of the Parent Company did not receive any remuneration in respect of their duties, nor did they receive any loans or advances, nor did the Group extend any guarantees on their behalf. The Parent Company has no pension or life insurance obligations with its former or current directors. In 2017 and 2016 no civil liability insurance premiums have been paid for damage or loss caused by actions or omissions in the performance of their duties.

Senior management personnel, including directors, have accrued remuneration of Euros 1,242 thousand in 2017.

In 2016 the Parent Company had no senior management personnel of its own but rather shared it with other Mosaiq Group companies.

(24) Income and Expenses

(a) Revenues

Details of revenues by category of activity and geographical market are shown in Appendix VI.

(24) Income and Expenses (Continued)

(b) Supplies

Details of merchandise, raw materials and other supplies used are as follows:

	In Euros	
	2017	2016
Merchandise used		
Domestic purchases	20,594,138	20,041,101
Change in inventories	(956,521)	(3,547,163)
	19,637,617	16,493,938
Raw materials and other supplies used		
Domestic purchases	26,482,749	23,692,091
Purchase discounts and returns	—	
Change in inventories	(222,927)	(15,525)
	26,259,822	23,676,566
Subcontracted work	847,137	537,414
Impairment/Reversal of merchandise, raw materials and Other supplies (note 15)	(318,310)	71,043
	46,426,266	**40,778,961**

(c) Employee benefits expense

Details of employee benefits expense are as follows:

	Euros	
	2017	2016
Employee benefits expense		
Social Security payable by the Group	5,632,434	4,431,982
Other employee benefits expenses	230,346	231,034
	5,862,780	**4,663,016**

(d) Foreign currency transactions

Details of income and expenses denominated in foreign currencies are as follows:

	Euros	
	2017	2016
Revenues	5,305,094	5,469,070
Supplies	(1,923,248)	(2,212,087)
Other operating income	1,244	1,341
Personnel expenses	(733,730)	(819,738)
Other operating expenses	(961,077)	(1,086,282)
Amortisation	(5,966)	(6,742)
Other income	19,258	295
Income tax	(18)	(19)
	1,701,557	**1,345,838**

(25) Employee Information

The average headcount of the Group in 2017 and 2016, distributed by category, is as follows:

	Number	
	2017	2016
Directors	2	1
Engineers and technicians	24	24
Administrative staff	72	71
Factory and warehouse staff	299	216
Sales and distribution personnel	96	92
Management	9	9
	502	**413**

At year end the distribution by gender of personnel and the directors is as follows:

	Number			
	2017		2016	
	Female	Male	Female	Male
Directors	—	2	—	1
Management	—	9	—	9
Engineers and technicians	—	24	—	24
Administrative staff	34	38	33	34
Factory and warehouse staff	7	302	7	217
Sales and distribution personnel	29	72	27	63
	70	**447**	**67**	**348**

The average number of Group employees with a disability rating of 33% or higher (or equivalent local rating), distributed by category, is as follows:

	Number	
	2017	2016
Manual workers and auxiliary staff	8	5

(26) Audit Fees

The auditor of the consolidated financial statements of the Group invoiced the Company the following net fees for professional services during 2017 and 2016:

	In Euros	
	2017	2016
Audit services	33,387(*)	24,285
Other services	3,705	3,705
	37,092	**27,990**

(*) The amounts detailed in the above table include the total fees for services rendered in 2017 and 2016, irrespective of the date of invoice.

Others auditors have invoiced fees for auditing services to the Group during 2017 amounting to Euros 19,303 (Euros 17,983 in 2016).

(27) Segment Reporting

An operating segment, is a Group component which develops business activities from operating revenue can be obtained and also expenses can be incurred, whose operating results are regularly reviewed by the highest authority of the Group's operative decisions making, in order to decide over the resources which should be allocated to the segment, evaluate its performance, and the relation by which differentiated financial information is available. The Group is internally organized by operating segments, which are the strategic units of the business. The financial information by segments is presented in Appendix VII, which forms an integral part of this note.

(28) Events after the Reporting Period

On July 27, 2018, the sole shareholder of Cerámica Saloni, S.A.U., agreed the distribution of dividends in kind with charge to unrestricted reserves for an amount of Euros 4,241 thousand. This dividend distribution has been carried out by means of assignments of credit accounts of Mosaiq Group companies. Additionally, on July 27, 2018, the Board of Directors, agreed the distribution of interim dividends in favour of the sole shareholder for an amount of Euros 498 thousand.

Change of control and financing of the acquisition.

On August 7, 2018, Victoria PLC (Victoria), through an indirectly wholly-owned subsidiary named Sandover Investments, S.L.U. (Sandover), acquired the entire share capital of Cerámica Saloni S.A.U. (Cerámica Saloni or Saloni) in exchange for a cash consideration paid to Obinesa Grupo Industrial, S.L. (the "Seller").

In connection with the above, several contracts and agreements between Victoria PLC, Sandover and Cerámica Saloni S.A.U. have been signed.

As a result of the early repayment by Victoria of the PPL between Balaenoptera Borealis Loans, S.L.U. ("BBL") (see note 20.a), a related company of the Seller and Cerámica Saloni, Victoria entered into a new profit participating loan with Saloni (the "New PPL") for an amount equal to the outstanding amount of the previous PPL (thus, Euros 52,380,617.22) and whose terms and conditions were similar to those of the current PPL.

In addition, as a result of that early repayment of the previous PPL between Cerámica Saloni and BBL, certain cancellation costs amounting to Euros 8,634,382.78 have been paid to BBL. Victoria funded this amount to Cerámica Saloni, S.A.U. by means of a shareholder's loan.

Payments that have been carried out by Victoria in favour of the Seller:

- The acquisition of the Saloni's shares
- The cancellation of the previous BBL
- The cancellation costs.

Organizational effects of the acquisition

- Settlement and cancellation of debt with sellers' banks. To highlight the removal of the joint and several liability of Cerámica Saloni S.A.U.
- Termination of the former Management Board and appointment of the new Management Board
- Revocation of powers (of outgoing members and others) and issuance of new powers of attorney
- Current General Managing and employees are maintained. However a reorganization and restructuring of the workforce could be carried out following the result of a productivity analysis currently being carried out.
- Dissociation from the Mosaiq Group in all areas except that temporarily, they will continue to give support relating to the Communication and Information systems.

(28) Events after the Reporting Period (Continued)

As included in the agreements, the Company has been released of the their joint guarantee obligations to the Mosaiq Group upon first request provided by Cerámica Saloni S.A.U., according from obligations of the joint guarantors of the Mosaiq Group against all and each of the group's working capital financing entities which have formed part of the Mosaiq Group until the entry of the new shareholders.

In April and July 2018, the shares that the Parent Company held in Activos Cly, S.A., were sold.

Appendix I

CERÁMICA SALONI, S.A.U. and Subsidiaries

Information relating to Group companies for the year ended December 31, 2017

(Expressed in Euros)

Name	Registered office	Activity	Auditor	% ownership Direct	% ownership Total	Carrying amount of investment
SALONI-PORTUGAL,LDA	Portugal	Trading	—	99.98	99.98	1,181,296
SALONI-FRANCE, SAS	France	Trading	Compass Audit Expertise&Conseils	100.00	100.00	4,808,881
SALONI-UK,LIMITED	United Kingdom	Trading	Trevor Jones	100.00	100.00	211,899
ATLANTIC TILES, S.L.U.	Spain	Trading	—	100.00	100.00	—
						6,202,076

This appendix forms an integral part of notes 1 and 4 to the consolidated financial statements, in conjunction with which it should be read.

CERÁMICA SALONI, S.A.U. and Subsidiaries

Information relating to Group companies for the year ended December 31, 2016(*)

(Expressed in Euros)

Name	Registered office	Activity	Auditor	% ownership Direct	% ownership Total	Carrying amount of investment
SALONI-PORTUGAL,LDA . . .	Portugal	Trading	—	99.98	99.98	1,181,296
SALONI-FRANCE, SAS	France	Trading	Compass Audit Expertise & Conseils	100.00	100.00	3,183,881
SALONI-UK, lLIMITED	United Kingdom	Trading	Trevor jones	100.00	100.00	1,836,900
ATLANTIC TILES S.L.(1)	Spain	Trading	—	99.89	99.89	430,810
						6,632,887

(*) Non-audited

(1) Includes 5 months of 2016

This appendix forms an integral part of notes 1 and 4 to the consolidated financial statements, in conjunction with which it should be read.

CERÁMICA SALONI, S.A.U. and Subsidiaries

Details of property, plant and equipment and movement for the year ended December 31, 2017

	Euros						
2017	Land	Buildings	Technical installations and machinery	Other installations, equipment and furniture	Under construction and advances	Other property, plant and equipment	Total
Cost at January 1, 2017	1,594,681	25,550,846	66,872,354	25,057,236	3,150,753	7,715,371	**129,941,241**
Additions	—	1,035,429	5,247,487	908,296	16,141	105,855	**7,313,208**
Disposals	—	(95,176)	(769,582)	(364,668)	(15,928)	(33,801)	**(1,279,155)**
Transfers	—	56,205	3,055,762	—	(3,111,967)	—	**—**
Translation differences	—	—	—	(19,079)	—	—	**(19,079)**
Cost at December 31, 2017	1,594,681	26,547,304	74,406,021	25,581,785	38,999	7,787,425	**135,956,215**
Accumulated depreciation at January 1, 2017	—	(13,104,767)	(59,460,731)	(20,598,998)	—	(6,648,096)	**(99,812,592)**
Depreciation	—	(753,803)	(1,680,397)	(1,065,398)	—	(264,190)	**(3,763,788)**
Disposals	—	43,781	769,582	168,844	—	9,249	**991,456**
Translation differences	—	—	—	17,489	—	—	**17,489**
Accumulated depreciation at December 31, 2017	—	(13,814,789)	(60,371,546)	(21,478,063)	—	(6,903,037)	**(102,567,435)**
Carrying amount at December 31, 2017	**1,594,681**	**12,732,515**	**14,034,475**	**4,103,722**	**38,999**	**884,388**	**33,388,780**

This appendix forms an integral part of note 7 to the consolidated financial statements, in conjunction with which it should be read.

CERÁMICA SALONI, S.A.U. and Subsidiaries

Details of property, plant and equipment and movement for the year ended December 31, 2016(*)

	Euros						
2016	Land	Buildings	Technical installations and machinery	Other installations, equipment and furniture	Under construction and advances	Other property, plant and equipment	Total
Cost at January 1, 2016	1,633,641	25,059,518	66,059,417	24,356,790	1,369,470	6,672,972	**125,151,808**
Additions	—	60,142	285,948	424,982	3,111,967	748,473	**4,631,512**
Disposals	(38,960)	—	(30,952)	(7,694)	—	(20,326)	**(97,932)**
Exit from consolidation perimeter		95,176	1,744	358,837		13,002	**468,759**
Transfers (note 5)	—	336,010	556,197	—	(1,330,684)	301,250	**(137,227)**
Translation differences				(75,679)		—	**(75,679)**
Cost at December 31, 2016	1,594,681	25,550,846	66,872,354	25,057,236	3,150,753	7,715,371	**129,941,241**
Accumulated depreciation at January 1, 2016	—	(12,326,997)	(58,204,784)	(19,466,433)	—	(6,492,720)	**(96,490,934)**
Depreciation	—	(740,334)	(1,283,363)	(1,058,557)	—	(158,523)	**(3,240,777)**
Disposals	—	—	27,857	7,694	—	9,093	**44,644**
Exit from consolidation perimeter	—	(37,436)	(441)	(154,111)		(5,946)	**(197,934)**
Translation differences	—	—	—	72,409		—	**72,409**
Accumulated depreciation at December 31, 2016	—	(13,104,767)	(59,460,731)	(20,598,998)	—	(6,648,096)	**(99,812,592)**
Carrying amount at December 31, 2016	**1,594,681**	**12,446,079**	**7,411,623**	**4,458,238**	**3,150,753**	**1,067,275**	**30,128,649**

(*) Non-audited

This appendix forms an integral part of note 7 to the consolidated financial statements, in conjunction with which it should be read.

CERÁMICA SALONI, S.A.U. and Subsidiaries

Classification of Financial Liabilities by Maturity for the years ended December 31, 2017

	Euros							
	2017							
	2018	2019	2020	2021	2022	Subsequent years	Less current portion	Total non-current
Payables								
Loans and borrowings	3,565,093	—	—	—	—	—	(3,565,093)	—
Finance lease payables	86,036	90,546	77,023	—	—	—	(86,036)	167,569
Other financial liabilities	1,077,943	347,571	300,072	252,567	252,567	751,155	(1,077,943)	1,903,932
Group companies and associates	3,832,947	2,035,595	2,777,770	3,524,114	38,523,250	—	(3,832,947)	46,860,729
Trade and other payables								
Suppliers	36,368,577	—	—	—	—	—	(36,368,577)	—
Suppliers, Group companies and associates	998,403	—	—	—	—	—	(998,403)	—
Other payables	1,342,715	—	—	—	—	—	(1,342,715)	—
Personnel	2,698,871	—	—	—	—	—	(2,698,871)	—
Total financial liabilities	**49,970,585**	**2,473,712**	**3,154,865**	**3,776,681**	**38,775,817**	**751,155**	**(49,970,585)**	**48,932,230**

This appendix forms an integral part of note 20 to the consolidated financial statements, in conjunction with which it should be read.

CERÁMICA SALONI, S.A.U. and Subsidiaries

Classification of Financial Liabilities by Maturity for the years ended December 31, 2016(*)

	Euros							
	2016							
	2017	2018	2019	2020	2021	Subsequent years	Less current portion	Total non-current
Payables								
Loans and borrowings	1,598,239	1,090,267	1,105,422	29,618,611	—	—	(1,598,239)	31,814,300
Finance lease payables	81,758	86,036	90,546	77,023	—	—	(81,758)	253,605
Other financial liabilities	779,696	347,571	347,571	300,072	252,567	1,003,722	(779,696)	2,251,503
Group companies and associates	92,019	—	—	—	—	—	(92,019)	—
Trade and other payables								
Suppliers	29,469,805	—	—	—	—	—	(29,469,805)	—
Suppliers, Group companies and associates	665,867	—	—	—	—	—	(665,867)	—
Other payables	925,788	—	—	—	—	—	(925,788)	—
Personnel	1,960,068	—	—	—	—	—	(1,960,068)	—
Total financial liabilities	**35,573,240**	**1,523,874**	**1,543,539**	**29,995,706**	**252,567**	**1,003,722**	**(35,573,240)**	**34,319,408**

(*) Non-audited

This appendix forms an integral part of note 20 to the consolidated financial statements, in conjunction with which it should be read.

CERÁMICA SALONI, S.A.U. and Subsidiaries

A reconciliation of net income and expenses with taxable income for the year ended December 31, 2017

	Euros			
	Consolidated Income statement			
2017	Increases	Decreases	Net	Total
Income and expenses for the period			22,850,292	22,850,292
Income tax			7,218,968	7,218,968
Profit before income tax			30,069,260	30,069,260
Permanent differences	1,122,539	(2,283,112)	(1,160,573)	(1,160,573)
Individual companies	509,243	(748,695)	(239,452)	(239,452)
Consolidation adjustments	613,296	(1,534,417)	(921,121)	(921,121)
Temporary differences:				
Individual companies	3,287,567	(2,039,754)	1,247,813	1,247,813
originating in current year	1,116,092	—	1,116,092	1,116,092
originating in prior years	2,171,475	(2,039,754)	131,721	131,721
Utilization of prior period tax losses	—	(25,222,382)	(25,222,382)	(25,222,382)
Taxable income			**4,934,118**	**4,934,118**

This appendix forms an integral part of note 21 to the consolidated financial statements, in conjunction with which it should be read.

CERÁMICA SALONI, S.A.U. and Subsidiaries

A reconciliation of net income and expenses with taxable income for the year ended December 31, 2016(*)

	In Euros			
	Consolidated Income statement			
2016	Increases	Decreases	Net	Total
Income and expenses for the period			4,540,178	4,540,178
Income tax			2,051,399	2,051,399
Profit before income tax			6,591,577	6,591,577
Permanent differences	1,581,931	(385,560)	1,196,371	1,196,371
Individual companies	1,047,931	—	1,047,931	1,047,931
Consolidation adjutsments	534,000	(385,560)	148,440	148,440
Temporary differences:				
Individual companies	1,100,108	(1,068,617)	31,491	31,491
originating in prior years	1,100,108	(1,068,617)	31,491	31,491
Taxable income			**7,819,439**	**7,819,439**

(*) Non audited

This appendix forms an integral part of note 21 to the consolidated financial statements, in conjunction with which it should be read.

CERÁMICA SALONI, S.A.U. and Subsidiaries

Relationship between the income tax expense and accounting profit for the year ended December 31, 2017

	In Euros	
	Consolidated income statement	Total
Income and expenses for the period before tax	30,069,260	30,069,260
Tax applicable	7,536,657	7,536,657
Non-deductible expenses/ Non-taxable income		
Fines and penalties	22	22
Charge to non-deductible provisions	127,289	127,289
Other adjustments	(387,506)	(387,506)
Deductions and credits for the current year	(5,282)	(5,282)
Tax credits no recognized during the year	344,698	344,698
Tax credits no recognized applied during the year	(424,486)	(424,486)
Prior year adjustments	27,576	27,576
Income tax expense/(income)	**7,218,968**	**7,218,968**

This appendix forms an integral part of note 21 to the consolidated financial statements, in conjunction with which it should be read.

CERÁMICA SALONI, S.A.U. and Subsidiaries

Relationship between the income tax expense and accounting profit for the year ended December 31, 2016(*)

	In Euros	
	Consolidated income statement	Total
Income and expenses for the period	6,591,577	6,591,577
Tax applicable	1,527,423	1,527,423
Non-deductible expenses/ Non-taxable income		
Fines and penalties	1,194	1,194
Charge to non-deductible provisions	260,790	260,790
Other adjustments	37,110	37,110
Deductions and credits for the current year	(13,206)	(13,206)
Tax credits no recognised during the year	238,088	238,088
Income tax expense/(income)	**2,051,399**	**2,051,399**

(*) Non audited

This appendix forms an integral part of note 21 to the consolidated financial statements, in conjunction with which it should be read.

Appendix VI

CERÁMICA SALONI, S.A.U. and Subsidiaries

Details of revenues by category of activity and geographical market for the years ended December 31, 2017 and 2016

(Expressed in Euros)

	Domestic		Rest of European Union		Rest of the world		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Revenues	57,465,633	54,525,838	36,380,958	31,368,622	20,319,872	18,997,385	114,166,463	104,891,845
	57,465,633	**54,525,838**	**36,380,958**	**31,368,622**	**20,319,872**	**18,997,385**	**114,166,463**	**104,891,845**

This appendix forms an integral part of note 24 to the consolidated financial statements, in conjunction with which it should be read.

CERÁMICA SALONI, S.A.U. and Subsidiaries

Segment Reporting
for the years ended December 31, 2017 and 2016

	2017		
	Domestic and rest of the world	France, UK and Portugal	Total
Net turnover	87,751,325	26,415,138	114,166,463
Variation in inventories	680,605	—	680,605
Supplies	(30,145,250)	(16,281,016)	(46,426,266)
Other operating income	544,207	117,114	661,321
Personnel expenses	(23,223,040)	(3,157,063)	(26,380,103)
Operating expenses	(25,277,173)	(5,620,649)	(30,897,822)
Asset amortisation	(3,836,557)	(67,820)	(3,904,377)
Allocation of grants for non-financial assets and others	12,223	—	12,223
Impaiment and profit/loss on disposals and others	(461,105)	719,694	258,589
Other results	3,747	132,462	136,209
Financial income	22,232,800	257,296	22,490,096
Financial expenses	(646,534)	(16,358)	(662,892)
Exchange rate differences	(64,786)	—	(64,786)
Impairment and profit/loss on disposals of financial instruments	—	—	—
Profit (Loss) before tax	27,570,462	2,498,798	30,069,260
Segment assets	102,301,902	8,547,996	110,849,898
Segment liabilities	97,734,037	3,655,738	101,389,775
Acquisitions of non-current assets during the year	7,272,634	34,719	7,307,353
Statements of Cash Flows			
Operating activities	19,176,718	244,435	19,421,153
Investing activities	(7,282,420)	431,725	(6,850,695)
Financing activities	(5,618,274)	731,272	(4,887,002)

This appendix forms an integral part of note 27 to the consolidated financial statements, in conjunction with which it should be read.

CERÁMICA SALONI, S.A.U. and Subsidiaries

Segment Reporting
for the years ended December 31, 2017 and 2016

	2016(*)		
	Domestic and rest of the world	France, UK and Portugal	Total
Net turnover	85,978,140	18,913,705	104,891,845
Variation in inventories	(3,597,314)	—	(3,597,314)
Supplies	(29,268,403)	(11,510,558)	(40,778,961)
Other operating income	868,438	243,129	1,111,567
Personnel expenses	(19,084,036)	(2,294,380)	(21,378,416)
Operating expenses	(24,522,674)	(4,678,656)	(29,201,330)
Asset amortisation	(3,440,777)	(105,416)	(3,546,193)
Allocation of grants for non financial assets and others	30,159	—	30,159
Impaiment and profit/loss on disposals and others	(579,503)	—	(579,503)
Other results	115,105	(1,359)	113,746
Financial income	175,807	567	176,374
Financial expenses	(463,898)	(20,444)	(484,342)
Exchange rate differences	(135,863)	—	(135,863)
Impairment and profit/loss on disposals of financial instruments	(30,192)	—	(30,192)
Profit (Loss) before tax	6,044,989	546,588	6,591,577
Segment assets	109,613,466	6,705,643	116,319,109
Segment liabilities	68,375,474	4,230,678	72,606,152
Acquisitions of non-current assets during the year	6,061,300	10,784	6,072,084
Statements of Cash Flows			
Operating activities	7,599,350	535,716	8,135,066
Investing activities	(7,655,267)	(21,013)	(7,676,280)
Financing activities	(1,520,463)	(728,818)	(2,249,281)

(*) Non audited

This appendix forms an integral part of note 27 to the consolidated financial statements, in conjunction with which it should be read.

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