

# REPORT ON THE COMPENSATION POLICY FOR 2008

April 2009



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## 1. INTRODUCCION

In accordance with Article 25.10 of its Bylaws and with the recommendations of the Unified Good Governance Code approved by the National Securities Market Commission on 19 May 2006, and in line with the European Commission recommendation of 14 December 2004 fostering an appropriate regime for the remuneration of directors of listed companies, the Board of Directors of the Company FLUIDRA, S.A. (hereinafter called Fluidra or the Company) issues an annual report on its remuneration policy for the current financial year and on the implementation of its remuneration policy in the previous financial year.

This report is to be made available to shareholders, in the manner deemed appropriate by the Board of Directors, at the time of calling the Ordinary General Meeting of Shareholders.

### 1.1 Composition of the Board of Directors of the Company

At present, the composition of the Board of Directors of FLUIDRA, S.A. is as follows:

Name	Office	Type of office	Date of first appointment	Start date of current term of office	End date of current term of office
Mr. Joan Planes Vila	Chairman	Nonexecutive nominee	09/05/07	09/05/07	09/05/13
Mr. Eloy Planes Corts	Managing Director	Executive	10/31/06	09/05/07	09/05/13
Mr. Bernat Garrigós Castro	Member	Nonexecutive nominee	09/05/07	09/05/07	09/05/13
Mr. Óscar Serra Duffo	Member	Nonexecutive nominee	09/05/07	09/05/07	09/05/13
Mr. Bernardo Corbera Serra	Member	Nonexecutive nominee	10/03/02	09/05/07	09/05/13
BIDSA(5) (Mr. Carlos Ventura Santamans)	Member	Nonexecutive nominee	01/07/03	09/05/07	09/05/13
Mr. Juan Ignacio Acha-Orbea Echevarría	Member	Nonexecutive independent	09/05/07	09/05/07	09/05/13

Name	Office	Type of office	Date of first appointment	Start date of current term of office	End date of current term of office
Mr. Kam Son Leong	Member	Nonexecutive independent	09/05/07	09/05/07	09/05/13
Mr. Richard Cathcart	Member	Nonexecutive independent	09/05/07	09/05/07	09/05/13
Mr. Alberto Collado Armengol	Secretary	Nondirector		09/05/07	09/05/13

## 1.2 Appointments and Compensation Committee

The composition, powers and workings of Appointments and Compensation Committee are contained in Article 14 of the Board Regulations which, for such purpose, establish as follows:

### 1.2.1 Composition

The Committee will be formed by a minimum of three nonexecutive directors, mostly of an independent nature, who will be appointed by the Board of Directors, without prejudice to the attendance of executive directors or senior executives when the members of the Committee expressly so resolve.

The Chairman of the Committee will necessarily be an independent director, elected from among the nonexecutive directors, and he must be replaced every four years. The Chairman can be reelected once a period of one year has elapsed since the date of his standing down. The Committee Secretary will be chosen from among the Committee members.

At present, the Appointments and Compensation Committee is composed by:

First and last names	Office	Appointment date
Richard J. Cathcart	Chairman	September 17, 2007
Bernat Garrigós Castro	Member*	September 17, 2007
Kam Son Leong	Member	September 17, 2007

(\*) *Holding the office of Committee Secretary*

### 1.2.2 Functions

Without prejudice to any other functions that may be conferred on it by the Company's Board of Directors, the Committee has the following basic responsibilities:

- (1) Devise and review the rules to be followed in determining the composition of the executive team of the Company and its subsidiaries and for the selection of candidates.
- (2) Evaluate the competencies, knowledge and experience needed on the Board, consequently defining the functions and abilities needed of the candidates to fill each vacancy, and evaluate the time and dedication required for them to successfully perform their brief.
- (3) Report and refer to the Board such appointments and removals of senior executives and executives as may be proposed by the Managing Director, in order for the Board to proceed to designate new ones.
- (4) Report to the Board on the issues regarding the diversity of the gender and qualifications of directors, as established in Article 6.2 of the Board Regulations (definitions of the different classes of director).
- (5) Propose to the Board: (i) the compensation policy for directors and senior executives; (ii) the individual compensation of executive directors and their other contractual terms and conditions; (iii) hiring policies and the basic terms and conditions of the contracts for senior executives of the Company.

- (6) Scrutinize or arrange, in such way as is deemed adequate, for the succession of the Chairman and of the Managing Director and, if appropriate, make proposals to the Board in order for such succession to take place in an orderly and well-planned way.
- (7) Ensure that the compensation policy established by the Company is observed and that the compensation paid is transparent.

For optional performance of its functions, the Committee may seek the advice of outside experts as and when it deems this to be necessary.

### **1.2.3 Meetings**

The Committee will ordinarily meet each quarter. It will also meet whenever its Chairman calls a meeting, which must happen whenever the Board or its Chairman requests a report to be produced or proposals to be adopted and, in any case, whenever it proves necessary for the successful performance of its functions. In 2008, the Committee has met four times. For 2009, the Committee is expected to meet four times.

### **1.2.4 Main aspects reviewed in 2008**

In addition to reviewing all aspects relating to its basic responsibilities, as described above, in 2008 the Appointments and Remuneration Committee focused its activities on the following aspects:

- Assessing the remuneration package and contractual conditions of the CEO following his appointment as Managing Director of the Company. Drawing up a new contract to reflect the new situation.
- Assessing the remuneration packages of Executive Committee (senior management). Review and alignment with standard remuneration practices.
- Assessing and reviewing remuneration packages for directors. Introducing new items of pay (attendance fees and variable remuneration) to align the remuneration policy with that actually implemented by the Company.
- Reviewing the recruitment and redundancy policies for directors sitting on the Executive Committee of the Company (senior management)
- Reviewing the rules relating to Board members who also sit on other boards. Procedure for seeking authorisation in the event of a conflict of interest.

- Outlining the basic principles governing the diversity and gender policy aimed at Board members.
- Laying down the criteria for selection and appointment of new members on the Board of Directors.
- Reviewing the emergency CEO succession plan.

## **2. GENERAL PRINCIPLES GOVERNING THE COMPENSATION POLICY FOR DIRECTORS**

According to Article 44 of the Company's Bylaws, and Article 25 of the Board Regulations, the total, aggregate annual compensation for all of the Board and for all items will be 5% of the income recorded by the consolidated group and approved by the shareholders' Meeting, although the Board may reduce this percentage in such fiscal years as it deems appropriate.

Additionally, according to said articles, the directors' compensation is made up of a fixed monthly emolument and a share in income. When determining such amount, consideration will be given to any qualifications appearing in the report by the Company's auditors that reduce its income. Additionally, efforts will be made for the directors' compensation to reflect their professional performance and not only the general performance of the markets, of the sectors of activity in which the Company operates or of other similar circumstances.

Pursuant to the provisions of Article 130 of the Corporations Law, the compensation in the form of a share in income can only be received by directors after allocating the required amounts to the legal reserve and the reserve provided for by the Bylaws and after recognizing a minimum dividend to the shareholders of 4%.

The members of the Board of Directors will also receive attendance fees for attending each meeting of the Company's managing bodies and its committees. The Board will establish the amount of such attendance fees, although it may not exceed an amount equal to directors' fixed monthly emolument.

Additionally, the directors may be compensated by being awarded shares in the Company or in another company of the Group to which it belongs, or stock options, or instruments linked to their stock market price.

The compensation established for the members of the Board will be compatible with and independent from the salaries, payments, indemnification, pensions, contributions to employee welfare systems, life insurance, share awards or stock options or compensation of any kind established in general or in particular for members of the Board who perform executive functions, regardless of whether of their relationship with the Company is an employment relationship (ordinary or special top executive relationships), a commercial relationship or a relationship for services, as such relationships are compatible with their status as members of the Board of Directors.

None of the current directors receive any remuneration concerning services provided for other companies of the Group.

### **3. REMUNERATION SYSTEM OF THE EXECUTIVE DIRECTORS**

At present, there is only one executive director at the Company, Mr. Eloy Planes Corts, who was appointed as Managing Director at the Board meeting held on October 1, 2006. Additionally, Mr. Planes holds the office of General Manager of the Company by virtue of the top executive employment contract executed on March 30, 2006.

Mr. Eloy Planes Corts is not a member of the managing bodies of other Group companies and, therefore, does not receive any compensation in this respect.

In 2008, on the proposal of the Appointments and Remuneration Committee, the Board of Directors of the Company decided to approve the financial and professional conditions granted to Mr Eloy Planes Corts following his appointment as Managing Director, as part of the additional remuneration due to him as a member of the Board of Directors of the Company.

Consequently, Garrigues Human Capital Services, a firm specialising in remuneration packages for directors and senior managers, was appointed to conduct market research on the remuneration practices followed by other comparable companies for equivalent positions. The Board of Directors subsequently used this market research to make final decisions.

On the basis of this report and of the in-depth analysis provided by Garrigues Human Capital Services in relation to the legal issues arising from the appointment of Mr Eloy Planes Corts as Managing Director of the Company, in 2008 Mr Eloy Planes Corts and the Company entered into a new commercial relationship which overrides the special Senior Management employment contract that existed previously between them.



### 3.1 Fixed compensation

The fixed compensation (annual basis) that Mr. Planes received in 2008 was as follows:

Item	Gross amount (€)
Compensation as Board member	95.002
Compensation as General Manager	235.000
<b>Total</b>	<b>330.002</b>

### 3.2 Variable compensation

According to Mr. Planes' employment contract, he receives annual variable gross compensation linked to the fulfillment of several objectives related to the budget established by the Board for each fiscal year.

This variable compensation may be paid, in whole or in part, in such forms, that need not necessarily be monetary, as will be mutually agreed upon by Mr. Planes and the Company. In the absence of an agreement, the compensation will be paid in cash in a single lump sum.

The variable compensation will be paid once the financial statements for each fiscal year have been prepared and, in any case, by no later than April 30 following each fiscal year-end.

In 2008, in spite of the very positive assessment that the Appointment and Compensation Committee does about the management of the Chief Executive Officer, the final figures implied that the minimum targets required for accrual of the variable remuneration had not been achieved so the Chief Executive Officer did not received any amount, according to the established plan.

### 3.3 Statutory remuneration

Mr. Eloy Planes Corts is entitled to the per-diem allowance and other remuneration paid to members of the Board of Directors of FLUIDRA as a result both of attending Board meetings and of sitting on the various executive committees of the Board.

In 2008, he receives 95.002 euros, as mentioned above, of which 70.002 were paid as fixed remuneration and 25.000 were paid as President of Managing Committee.

In 2009, taking into account the reallocation of the remuneration concepts approved for BoD, which is explained in 4,2 point of this report, the total remuneration for the CEO planned is 96.000 euros: 60.000 as fixed remuneration, 6.000 as attendances fees, 5.000 as variable remuneration and 25.000 as President of Managing Committee.

### 3.4 Employee welfare systems

The Company has undertaken a pension commitment in favour of Mr Eloy Planes Corts in the event of his death or disability. The Company will be solely responsible for the payment of the following benefits:

- In the event of Mr Planes's death, the beneficiary named by him will receive the equivalent of 4 years' fixed Gross Salary at the time of death.
- In the event of Mr Planes's total, permanent, or severe disability before the end of this contract, he will receive, until the age of 65, a monthly allowance equivalent to one twelfth of 75% of his last fixed annual Gross Salary at the time of his disability.

### 3.5 Share-based incentive systems

As described in the remuneration report for the 2007 financial year, the Shareholders' Meeting of the Company approved, on September 2007, the implementation of a Share-based Incentive Plan called the "Fluidra Value Creation Plan 2007-2011" addressed to the executive team of the Company, including the executive directors.

The implementation of the Plan is due not only to the need to adapt to the trend followed by other companies comparable to Fluidra in share-based incentives, but also to the clear objective of motivating and building the loyalty of certain executives and directors of the Company by linking part of their compensation to the increase in the Company's value and to the creation of value in the Group's business.

The Plan consists of the Board of Directors granting to the beneficiaries of the Plan a certain number of restricted stock units (RSUs), linked to the fulfillment of the fixed objectives, the which shall be settled in shares in the Company when a period of four years has elapsed

(known as the “Value Creation Period”) following the date on which the Company’s shares were admitted to trading on the stock market (i.e., October 31, 2007).

The features of the RSUs granted under the Plan are as follows:

- a. RSUs are free of charge and non-transferable.
- b. RSUs confer on their holder the possibility of receiving, during a certain period of time, one share in the Company for every RSU granted.
- c. Until they are converted into shares in the Company, RSUs do not attribute to their holder the status of shareholder of the Company.
- d. RSUs do not confer on their holder the right to receive more RSUs in the future since it is an isolated grant that does not ensure or give a vested right to future grants.

The “Fluidra Value Creation Plan 2007-2001” addressed to the executive team of the Company, including the Chief Executive Officer will be reviewed by the Appointment and Compensation Committee in 2009, in order to evaluate his current consistency, taking into account the economic context completely different from that which existed when the plan was implemented.

### 3.6 Main features of employment contracts

As mentioned above regarding the appointment of Mr Eloy Planes Corts to the post of Managing Director of the Company, in 2008 Mr Eloy Planes Corts and the Company entered into a contract of a commercial nature which overrides the special Senior Management employment relationship that existed previously between them.

The subject-matter of the contract specifies that Mr Eloy Planes Corts will carry out the role of Managing Director of the Company and generally perform the duties laid down by Spanish commercial legislation, by the Company’s Articles of Association and by the Regulations governing the management bodies of the Company, as well as those voted at the General Meeting of Shareholders of Fluidra of 31 October 2006, in which all the powers of the Board of Directors were delegated to Mr Planes, with the exception of those which cannot be delegated by law.

In particular, Mr Eloy Planes Corts will carry out senior management duties and be responsible for the administration and management of all aspects of the Company.

The contract is effective from the date of appointment of Mr Eloy Planes Corts as Managing Director of FLUIDRA, i.e. as of 31 October 2006, and will remain in full force and effect as long as Mr Planes holds the post of Managing Director of the Company. Nevertheless, although this Contract is effective retrospectively from 31 October 2006, the financial conditions and welfare benefits provided therein will be effective from 1 January 2008.

The contract contains a post-contractual non-competition covenant and establishes certain rights in the event that it is terminated.

a) Post-contractual non-competition covenant

Without prejudice to the provision whereby Mr. Planes undertakes, during the term of the contract, not to compete with the Company, a post-contract non-competition covenant is established for 2 years following the end of the employment relationship.

The consideration established for the obligation entered into by Mr. Planes by virtue of the post-contractual non-competition covenant is two years of his current annual, fixed Gross Salary when the employment contract is terminated. Such consideration will be paid in four installments, with each installment falling due at the end of each of the four half-yearly periods in which the covenant applies, and will be independent from and compatible with the indemnification established in the contract for the cases in which Mr. Planes is removed.

b) Severance payment.

In case of termination of the contract by the Company for any cause, other than dismissal on disciplinary grounds held to be justified in a final judgment rendered by the labor courts, Mr. Planes will be entitled to receive an indemnification equal to three (3) years of his annual Gross Salary, taking into account the gross fixed annual salary received in the year of termination and the gross variable annual salary for the preceding year.

Mr. Eloy Planes will be entitled to receive the above-mentioned severance payment if he decides to terminate the contract of his own free will, as long as such termination is due to any of the following reasons:

- a serious breach by the Company of its contractual or professional obligations

- a substantial reduction or limitation of his functions or powers
- a substantial change in the conditions set out in this Contract
- a change in ownership of FLUIDRA, whether or not there is a change in the company's management

#### 4. COMPENSATION SYSTEM FOR NONEXECUTIVE DIRECTORS

The nonexecutive directors currently forming part of the Board of Directors of the Company are the following:

Name	Office
Mr. Juan Planes Vila	Chairman
Mr. Bernat Garrigós Castro	Member
Mr. Óscar Serra Duffo	Member
Mr. Bernardo Corbera Serra	Member
Bansabadell Inversió Desenvolupament (Mr. Carlos Ventura Santamans)	Member
Mr. Juan Ignacio Acha-Orbea Echevarría	Member
Mr. Kam Son Leong	Member
Mr. Richard Cathcart	Member

##### 4.1 Fixed compensation during 2008

The fixed compensation received by the nonexecutive directors of the Company in 2007 for their membership of the Board of Directors and of the various Committees at the Company (Managing Committee, Appointments and Compensation Committee, and Audit Committee) was as follows:

2008 BOD Remuneración					
Director	Fixed Remuneration	Appointment Committee	Audit Committee	Managing Committee	Total
Joan Planes *	106.002		8.000		<b>114.002</b>
Bernat Corbera	70.002			20.000	<b>90.002</b>
Oscar Serra	70.002			20.000	<b>90.002</b>
Bernat Garrigos (1)	70.002	8.000		10.000	<b>88.002</b>
BIDSA	70.002		8.000	20.000	<b>98.002</b>
Kam S. Leong (2)	79.998	8.000			<b>87.998</b>
Richard Cathcart (2)	79.998	8.000			<b>87.998</b>
Juan Ignacio Acha	70.002		8.000	20.000	<b>98.002</b>
<b>Total</b>	<b>616.008</b>	<b>24.000</b>	<b>24.000</b>	<b>90.000</b>	<b>754.008</b>

\* Chairman of the Board

(1) The amount that he receives for his participation on the Managing Committee is lower than that of the rest of the members because he is Secretary of the Committee and not a full-time member.

(2) They receive a higher amount than the rest of the members of the Board (except the Chairman) to encourage their participation on the Board since they do not reside in Spain.

(3) These amounts are received as a reimbursement of expenses.

## 4.2 Compensation established for 2009

According to the remuneration policy applicable to Board members and the commitment undertaken in the remuneration report for 2007, in 2008 a market research study was conducted, on the proposal of the Appointments and Remuneration Committee, regarding the practices followed by other companies comparable to FLUIDRA in relation to the remuneration of nonexecutive directors.

This research was conducted by internal company consultants based on information published by firms comparable to Fluidra and on studies conducted by specialist consultants, such as Spencer Stuart, Heidrick & Struggles or Citigroup.

As a result of this study, the Board of Directors approved the payment in 2009 of attendance fees to members attending meetings of the Company's management bodies and committees, and the payment of variable remuneration to members of the Board. Neither of these existed in the pay structure applicable in 2008.

The introduction of this new remuneration means that the various items of pay must be re-allocated to ensure that the total remuneration of nonexecutive directors in 2009 remains consistent with that paid in 2008. The re-allocation of the items of remuneration may be summed up as follows:

a) In terms of **fixed remuneration**, it was decided to allocate a fixed salary of 96,000 Euros to the Chairman of the Board and a fixed salary of 60,000 Euros to the other directors.

b) In terms of **variable remuneration**, each director has been allocated a basic remuneration of 5,000 Euros, which will be tied to the performance of the share price during 2009.

c) With regard to the **attendance fees**, it was decided to allocate the sum of 6,000 Euros to directors residing in Spain and 16,000 to foreigners and other directors.

d) Lastly, regarding **participation in committees**, members will receive a basic remuneration of 8,000 Euros for every committee on which they sit (10,000 for chairmen), while members sitting on the executive committee will receive 20,000 Euros (10,000 for Mr Bernat Garrigós).

The above remuneration is deemed to comply with the Articles of Association. The total remuneration paid to the Board (766,000 Euros), after the reallocation of the items, accounts for a 1.59% increase on that paid in 2008.

2009 BOD Remuneración							
Consejero	Fixed remuneration	Variable remuneration	Attendance fees	Appointment Committee	Audit Committee	Managing Committee	Total
Joan Planes	96.000	5.000	6.000		8.000		<b>115.000</b>
Bernat Corbera	60.000	5.000	6.000			20.000	<b>91.000</b>
Oscar Serra	60.000	5.000	6.000			20.000	<b>91.000</b>
Bernat Garrigós (1)	60.000	5.000	6.000	8.000		10.000	<b>89.000</b>
BIDSA	60.000	5.000	6.000		8.000	20.000	<b>99.000</b>
Kam S. Leong	60.000	5.000	16.000	8.000			<b>89.000</b>
Richard Cathcart	60.000	5.000	16.000	10.000			<b>91.000</b>
Juan Ignacio Acha	60.000	5.000	6.000		10.000	20.000	<b>101.000</b>
<b>Total</b>	<b>516.000</b>	<b>40.000</b>	<b>68.000</b>	<b>26.000</b>	<b>26.000</b>	<b>90.000</b>	<b>766.000</b>

\* Chairman of the Board

(1) The amount that he receives for his participation on the Managing Committee is lower than that of the rest of the members because he is Secretary of the Committee and not a full-time member.

Likewise, Directors Mr. Kam S. Leong, Mr. Richard Cathcart and Mr. Juan Ignacio Acha, will be reimbursed for those expenses connected with their attendance to Board and Committee meetings

#### 4.3 Variable Remuneration

The basic remuneration of five thousand Euros per director will be paid as long as the share price rises by at least 5%. The formula to be used for calculating variable remuneration is given below:

**Variable remuneration:  $(5,000 / V_i * 1.05) * V_f$**

$V_i$ : Initial listed value of the share (average listed value of the share in the month of December of the financial year preceding that for which the compensation is calculated).

$V_f$ : Final listed value of the share (average listed value of the share in the month of December of the financial year that for which the compensation is calculated).

#### 4.4 Employee welfare systems

The Company has not assumed any obligation or commitment whatsoever in relation to pensions, retirement or the like with the members of the Board of Directors.

#### 4.5 Other compensation

There are no other compensation systems for nonexecutive directors.

#### 4.6 Share-based incentives

There are no share-based incentive systems in which the nonexecutive directors participate.

#### 4.7 Main characteristics of employment contracts

The Company has not executed any employment contracts with the nonexecutive directors.



## 5. SPECIAL REFERENCE TO THE FUTURE POLICY

The Appointments and Compensation Committee, in the exercise of the functions attributed to it by the Regulations of the Company's Board, periodically reviews the policy for compensating the members of the Board, putting forward to the latter, within the framework established for such purpose, as many proposals as it considers advisable in relation to both items and amounts, bearing in mind the conditions in which the Company operates and its performance. In this sense, taking into consideration market surveys and analysis, the Appointments and Compensation Committee is working in order to adapt the current remuneration structure to the practice followed by any other companies comparable to Fluidra considering the specific points for each position.

Based on the above, the Appointments and Remuneration Committee is reviewing the appropriateness both of Article 44 of the Articles of Association of the Company and of Article 25 of the Bylaws of the Board of Directors of the Company, in which it is stated that the total annual remuneration for all Board members will be 5% of the group's consolidated profits.

Other aspects under review include the efficiency of the stock-based incentive plan, "Fluidra 2007-2011 Value Creation Plan", aimed at the management of the Company, including executive directors, as mentioned in Section 3.5 of this report.