# Report issued by the Appointments and Compensations Committee of Fluidra, S.A. on the proposal for approval of the Directors' Compensation Policy

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In Sabadell, on May 21, 2018

## 1. Introduction

Article 529 novodecies of Capital Companies Law ("**LSC**"), requires the Shareholders' Meeting to approve the policy on directors' remuneration every three years at least. The remuneration policy proposed by the Board of Directors must be reasoned and must be accompanied by a specific report issued by the Appointments and Compensations Committee ("**ACC**"). Both documents must be made available to the shareholders on the company's website as from the issue of the notice calling the Shareholders' Meeting, and express mention must be made of the shareholders' right to request that they be delivered or sent to them free of charge.

Said article also stipulates that any amendment or replacement of the directors' remuneration policy during its period of validity shall require the prior approval of the Shareholders' Meeting in accordance with the established approval procedure.

This document constitutes the reasoned explanatory report of the ACC of Fluidra, S.A. (the "**Company**") which is required by law on the Board of Directors' proposal for the replacement of the Company directors' remuneration policy which was approved by the Shareholders' Meeting on May 3, 2016 in respect of years 2016 through to 2019 inclusive, in accordance with article 529 novodecies of LSC.

## 2. Background

On February 20, 2018, the Shareholders' Meeting of the Company approved the cross-border merger by absorption of Piscine Luxembourg Holdings 2 S.à r.l. ("**Zodiac HoldCo**") (as absorbed company) by the Company (as absorbing company), with the extinguishment, through its dissolution without liquidation, of the absorbed company and the global transfer of all its assets and liabilities to the absorbing company, which shall acquire, by universal succession, all the assets and liabilities and rights and obligations of the absorbed company (the "**Merger**"). In the same Shareholders' Meeting, the shareholders resolved, conditional to the registration of the Merger public deed at the commercial registry corresponding to the registered office of the Company (the "**Merger Registration Date**"), that the Board of Directors of the Company shall be made up of twelve directors, being the twelve members of the Board of Directors of the Company: four independent directors, four directors proposed by the syndicated shareholders of the Company, jointly, and four directors proposed by Piscine Luxembourg Holdings 1 S.à r.l., sole shareholder of Zodiac HoldCo. As part of the Merger resolutions, and at the proposal of the Board of Directors of the Company, that same Shareholders' Meeting approved - conditional on the registration of the Merger public deed at the commercial registry corresponding to the registered office of the Company - the appointments and/or resignations of directors necessary to be able to implement the composition of the Company Board of Directors described above. Following the change in the composition of the Company Board of Directors, the Company shall have two executive directors: Mr. Eloy Planes Corts (executive chairman) and Mr. Bruce Brooks (chief executive officer).

The change in the composition of the Company's Board of Directors makes it necessary to adapt its remuneration policy with effect as from the date on which the new composition of the Board of Directors becomes effective (**"Remuneration Policy**").

As from the Merger Registration Date, and therefore conditional upon the registration of the Merger, the Remuneration Policy shall replace that approved by the Shareholders' Meeting on May 3, 2016, without prejudice to the effects produced and vested over the term for which the latter was in force.

In accordance with the above, the ACC has resolved to present to the Board of Directors this report on the new Company directors' Compensation Policy, which will be submitted to the binding vote of the Shareholders' Meeting, in accordance with article 529 novodecies of LSC.

## 3. Appointments and Compensations Committee

Article 14 of Company's Board of Directors' Regulations stipulates that the ACC shall be made up of a minimum of three non-executive directors, at least two of which must be independent directors, who shall be appointed by the Board of Directors. The chairman of the ACC must necessarily be an independent director, elected from among the independent directors of which this committee is made up.

At the date of this report, the ACC is made up of four directors, who are skilled, knowledgeable and experienced in the matters covered by this Committee and able to evaluate remuneration policies and practices properly and independently.

| Name | Office | Director type |
|---|---|---|
| Mr. Jorge Valentín Constans | Chairman | Independent |
| Mr. Richard Cathcart | Member | Independent |
| Mr. Óscar Serra | Member | Nominee |
| Aniol, S.L. | Secretary | Nominee |

Without prejudice to any other functions which may correspond to it by law or pursuant to the bylaws or the Board of Directors, as envisaged in article 14 of the Board of Directors' Regulations, the responsibilities of the ACC in relation to remuneration are as follows:

- Making proposals to the Board of Directors regarding: (i) the remuneration policy for directors and general managers or persons performing senior management functions who report directly to the Board, to the Executive Committee or to executive directors; (ii) the individual remuneration of executive directors and the other terms of their contracts; (iii) the recruitment policies and basic terms of the contracts of the Company's senior executives.
- Overseeing compliance with the remuneration policy established by the Company, and the transparency of remuneration.

The purpose of this document is to fulfill the responsibility referred to in point (i) above.

## 4. Report on the Compensation Policy

In the exercise of its functions, the ACC has analyzed the Company's directors' compensation policy applicable to date and has submitted specific proposals for the amendment of the same to the Board, aimed at aligning the remuneration policy with the Company's new corporate governance structure in view of the significant changes which have taken place in the body of shareholders and in the composition of the Board of Directors, as is reflected the Remuneration Policy submitted to the Shareholders' Meeting

The Board of Directors of the Company has received advice on remuneration from Willis Tower Watson, Georgeson and Garrigues, and has commissioned the Hay Group to undertake market studies of directors' remuneration.

Following the review undertaken, the ACC has produced a new policy to be presented to the Shareholders' Meeting for approval, which is nevertheless based on the same principles and fundamentals as the previous policy, i.e. that remuneration must be reasonably proportionate to the importance of the Company, its financial situation and the market standards of comparable undertakings. The aim of the Remuneration Policy is to promote the sustainable creation of value over the long term, linking the remuneration of the directors to results and to the interests of the shareholders, and including the necessary safeguards to avoid the excessive assumption of risks and the rewarding of unfavorable results. Similarly, consideration has been given to the economic environment, the Company's results, the Group's strategy, best market practices and Corporate Governance recommendations in relation to remuneration.

In light of the above, a distinction is drawn in the Compensations Policy between (i) the remuneration of the directors corresponding to their supervisory and collective decision-making functions as such, and (ii) the remuneration envisaged for directors who perform executive functions ("**Executive Directors**").

### 3.1 Directors' remuneration for their supervisory and collective decision-making

**functions**

In accordance with article 44 of the Bylaws, the maximum amount of remuneration payable to directors overall for their supervisory and decision-making functions will be set by the Shareholders' Meeting. This remuneration will consist of a fixed amount and attendance fees. Within the maximum limit set by the Shareholders' Meeting, the Board of Directors will set for each year the specific amount to be received by each director.

In accordance with the criteria approved by the Board of Directors, with the favorable report from the ACC, the total maximum amount agreed as remuneration by the Shareholders' Meeting is distributed among the directors through the payment of a fixed allowance and the payment of fees for attending the meetings of the Board and its committees.

These amounts will remain fixed until the Board of Directors resolves to change them, which circumstance will be reported in the Annual Report on Directors' Remuneration to be submitted each year to the Shareholders' Meeting for consideration.

If new members join the Board of Directors during the term of the Remuneration Policy, this same remuneration system will apply to them.

The ACC proposes that the new annual maximum limit to be paid to the directors overall for their supervisory and collective decision-making functions be set at €1,600,000.

The increase of €400,000 in this maximum amount (the previous amount has been set at €1,200,000 since 2009) is justified, as well as by its compliance with the market due to the time elapsed since the previous limit was set, and with the new size and complexity of the Company group after the Merger, by the following factors: (a) the increase in the number of members of the Board after the Merger with the Zodiac group (which, as mentioned in section 2 above, will go from the current nine members to twelve members when the Merger takes effect); and (b) the increase in the average number of members of such Committees, due as well to its growing activity and to the progressive assumption of more complex functions.

## 3.2 Remuneration for Executive Directors

Directors who, in addition to their supervisory and collective decision-making functions, perform executive functions within the Company will be entitled to receive remuneration additional to that described in the preceding section for those functions.

The remuneration system applicable to Executive Directors is made up of the following elements:

- Annual fixed remuneration, which takes into account the level of responsibility and professional career, in line with market terms. It is made up of fixed cash remuneration, which constitutes a relevant portion of their total remuneration, and certain items of remuneration in kind.

- Annual variable remuneration linked to the achievement of economic/financial and management targets which, prior to weighting by the degree of achievement of the parameters to which it is linked, shall not exceed 100% of the fixed remuneration in respect of executive functions. The achievement scale ranges up to a ceiling of 200%.

- Commitments for the contingencies of death, invalidity and defined contribution pensions.

- Long-term variable remuneration: Executive Directors may participate in long-term incentive plans established by the Company for its executive personnel based on the Company equity instruments or linked to the value of such instruments. These plans will be linked to the Company's strategic metrics, such as the Group's EBITA, or any other metric that may be decided in each case by the Board of Directors at the proposal of the ACC, and to the creation of value for its shareholders. The approval of the plans will require a resolution by the Shareholders' Meeting, in which the general characteristics of the plans will be detailed.

  The Board of Directors has approved a long-term incentive plan aimed at the group's senior managers and Executive Directors known as the "Performance Share Plan 2018-2022" (the "**2018-2022 Plan**") which will be submitted, together with the Remuneration Policy, to the Shareholders' Meeting for approval. The 2018-2022 Plan is a system of variable remuneration settled in shares, conditional on the achievement of the EBITDA of the Company group and "Total Shareholder Return" (TSR) of the Company targets established in the Company's strategic plan and on the beneficiaries' remaining in the Group until the 2018-2022 Plan ends. The term of the 2018-2022 Plan is five years – the measurement period for compliance with the economic targets being four years – from January 1, 2018 through to December 31, 2021. There is therefore an additional period of one year, through to December 31, 2022, throughout which the Beneficiary is required to remain with the Company Group.

The number of shares that the Executive Directors can receive, prior to their weighting by the degree of achievement of the economic targets to which the incentive is linked, is 180,000 in the case of Mr. Eloy Planes and 291,375 in the case of Mr. Bruce Brooks. The metrics achievement scale ranges from 25%, in the event of achievement of the minimum levels, up to a maximum of 170% in the event of achieving or exceeding the maximum values established for each metric.

The conditions established in the 2018-2022 Plan follow the Corporate Governance recommendations and include the following, among others: (i) the incentive to be paid must take into account any qualifications that appear in the external auditor's report and reduce the Company's earnings, (ii) the payment of the incentive must be deferred for a minimum period of time sufficient to verify the fulfillment of the conditions to which it is linked, (iii) a clawback clause must be included, and (iv) a number of shares equivalent to two times the annual fixed remuneration must be held for at least three years.

- Severance pay, which may not exceed the limits set in the Corporate Governance recommendations.

- Compensation for non-compete undertakings, which may not exceed the sum of the fixed components of the remuneration that the Executive Director would have obtained had he remained at the Company during the non-compete period.

## 5. Validity

Without prejudice to the provisions of the LSC as regards the remuneration policy for Board of Directors members, the policies and procedures contained in the Compensation Policy will be valid, conditional upon registration of the Merger, during the year they are approved by the Shareholders' Meeting, with effects from the Merger Registration Date, and for the following three years, save for any modifications, adaptations, reviews or replacements agreed from time to time, which will be submitted for approval to the Shareholders' Meeting.

## 6. Conclusion

Based on the above, the ACC concludes that the Directors' Compensation Policy that the Board of Directors submits to the Shareholders' Meeting for approval, complies with the current legislation and follows the latest recommendations and best practices in remuneration matters, while also complying with the following principles:

- The amount of the remuneration complies with the principle of prudence, serves as an incentive, and is in keeping with the level of responsibility, dedication, qualifications and degree of professional involvement of the directors in their functions.

- Alignment with the shareholders’ interests.

- Compliance with the principles and recommendations assumed by the Company in the Corporate Governance area.

- Adaptation to market standards and practices, in keeping with the Company’s strategic planning, effective at attracting, motivating and retaining the best professionals.

In accordance with the content of this report, the ACC concludes that the Compensation Policy is in keeping with the principle of prudence and with best market practices, bearing a relation to the level of responsibilities, functions assumed and professional performance of the directors.

All of the foregoing, in the ACC’s judgment, provides the Company with a compensation policy for its directors that is suitable for the coming years, aimed at creating value at the Company, through prudent risk management, aligned with the shareholders’ interests and respecting the recommendations in Corporate Governance.