FLUIDRA, S.A.
AND SUBSIDIARIES

Consolidated Financial Statements and Consolidated Management Report

31 December 2017

(Together with the Audit Report thereon)

Translation of consolidated financial statements and consolidated management report originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails

Translation of a report and consolidated financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails

AUDIT REPORT ON CONSOLIDATED FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

To the Shareholders of Fluidra, S.A.:

Report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Fluidra, S.A. (the Company) and its Subsidiaries (the Group), which comprise the consolidated statement of financial position at December 31, 2017, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement, and the notes thereto for the year then ended.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of consolidated equity and consolidated financial position of the Group at December 31, 2017, and its consolidated results and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS-EU), and other provisions in the regulatory framework applicable to the Group in Spain.

Basis for Opinion

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those standards are described below in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We are independent of the Group in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the consolidated financial statements in Spain, as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters.

Goodwill and other intangible assets

Description At December 31, 2017 the Group shows goodwill and other intangible assets amounting to 196 and 35 million euros, respectively. At least annually, Group Management analyzes the recoverable amount of each significant Cash Generating Unit (CGU) to which these assets are allocated. The purpose of this analysis is to conclude about the need to record an impairment loss on goodwill or any other intangible asset. Impairment tests are performed using the discounted cash flow method based on a risk-free rate. We have considered this area as a key audit matter since the analyses performed by Group Management require them to make complex estimates and judgments regarding the future results of the CGUs to which the aforementioned assets belong. The description of the balance, movements and recoverability analysis performed on the CGU to which the aforementioned goodwill has been allocated, as well as the information on other intangible assets, are described in Note 7 to the accompanying consolidated financial statements.

Our response Our audit procedures for this area included, among others:

- Reviewing, in collaboration with our valuation experts, the reasonableness of the methodology used by Management in the projection of the discounted cash flows of each CGU, covering, specifically, the discount rate used and the longterm growth rate.
- Reviewing the financial information projected in the business plan for each CGU by analyzing the historical financial and budget information, the current market conditions, and the forecasts about their potential evolution and public information provided by other sector companies.
- Reviewing the disclosures included in the notes to the consolidated financial statements in accordance with the requirements of IAS 36.

Trade and other receivables

Description At December 31, 2017 the Group has trade and other receivables, net of impairment losses, amounting to 160 million euros. As mentioned in Note 3h. iv) and 3h. vii) to the consolidated financial statements on the most relevant accounting principles applied, the Group estimates trade receivables considered to be doubtful receivables and, if any, records a provision for the financial assets to adjust accounts receivable to their fair value. Management estimates this provision based on individual reviews of trade receivables, as well as on the experience and collection trends in the sector taking into account the current economic and trade conditions.

Given the significance and judgment that assessing the collection of trade receivables entails, we have considered this area as a key audit matter.

Our response

As part of our audit work, we have evaluated the main assumptions and judgments made by Management. Additionally, we have compared Management's estimates with historical collection trends. Furthermore, we have performed a ratios analysis of the Group's estimates for bad debts; and we have recalculated the provision for bad debts based on subsequent events (collection of receivables, etc.), assessing the appropriateness of the information disclosed by the Group regarding provisions for doubtful receivables.

Inventories

Description

At December 31, 2017 the Group has recorded inventories in the accompanying consolidated balance sheet for an amount of 173 million euros, net of impairment losses. The several types of inventories are located at different warehouses and factories that the Group has in both Spain and abroad. As indicated in Note 3.j) to the accompanying consolidated financial statements, the Group measures inventories at cost and if their net realizable value becomes lower than acquisition cost the corresponding impairment loss is recorded as an expense in the income statement. Given the significance of these balances to the consolidated financial statements taken as a whole, and the subjectivity involved in estimating the net realizable value of inventories, we have considered this area as a key audit matter.

Our response

In order to validate the measurement of inventories a detail test was done on the cost, actual margins and measurement of obsolete inventories. Historical costs were tested using samples, checking the acquisition cost against the original purchase invoice. We evaluated whether there were inventories sold at a negative margin, by analyzing the last invoices of sales carried out subsequent to year end and up to the date we completed our work. Additionally, we analyzed the stock turnover to validate the estimates of obsolete inventories made by Group Management. Furthermore, we engaged our IT experts to validate the software that determines the provision for obsolescence recorded by the Group.

Our audit procedures for checking the physical existence of inventories included, among others, assessing the relevant internal control procedures, specifically by analyzing the periodical stock counts that the Group carries out and the automatic record of sale transactions. Also, at a date close to year end, we attended a selection of physical inventories carried out at the warehouses and factories to validate the counts made by Group employees, and checked the results of our counts against the results of the counts made by Group employees.

Other information: Consolidated management report

Other information refers exclusively to the 2017 consolidated management report, the preparation of which is the responsibility of the Parent Company's Directors and is not an integral part of the consolidated financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated management report. Our responsibility for the information included in the consolidated management report is defined in prevailing audit regulations, which distinguish two levels of responsibility:

a. A specific level applicable to the non-financial information statement, as well as certain information included in the Corporate Governance Report, as defined in article 35.2. b) of Law 22/2015 on auditing, which solely requires that we verify that said information has been included in the management report and, if not, disclose this fact.

b. A general level applicable to the remaining information included in the management report, which requires us to evaluate and report on the consistency of said information in the consolidated financial statements, based on the knowledge of the Group we obtained while auditing the consolidated financial statements, not including any information not obtained as evidence during the course of the audit. In addition, we are required to assess and report on whether the content and presentation of this part of the consolidated management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described above, we have verified that the specific information referred to in paragraph a) above is provided in the consolidated management report, and that the remaining information contained therein is consistent with that provided in the 2017 financial statements and their content and presentation are in conformity with applicable regulations.

Responsibility of the Parent Company's Directors and the audit committee for the consolidated financial statements

The directors of the Parent Company are responsible for the preparation of the accompanying consolidated financial statements so that they give a true and fair view of the consolidated equity, consolidated financial position and consolidated results of the Group, in accordance with IFRS-EU and other provisions in the regulatory framework applicable to the Group in Spain, and for such internal control as they 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 Parent Company's 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 Parent Company's directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee of the Parent Company is responsible for overseeing the Group's financial reporting process.

Auditor's 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 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 prevailing audit regulations 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 consolidated financial statements.

As part of an audit in accordance with prevailing audit regulations in Spain, 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 the Parent Company's directors.
- Conclude on the appropriateness of the Parent Company's directors' 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 auditor's 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
auditor's 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 evidence regarding the financial information of the entities or business activities within the Group to express and 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.

Fluidra, S.A. and Subsidiaries

Consolidated financial statements

31 December 2017 and 2016

(Thousands of euros)

Fluidra, S.A. and Subsidiaries

Consolidated Statements of Financial Position

31 December 2017 and 2016

(Thousands of euros)

Assets	Notes	31/12/2017	31/12/2016
Property, plant and equipment	6	98,506	101,289
Investment property	8	3,298	1,708
Goodwill	7	196,218	199,557
Other intangible assets	7	35,192	40,793
Investments accounted for using the equity method	9	-	120
Non-current financial assets	10	4,202	5,613
Derivative financial instruments	11	-	-
Other accounts receivable	13	3,053	2,285
Deferred tax assets	28	22,326	24,660
Total non-current assets		362,795	376,025
Inventories	12	172,764	164,611
Trade and other receivables	13	159,975	154,127
Other current financial assets	10	4,138	4,147
Derivative financial instruments	11	78	274
Cash and cash equivalents	14	64,756	86,099
Total current assets		401,711	409,258
TOTAL ASSETS		764,506	785,283
Equity			
Share capital		112,629	112,629
Share premium		92,831	92,831
Retained earnings and other reserves		136,145	117,858
Treasury shares		(6,888)	(6,319)
Other comprehensive income		(1,067)	8,143
Equity attributed to equity holders of the parent net of the parent	15	333,650	325,142
Non-controlling interest		10,034	11,177
Total equity		343,684	336,319
Liabilities			
Bank borrowings and other marketable securities	18	137,774	174,989
Derivative financial instruments	11	1,349	1,958
Deferred tax liabilities	28	21,034	22,611
Provisions	17	14,807	8,419
Government grants		661	806
Other non-current liabilities	20	22,733	23,590
Total non-current liabilities		198,358	232,373
Bank borrowings and other marketable securities	18	79,310	74,985
Trade and other payables	19	135,433	134,709
Provisions	17	7,249	6,050
Derivative financial instruments	11	472	847
Total current liabilities		222,464	216,591
TOTAL EQUITY AND LIABILITIES		764,506	785,283

The accompanying consolidated notes are an integral part of the consolidated financial statements of Fluidra, S.A. and subsidiaries for the year ended 31 December 2017.

Fluidra, S.A. and Subsidiaries

Consolidated Income Statements

31 December 2017 and 2016

(Thousands of euros)

	Notes	31/12/2017	31/12/2016
Operating income			
Sales of goods and finished products		781,425	713,252
Income from the rendering of services	23	15,934	14,928
Work performed by the Group and capitalised as non-current assets		5,902	5,477
Total operating income		803,261	733,657
Operating expenses			
Change in inventories of finished products and work in progress and raw materials consumables	22	(383,111)	(346,374)
Personnel expenses	24	(169,356)	(158,260)
Depreciation and amortisation expenses and impairment	6, 7, 8 & 10	(40,379)	(39,846)
Other operating expenses	25	(153,963)	(144,735)
Total operating expenses		(746,809)	(689,215)
Other profit/(loss)			
Profit on the sale of assets	5 & 6	2,197	1,647
Total other profit/(loss)		2,197	1,647
Operating profit		58,649	46,089
Finance income / (costs)			
Finance income		2,078	2,791
Finance costs		(12,415)	(11,192)
Exchange gains /(losses)		(2,503)	1,952
Net finance income / (costs)	27	(12,840)	(6,449)
Share in profit / (loss) for the year from investments accounted for using the equity method	9	(32)	27
Profit/ (loss) before tax from continuing activities		45,777	39,667
Income tax expense	28	(12,963)	(13,135)
Profit/ (loss) after tax from continuing activities		32,814	26,532
Profit attributed to non-controlling interest		1,761	2,464
Profit attributed to equity holders of the parent		31,053	24,068
EBITDA	34	98,996	85,962
Basic and diluted earnings per share (in euros)	16	0.27997	0.21539

The accompanying consolidated notes are an integral part of the consolidated financial statements of Fluidra, S.A. and subsidiaries for the year ended 31 December 2017.

Fluidra, S.A. and Subsidiaries

Consolidated statement of comprehensive income
for the years ended 31 December 2017 and 2016

(Thousands of euros)

		31/12/2017	31/12/2016
Profit / (loss) for the year		32,814	26,532
Other comprehensive income:			
Items that will not be reclassified to profit and loss			
Recalculation of the measurement of defined benefit plans		-	-
Tax effect		-	-
Items that will be reclassified to profit and loss			
Cash flow hedges	Note 11	828	(406)
Exchange gains/(losses) on financial statements of foreign businesses		(10,378)	(1,062)
Tax effect		(207)	102
		(9,757)	(1,366)
Other comprehensive income for the year, net of tax			
		23,057	25,166
Total comprehensive income for the year			
Total comprehensive income attributable to:			
Equity holders of the parent		21,843	23,267
Non-controlling interest		1,214	1,899
		23,057	25,166

The accompanying consolidated notes are an integral part of the consolidated financial statements of Fluidra, S.A. and subsidiaries for the year ended 31 December 2017.

Fluidra, S.A. and Subsidiaries

Consolidated statement of changes in equity
for the years ended 31 December 2017 and 2016

(Thousands of euros)

	Equity attributable to equity holders of the parent									
						Other comprehensive income				
	Share capital	Share premium	Legal reserve	Retained earnings	Treasury shares	Exchange gains/ (losses)	Other	Total	Non-controlling interests	Total equity
Balance at 1 January 2016	112,629	92,831	11,108	93,210	(1,561)	10,203	(1,259)	317,161	14,884	332,045
Profit (loss) for the year	-	-	-	24,068	-	-	-	24,068	2,464	26,532
Other comprehensive income	-	-	-	-	-	(497)	(304)	(801)	(565)	(1,366)
Total comprehensive income for the year	-	-	-	24,068	-	(497)	(304)	23,267	1,899	25,166
Additions of entities	-	-	-	-	-	-	-	-	-	-
Disposals of entities	-	-	-	-	-	-	-	-	113	113
Change in ownership interest	-	-	-	(1,179)	-	-	-	(1,179)	(3,143)	(4,322)
Treasury shares	-	-	-	(220)	(4,758)	-	-	(4,978)	-	(4,978)
Equity-based payments	-	-	-	920	-	-	-	920	-	920
Other	-	-	2,746	(2,795)	-	-	-	(49)	(3)	(52)
Dividends	-	-	-	(10,000)	-	-	-	(10,000)	(2,573)	(12,573)
Balance at 31 December 2016	112,629	92,831	13,854	104,004	(6,319)	9,706	(1,563)	325,142	11,177	336,319
Profit (loss) for the year	-	-	-	31,053	-	-	-	31,053	1,761	32,814
Other comprehensive income	-	-	-	-	-	(9,831)	621	(9,210)	(547)	(9,757)
Total comprehensive income for the year	-	-	-	31,053	-	(9,831)	621	21,843	1,214	23,057
Additions of entities	-	-	-	-	-	-	-	-	(64)	(64)
Disposals of entities	-	-	-	-	-	-	-	-	-	-
Change in ownership interest	-	-	-	(19)	-	-	-	(19)	(141)	(160)
Treasury shares	-	-	-	989	(569)	-	-	420	-	420
Equity-based payments	-	-	-	1,264	-	-	-	1,264	-	1,264
Other	-	-	1,788	(1,788)	-	-	-	-	26	26
Dividends	-	-	-	(15,000)	-	-	-	(15,000)	(2,178)	(17,178)
Balance at 31 December 2017	112,629	92,831	15,642	120,503	(6,888)	(125)	(942)	333,650	10,034	343,684

The accompanying consolidated notes are an integral part of the consolidated financial statements of Fluidra, S.A. and subsidiaries for the year ended 31 December 2017.

Fluidra, S.A. and Subsidiaries

Consolidated statement of cash flows for the years ended 31 December 2017 and 2016

(Thousands of euros)

	Note	2017	2016
Cash flows from operating activities			
Profit for the year before tax		45,777	39,667
Adjustments due to:			
Depreciation and amortisation	6, 7 & 8	33,821	33,425
Charge of losses on bad debts	13	1,626	4,184
Charge/(Reversal) of impairment losses on assets	6 & 7	6,558	6,421
Charge/(Reversal) of impairment losses on financial assets	27	544	(350)
Charge/(Reversal) of losses on risks and expenses	17	5,857	1,486
Charge/(Reversal) of losses on inventories	22	551	350
Income from financial assets	27	(865)	(779)
Finance costs	27	8,633	9,160
(Profit)/loss on the sale of associates	27	-	-
Exchange (gains)/losses		2,503	1,011
Share in (profit)/loss for the year from associates accounted for using the equity method	9	32	(27)
(Profit)/loss on the sale of property, plant and equipment and other intangible assets		(750)	(169)
(Profit)/loss on the sale of subsidiaries		(1,447)	(1,478)
Grants released to income		(206)	(150)
Expenses for share-based payments		1,264	920
Adjustments to the consideration paid against results for business combination	27	1,641	(1,249)
(Profit)/loss on derivative financial instruments at fair value through profit or loss	11	523	659
Operating profit before changes in working capital		106,062	93,081
Changes in working capital, excluding the effect of acquisitions and currency translation differences			
Increase(Decrease) in trade and other receivables		(11,625)	(10,669)
Increase(Decrease) in inventories	22	(9,973)	(13,766)
Increase(Decrease) in trade and other payables		6,797	16,996
Provisions paid	17	(184)	(378)
Cash from operations		91,077	85,264
Interest paid		(7,004)	(7,102)
Interest received		865	745
Income tax payments		(15,936)	(13,615)
Net cash from operations		69,002	65,292
Cash flows from investing activities			
From the sale of property, plant and equipment		2,371	551
From the sale of other intangible assets		23	-
From the sale of financial assets		2,035	5,001
Dividends received		-	-
Proceeds from the sale of subsidiaries in prior years	5	186	250
Proceeds from the sale of subsidiaries, net of drawndown cash	5	10,182	3,120
Acquisition of property, plant and equipment		(17,286)	(12,960)
Acquisition of intangible assets		(10,779)	(12,581)
Acquisition of other financial assets		(4,847)	(1,751)
Payments for acquisitions of subsidiaries, net of cash and cash equivalents	5	(3,287)	(6,416)
Payments for acquisitions of subsidiaries in prior years		(17,570)	(5,567)
Net cash from investing activities		(38,972)	(30,353)
Cash flows from financing activities			
Payments from repurchase of treasury shares		(2,530)	(5,288)
Proceeds from the sale of treasury shares		3,606	636
Proceeds from grants		41	(2)
Proceeds from bank financing		6,368	39,535
Payments from bank borrowings and finance leases		(38,816)	(38,357)
Dividends paid		(17,178)	(12,573)
Net cash from / (used in) financing activities		(48,509)	(16,049)
Net increase (Decrease) in cash and cash equivalents		(18,479)	18,890
Cash and cash equivalents at 1 January		86,099	67,353
Effect of foreign exchange difference in cash		(2,864)	(144)
Cash and cash equivalents at 31 December		64,756	86,099

The accompanying consolidated notes are an integral part of the consolidated financial statements of Fluidra, S.A. and subsidiaries for the year ended 31 December 2017.

Translation of consolidated financial statements and consolidated management report originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails

1. Nature, principal activities and composition of the Group

Fluidra, S.A. (hereinafter the Company) was incorporated as a limited liability company for an indefinite period in Girona on 3 October 2002 under the name Aquaria de Inv. Corp., S.L., and changed to its current name on 17 September 2007.

The Company's corporate purpose and activity consists in the holding and use of equity shares, securities and other stock, and advising, managing and administering the companies in which the Company holds an ownership interest.

The Company is domiciled at Avenida Francesc Macià, nº 20, planta 20, in Sabadell (Barcelona).

The Group's activity consists in the manufacture and marketing of accessories and machinery for swimming-pools, irrigation and water treatment and purification.

Fluidra, S.A. is the parent company of the Group comprising the subsidiaries detailed in the accompanying Appendix I (hereinafter Fluidra Group or the Group). Additionally, the Group holds ownership interests in other entities, which are detailed also in Appendix I. Group companies have been consolidated using the financial statements prepared/approved for issue by the corresponding managing bodies or Board of Directors.

On 31 October 2007, Fluidra, S.A. (the "Company") completed its initial public offering process through the public offering of 44,082,943 ordinary shares with a par value of Euros 1 each.

These shares representing share capital are quoted on the Barcelona and Madrid stock exchanges, and also on the continuous market.

2. Basis of presentation

The consolidated financial statements have been prepared from the accounting records of Fluidra, S.A. and the companies included in the Group. The 2017 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS-EU) and other financial reporting framework provisions in order to present fairly the consolidated equity and consolidated financial position of Fluidra, S.A. and its subsidiaries at 31 December 2017 and its consolidated financial results, consolidated cash flows and changes in consolidated equity for the year then ended.

a) Basis of presentation of the consolidated financial statements

These consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, financial instruments at fair value through profit or loss and some available-for-sale financial assets, which have been measured at fair value.

(b) Comparative information

For comparative purposes, the consolidated financial statements include the 2017 consolidated figures in addition to those of the prior year for each item of the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the notes thereto, which were part of the 2016 consolidated financial statements approved by the shareholders at their general meeting on 3 May 2017.

The Group's accounting policies that are described in note 3 have been consistently applied to the year ended 31 December 2017 and the accompanying comparative information at 31 December 2016.

All significant mandatory accounting principles have been applied.

The Parent's Directors expect these 2017 consolidated financial statements, which were authorized for issue on 30 March 2018, to be approved by the shareholders at their general meeting without modification.

c) Relevant accounting estimates, assumptions and judgements used when applying accounting policies

In the preparation of the consolidated financial statements in accordance with IFRS-EU Group Management is required to make judgements, estimates and assumptions affecting the adoption of the standards and the amounts of assets, liabilities, income and expenses. The estimates and assumptions adopted are based on historical experience and various other factors understood to be reasonable under the existing circumstances.

In the Group's 2017 consolidated financial statements, estimates were occasionally used in order to quantify certain assets, liabilities, income, expenses and commitments reported herein. These relevant accounting estimates and assumptions mainly relate to:

- The useful life and fair value of the customer portfolio and other intangible assets (note 7).
- The assumptions used in determining the value in use of the Cash Generating Units (CGUs) or group of CGUs for the purposes of assessing potential impairment of goodwill and other assets (note 7).
- Assessment of technical and commercial feasibility of development projects in progress (see notes 3 (d)(ii) and 7).
- Estimate of the provisions for bad debts and obsolete inventory (see notes 3 (h)(j), 12 and 13).
- The fair value of financial instruments and of certain unquoted financial assets (see notes 10 and 11).
- Assumptions used in determining the fair values of assets, liabilities and contingent liabilities related to the business combination of Price Chemicals Pty Ltd., Fluidra Waterlinx Pty, Ltd., SIBO Fluidra Netherlands B.V., Agrisilos, S.R.L. and Riiot Labs NV/SA (see notes 19 and 20). Liabilities for contingent considerations relate to level 3 fair value hierarchy in accordance with IFRS 13.
- The fair value of the commitment to the Company's management team to acquire an ownership interest in the Company's share capital (see notes 3 (p) and 29 (b)).
- Estimates and judgements related to provisions for litigation (see notes 3 (o) and 17).
- Assessment of the recoverability of tax credits, including tax losses from prior years and rights to deduction. Deferred tax assets are recognised to the extent that future tax profit is available against which temporary differences can be charged, based on the management's assumptions about the amount of and payment schedules for future tax profit. Additionally, in the case of deferred tax assets related to investments in group companies, their capitalisation takes into account whether they will be reversed in the foreseeable future (see notes 3 (r) and 28).

Although these estimates are made on the basis of the best information available on the events analysed at 31 December 2017, events may occur in the future which require adjusting these estimates (upwards or downwards) in future reporting periods. Any effect on the consolidated financial statements of adjustments made in future reporting periods is recognised prospectively.

Additionally, the main judgements made by the Company's Management in identifying and selecting the criteria applied in the measurement and classification of the main items presented in the consolidated financial statements are as follows:

- Reasons supporting the transfer of risks and rewards in leases and in the recognition of disposals of financial assets and liabilities (see notes 3 (g) and 26).
- Reasons supporting the classification of assets as investment property (see notes 3 (e) and 8).
- Assessment criteria for impairment of financial assets (see notes 3 (h) (vii) and 13), and
- Reasons supporting the capitalisation of development projects (see notes 3 (d) (ii) and 7).

d) Changes in IFRS-EU standards in 2017

- Standards and interpretations approved by the European Union applied for the first time in 2017

  The accounting policies used to prepare the accompanying consolidated financial statements are the same as those used to prepare the consolidated financial statements for the year ended 31 December 2016, as no amendments applicable for the first time this year has had any effect on the Group.

  However, the amendments to IAS 7 Cash flow statements: Disclosure initiative requires companies to disclose changes to liabilities as a result of financing activities, including both those deriving from cash flows and those that do not involve cash flows (such as exchange gains or losses). This information is set forth in note 18, without including comparative information for the prior year.

- Standards and interpretations issued by the IASB but not applicable in 2017

  The Group intends to apply the standards, interpretations and amendments issued by the IASB whose application is not mandatory in the European Union as at the date of authorizing the accompanying consolidated financial statements for issue when they are effective, to the extent applicable to the Group.

  Based on analyses carried out to date, the Group considers that the initial application of IFRS 15 will not have a significant impact on the consolidated financial statements.

  In terms of IFRS 9, the Group plans to adopt the new standard on the required application date and will not be restating the comparative information. In general, the Group does not expect major changes to its financial statements or equity, including the effect of recording expected losses on account of trade receivables. The Group is in the process of adapting its matrices for determining the impairment of trade receivables and its Group policy for adapting to the new regulations, but it does not expect significant impacts on the income statement.

  IFRS 16 was issued in January 2016 and replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases -- Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 Leases establishes principles for the recognition, measurement, presentation and disclosure of leases and requires that lessees recognise all leases under a single balance sheet model similar to the current model for recognising lease financing arrangements under IAS 17. The standard includes two optional exemptions to these requirements for lessees: leases where the underlying asset has a low value (e.g. personal computers) and short-term leases (i.e. 12 months or less). At the start date of this lease, the lessee will recognise a liability on account of payments to be made on the lease (i.e. lease liability) and an asset which represents the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees must record the interest expense on lease liabilities and depreciation expense for the right of use separately.

  Lessees must also revalue the lease liability should certain events occur (e.g. change in lease term, change in future lease payments due to a change in rate used to determine lease payments). Lessees generally recognise the amount of the lease liability revaluation as an adjustment to the right-of-use asset.

  IFRS 16 applies to periods commencing 1 January 2019.

Considering the significant number of lease commitments taken on by the Group (note 26), Fluidra expects IFRS 16 to have a substantial impact on the consolidated financial statements. On 30 June 2017, the Group has carried out an initial estimate of the implications of applying IFRS 16, calculating prospectively, opting to assess the right-of-use asset at the same value as the liability. Based on the data stated, this would give rise to an increase in assets and liabilities of between Euros 70 and 90 million.

In 2018, the Group will continue to assess the potential affect of IFRS 16 on its consolidated financial statements, with the aim of assessing the impacts again after the merger with the Zodiac Group (see note 35).

3. Significant accounting principles applied

The most significant ones are summarized as follows:

a) Consolidation principles

i) Subsidiaries and business combinations

Subsidiaries are companies, including structured entities, over which the Company holds direct or indirect control through subsidiaries.

The Company holds control over a subsidiary when it is exposed to, or has the right to receive, variable yield as a result of its involvement in it, and has the capacity to influence such yield through the power it exercises over the subsidiary. The Company is authorised to direct the relevant activities when valid substantive rights are held. The Company is exposed to, or has the right to receive, variable yield as a result of its involvement in the subsidiary when the yield it obtains from such involvement may vary based on the economic evolution of the entity (IFRS 10.6, 10 and 15).

The subsidiaries' income, expenses and operating cash flows are consolidated from the acquisition date, i.e., the date on which the Group obtains effective control over them. Subsidiaries are no longer consolidated from the date on which such control is relinquished.

The Group applied the exception contemplated in IFRS 1 First-time adoption of International Financial Reporting Standards so that only business combinations undertaken after 1 January 2005, the IFRS-EU transition date, have been accounted for using the acquisition method. Acquisitions completed prior to the transition date were accounted for in accordance with the then-prevailing accounting principles, corrected and adjusted as required as of the transition date.

Business combinations made prior to 1 January 2010

The cost of the business combinations made prior to 1 January 2010 was determined at acquisition date as the sum of the fair values of the assets transferred, the liabilities incurred or assumed and the equity instruments issued by the Group in exchange for control of the acquiree, additionally including any cost directly attributable to the acquisition. Additionally, adjustments to the cost of the business combination that depend on future events are part of such cost provided that the amount is probable and can be measured reliably.

The cost of the business combination was allocated between the fair values of the acquired assets, assumed liabilities and contingent liabilities (net identifiable assets) of the acquired company. This criterion was not applied to non-current assets and disposal groups held for sale measured at fair value less cost to sell.

The surplus between the cost of the business combination and the Group's interest in the fair value of the acquired entity's net identifiable assets was recorded as goodwill, whereas the shortfall, if any, is recorded in profit or loss once the cost of the combination and fair values have been duly reconsidered.

The cost of the business combination included the contingent considerations, provided that they were probable and could be estimated reliably at the date of acquisition. Subsequent measurement of contingent considerations or subsequent changes therein are recorded as a prospective adjustment to the cost of the business combination.

Business combinations made after 1 January 2010

The consideration transferred in the business combination is determined at the acquisition date and calculated as the sum of the fair values of the assets transferred, the liabilities incurred or assumed, the equity instruments issued and any contingent consideration depending on future events or compliance with certain conditions in exchange for the control of the business acquired.

The consideration transferred excludes any amounts that do not form part of the exchange for the acquiree. Acquisition-related costs are recognised as incurred.

At the acquisition date the Group recognises any assets acquired and liabilities assumed at their fair value. The liabilities assumed include contingent liabilities to the extent that they represent present obligations that arise as a result of past events and their fair value can be reliably measured.

The assets acquired and liabilities assumed are classified and designated for subsequent measurement purposes on the basis of contractual agreements, financial terms, accounting policies, operating conditions and other pertinent circumstances that exist at the acquisition date, except for lease and insurance agreements.

The excess over the consideration transferred, plus any non-controlling interest in the acquiree and the net amount of assets acquired and liabilities assumed, is recognised as goodwill. Any shortfall after assessing the amount of consideration transferred, the value assigned to non-controlling interests and the identification and measurement of the net assets acquired, is recognised in profit or loss.

Contingent consideration is classified as a financial asset or liability, equity instrument or provision in accordance with the underlying contractual conditions. To the extent that subsequent changes in fair value of a financial asset or liability are not due to an adjustment to the measurement period, they are recorded in consolidated profit or loss. The contingent consideration classified as equity is not subsequently updated, and its settlement is likewise recognised in equity. The contingent consideration classified as a provision is subsequently recognised at fair value through profit or loss.

Inter-company transactions, balances and unrealised gains and losses on transactions between group companies have been eliminated on consolidation. If any, unrealised losses on the transfer of assets between group companies have been deemed an indication of the potential impairment of the assets transferred.

The subsidiaries' accounting policies have been aligned with those used by the Group for like transactions and events in similar circumstances.

The financial statements of the subsidiaries used in the consolidation process refer to the same presentation date and reporting period as those of the Parent.

ii) Non-controlling interests

Non-controlling interest in a subsidiary are recorded at the percentage of the ownership held in the fair value of the net identifiable assets acquired, and are presented in equity separately from the equity attributed to the equity holders of the Parent. Non-controlling interest in consolidated profit/(loss) and consolidated total comprehensive income for the year are likewise presented separately in the consolidated income statement and the consolidated statement of comprehensive income, respectively.

The Group's share and the non-controlling interest in consolidated profit/(loss) for the year (consolidated total comprehensive income for the year) and in changes in equity of the subsidiaries, net of adjustments and eliminations on consolidation, is determined based on the ownership interest held at year end, excluding the possible exercise or conversion of potential voting rights and after discounting the effect of agreed or non-agreed dividends on cumulative preference shares that may have been classified in the equity accounts. However, the existence or absence of control is determined considering the possible exercise of potential voting rights and other derivative financial instruments which, in substance, currently grant access to the economic benefits associated with the ownership interest, that is, the right to receive future dividends and changes in the value of subsidiaries.

Surplus losses attributable to non-controlling interests generated prior to 1 January 2010 that are not allocable to such interests, as they exceed the amount of the equity interest in the related subsidiary, are recognised as a reduction in equity attributable to owners of the parent, unless the non-controlling interests have a binding obligation to assume some or all of such losses and have the capacity to make any additional investments necessary. Any profits obtained subsequently by the Group are then allocated to equity attributable to owners of the parent until the amount of losses absorbed in prior reporting periods in respect of non-controlling interests has been replenished.

From 1 January 2010, the results and each component of other comprehensive income are allocated to equity attributable to owners of the Parent and to the non-controlling interests in proportion to their respective ownership interests, even if this implies a negative non-controlling interests balance. Agreements entered into between the Group and non-controlling interests are recognised as a separate transaction.

Transactions with non-controlling interests

The increase or decrease in non-controlling interest of a subsidiary with no loss of control is recognised as a transaction with equity instruments. Therefore, no new acquisition cost arises as a result of an increase, nor any gain or loss is recognised from a decrease, but the difference between the consideration paid or received and the carrying amount of non-controlling interest is recognised in the investing company's reserve, without prejudice to reclassifying the consolidation reserves and reallocating the other comprehensive income between the Group and the non-controlling interest. In a decrease in the Group's ownership interest in a subsidiary, non-controlling interest is recorded for its share in consolidated net assets.

Put options granted prior to 1 January 2010

The Group recognises put options on ownership interest in subsidiaries granted to non-controlling interest at the date of acquisition of a business combination as an advance acquisition of such interest, recording a liability for the present value of the best estimate of the amount payable, which is part of the cost of the business combination.

Subsequently, the change in the liability due to the effect of the financial discount is recorded as a finance cost in profit or loss, and the rest is recognised as an adjustment to the cost of the business combination. Any dividends paid to non-controlling interests until the date of exercise of the options are likewise recognised as an adjustment to the cost of the business combination. If finally the options are not exercised, the transaction is recognised as a sale to non-controlling interest.

Put options granted subsequent to 1 January 2010

The Group recognises put options on ownership interest in subsidiaries granted to non-controlling interest at the date of acquisition of a business combination as an advance acquisition of such interest, recording a financial liability for the present value of the best estimate of the amount payable, which is part of consideration paid.

Subsequently, the change in the financial liability is recognised as a finance cost or income in profit or loss. Discretionary dividends, if any, paid to non-controlling interests up to the date the options are exercised, are recognised as a distribution of earnings, reflecting this amount as an increase in profits attributable to non-controlling interests. In the event that dividends are predetermined or incorporated into the measurement of the financial liability, settlement is discounted from the financial liability's carrying amount.

If finally the options are not exercised, the transaction is recognised as a sale of shares to non-controlling interests.

iii) Associates

Associates are defined as the entities over which the Company has significant influence, either directly or through other subsidiaries. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Investments in associated entities are recorded using the equity accounting method from the date significant influence is exercised until the date on which the Company can no longer prove this influence exists.

The acquisition of associates is recorded by applying the acquisition method used for subsidiaries. Goodwill, net of accumulated impairment losses, is included in the carrying amount of the investment accounted for using the equity method.

iv) Impairment

The Group applies the impairment criteria contained in IAS 39: Financial instruments: Recognition and measurement to determine whether it is necessary to recognise any additional impairment loss with respect to the net investment in the associate or in any other financial asset held with it as a result of applying the equity method.

b) Foreign currency

i) Functional and presentation currency

The consolidated financial statements are presented in thousands of euros rounded to the nearest thousand. The euro is the Parent Company's functional and presentation currency.

ii) Transactions and balances in foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing between the functional currency and the foreign currency at the transaction dates. Monetary assets and liabilities in foreign currency are translated to the functional currency at the closing exchange rate, while non-monetary items measured at historical cost are translated at the exchange rate prevailing at the transaction date. Exchange gains and losses arising on the settlement of foreign currency transactions and on the translation into euros at the closing exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

In the presentation of the consolidated statement of cash flows, cash flows from transactions in foreign currencies are translated into euros applying the exchange rates approximate to those existing at the date the cash flows occurred. The impact of fluctuations in exchange rates on cash and cash equivalents denominated in foreign currency is presented under a separate caption in the statement of cash flows as Exchange gains/(losses) on cash and cash equivalents.

The Group presents the effect of the conversion of deferred tax assets and liabilities denominated in foreign currency together with the deferred income tax in profit or loss.

iii) Translation of foreign operations

The translation into euros of foreign operations whose functional currency is not the currency of a hyperinflationary country is made using the following criteria:

- Assets and liabilities, including any goodwill and any adjustments to the net assets arising on the acquisition of foreign operations, including comparative balances, are translated at the closing exchange rate at the balance sheet date;
- Income and expenses, including comparative balances, are translated at the exchange rate

prevailing at the date of each transaction; and

- All exchange gains or losses derived from applying the above-mentioned criteria are recognised as translation differences in other comprehensive income.

In the presentation of the consolidated statement of cash flows, cash flows, including comparative balances, from the foreign subsidiaries are translated into euros applying the exchange rates prevailing at the date the cash flows occurred.

Translation differences related to foreign operations recognised in other comprehensive income are recorded jointly under one line in profit or loss and when recognition in profit or loss related to the disposal of such operations occurs.

(c) Property, plant and equipment

I) Assets for own use

Property, plant and equipment are measured at acquisition cost less any accumulated depreciation and any impairment losses. The cost of property, plant and equipment built by the Group is determined following the same criteria as those used for acquired property, plant and equipment, considering also the principles established for the production cost of inventories. The capitalisation of the production cost is recognised under Work performed by the Group and capitalised as non-current assets in the consolidated income statement.

The cost of property, plant and equipment includes the acquisition price less any trade discounts or rebates plus any cost directly related to its location on the place and under the conditions necessary for it to operate as expected by the Directors and, where appropriate, the initial estimate of dismantling or disposal costs, as well as the restoration of the land it is located on, provided that these obligations are assumed as a result of its use and for purposes other than the production of inventories

The Group records separately the items of a complex asset whose useful lives are different from the main asset's.

ii) Investment in rented premises

The Group recognises permanent investments in properties leased from third parties following the same criteria as the ones used for property, plant and equipment items. These investments are depreciated over the shorter of the useful life of the asset or over the lease term. To this effect, the determination of the lease term is consistent with that established for its classification. In the event that the full-term execution of the lease agreement is uncertain, a provision is recorded for the estimated amount of the net carrying amount of irrecoverable investments. Likewise, the cost of these investments includes the estimated costs of dismantling and disposing of the assets and restoring the land they are located on that the Group shall pay at the end of the agreement; thus, a provision is recorded for the present value of the estimated cost that is expected to be incurred.

iii) Costs subsequently incurred

The Group recognises as an increase in the cost of the assets, the replacement cost of an asset's items when incurred, provided that it is probable that additional future economic benefits will be obtained from the asset and that the cost can be measured reliably. Other costs, including repair and maintenance expenses on property, plant and equipment items are charged to the profit and loss account in the period incurred.

iv) Depreciation

Property, plant and equipment items are depreciated by allocating their depreciable amount, which is the acquisition cost less residual value, on a straight-line basis over their useful lives. Depreciation is determined separately for each portion of a property, plant and equipment item that has a significant cost in relation to the total cost of the item.

Land is not depreciated. The depreciation of property, plant and equipment items is determined as follows:

	Estimated years of useful life
Buildings	33
Plant and machinery	3-10
Other installations, tools and equipment	3-10
Data processing equipment	2-5
Transportation equipment	3-8
Other property, plant and equipment	4-10

At each year end, the Group reviews the residual value, useful life and depreciation method of property, plant and equipment items. Any changes to initially established criteria are accounted for as a change in accounting estimates.

v) Impairment

The Group measures and determines impairment losses on property, plant and equipment and any reversals thereof in accordance with the criteria described in note 3 (f).

d) Intangible assets

i) Goodwill

Goodwill is determined following the criteria indicated in note 3 (a)(i) Subsidiaries and business combinations.

Goodwill is not amortised but it is tested for impairment at least once a year, or more frequently if an event is identified that could give rise to a potential impairment loss on the asset. Goodwill arisen in business combinations is allocated to each cash-generating unit (CGU) or groups of CGUs that are expected to benefit from the synergies of the combination, applying the criteria outlined in section note 3(f). After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill arisen in business combinations prior to 1 January 2005 is shown at its net carrying amount as indicated in the financial statements for the year ended 31 December 2004, considering such carrying amount as an attributed cost.

Internally generated goodwill is not recognised as an asset.

ii) Internally generated intangible assets

Costs related to research activities are recognised as an expense when incurred. The costs related to development activities of certain products are capitalised to the extent that:

- The Group has technical studies available that support the feasibility of the production process;
- There is a commitment by the Group to complete the production of the asset so that it is available for sale;
- The asset will generate enough economic profit through future sales in the markets in which the Group operates;
- The Group has the technical and financial (or other) resources necessary to complete the asset

and has developed budget control systems and analytical accounting systems to monitor budgeted costs, modifications made and costs actually incurred in the projects.

The cost of the assets generated internally by the Group is determined following the same criteria as for determining the production cost of inventories. The production cost is capitalised through the payment of the costs attributable to the asset in the Work performed by the Group and capitalised as non-current assets caption in the consolidated income statement.

Additionally, the costs incurred in the performance of activities that contribute to developing the value of the businesses in which the Group operates as a whole are recorded as expenses when incurred.

Also, replacements or subsequent costs incurred in intangible assets are generally recorded as expenses, unless they increase the future economic benefits expected from the assets.

iii) Intangible assets acquired in business combinations

Since 1 January 2005 identifiable intangible assets acquired in business combinations have been measured at fair value at acquisition date, provided that fair value can be determined reliably. Subsequent costs related to research and development projects are recorded following the criteria used for internally generated intangible assets.

Customer portfolios acquired mainly include the value of the relation existing between the corresponding company and their customers, which has arisen as a result of a contract and, therefore, are identified as intangible assets in accordance with a contractual and legal criterion. Additionally, the patents acquired include the value of the technologies for manufacturing certain products, and arose as a result of a contract. They have been measured at market value using generally accepted measurement methods based on discounted cash flow. Additionally, finite useful lives have been calculated based on historical evidence of the renewal of the continuing relation with these customers and based on the residual period for the right to use the patents, considering the expected technical obsolescence.

iv) Other intangible assets

Other intangible assets are presented in the consolidated statement of financial position at cost, less any accumulated amortisation and any impairment losses.

v) Useful life and amortisation

The Group assesses the intangible asset's useful life to be either finite or indefinite. An intangible asset is deemed to have an indefinite useful life when the period over which it will generate net cash inflows has no foreseeable limit.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment at least annually.

Intangible assets with finite useful lives are amortised by allocating the amortisable amount over their useful lives using the following criteria:

	Amortisation method	Estimated years of useful life
Development costs	Straight-line basis	3-4
Industrial property and patents	Straight-line basis	5-10
Computer software	Straight-line basis	3-5
Relations with customers	Declining-balance method	3-20
Other intangible assets	Declining-balance method / Straight-line basis	5-10

To this end, amortisable amount is understood as acquisition cost less residual value.

The Group reviews the residual value, useful life and amortisation method of intangible assets at the end of each reporting period. Changes to initially established criteria are accounted for as a change in accounting estimates.

vi) Impairment of assets

The Group measures and determines impairment losses on intangible assets and any reversals thereof in accordance with the criteria described in note 3 (f).

e) Investment property

Investment property is property fully or partially held for obtaining income, gains or both rather than for producing or providing goods or services. Investment property is initially measured at cost, including transaction costs.

Investment property is subsequently measured following the cost criteria established for property, plant and equipment. Depreciation methods and useful lives are presented in that section.

f) Impairment of non-financial assets

The Group assesses whether there are indications that depreciable or amortisable non-financial assets may be impaired, including entities accounted for using the equity method, in order to determine if the carrying amount of said assets exceeds their recoverable amount.

Additionally, and regardless of the existence of any indication of impairment, goodwill, intangible assets with indefinite useful lives and intangible assets not yet ready to be put to use are tested for impairment at least annually.

Recoverable amount is the higher of fair value less costs to sell and value in use. The calculation of an asset's value in use reflects an estimate of the future cash flows expected to derive from the asset, expectations about possible variations in the amount or timing of those future cash flows, the time value of money, the price for bearing uncertainty inherent in the asset and other factors that market participants would reflect in pricing the future cash flows expected to derive from the asset.

Negative differences arisen as a result of comparing the carrying amounts of the assets with their recoverable amounts are recorded in profit or loss.

Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.

Impairment losses on cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to reduce the carrying amount of the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit up the highest of its fair value less costs to sell, its value in use and zero.

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. Impairments losses on goodwill may not be reversed. Impairment losses on assets other than goodwill are reversed if, and only if, there has been a change in the estimates used to calculate the asset's recoverable amount.

Any reversals of impairment losses are charged to income. The increased carrying amount of an asset attributable to a reversal of an impairment loss cannot exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset.

The reversal of an impairment loss on a CGU is allocated between the assets of the unit, except for goodwill, pro rata on the basis of the carrying amount of the assets down to the lowest of their recoverable amount and carrying amount that would have been determined, net of depreciation and amortisation had no impairment loss been recognised for the asset.

g) Leases

The Group has the right to use certain assets under lease agreements.

Leases in which the Group assumes substantially all the risks and rewards incidental to ownership of the leased asset are classified as finance leases; all other leases are classified as operating leases.

i) Finance leases

At the commencement of the lease term, the Group recognises an asset and liability at the lower of the fair value of the leased property 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. Finance costs are recognised in the consolidated income statement using the effective interest rate 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 under lease agreements that qualify as finance leases are the same as those outlined in note 3 (c).

Ii) 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.

h) Financial instruments

i) Classification 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 developed in IAS 32 Financial instruments: Presentation.

Additionally, and for measurement purposes, financial instruments are classified in Financial assets and liabilities at fair value through profit or loss, Loans and receivables, Available-for-sale financial assets and Financial liabilities measured at amortised cost. They are classified under the categories above in accordance with the characteristics of the instrument and the Group's intentions upon initial measurement.

Regular purchases and sales of financial assets are recognised on the trade date; i.e. the date on which the Group commits to purchase or sell the asset.

ii) Offsetting principles

A financial asset and a financial liability are offset only when the Group has a legally enforceable right to offset the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

iii) Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are those classified as held-for-trading or those that at 1 January 2005 or after the Group has recognised as such upon initial measurement.

A financial asset or liability is classified as held for sale if:

- It is acquired or incurred mainly for the purpose of selling it or repurchasing it in the immediate future.
- Upon initial recognition it is part of a portfolio of identified financial instruments that are jointly managed and for which there is evidence of a recent pattern of obtaining benefits in the short term, or
- It is a derivative, unless this derivative has been designated as a hedging instrument and meets the requirements to be effective and a derivative that is a financial guarantee contract.

Equity instruments that are not listed on an active market and whose fair value cannot be reliably measured are not classified into this category.

Financial assets and liabilities at fair value through profit or loss are initially recognised at fair value. Transaction costs directly attributable to the purchase or issue costs are recognised as incurred.

After initial recognition, they are recorded at fair value through profit or loss. Fair value is not reduced by transaction costs incurred on sale or disposal.

iv) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market other than those classified in other financial asset categories. Financial assets included in this category are initially measured at fair value, including transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

v) Available-for-sale financial assets

Under this caption the Group records the acquisition of non-derivative financial instruments that are specifically designated in this category or do not meet the requirements for being classified in the above categories.

Available-for-sale financial assets are initially measured at fair value plus directly attributable transaction costs.

After initial recognition, financial assets classified in this category are measured at fair value, and any related gain or loss is recorded in other comprehensive income, except for impairment losses. Fair value is not reduced by transaction costs incurred on sale or disposal. The amounts recognised in other comprehensive income are recorded in profit or loss when the financial assets are derecognised. However, interest calculated using the effective interest rate method and dividends are recognised in profit or loss using the criteria set out in note 3 (q) (revenue recognition).

Investments in equity instruments, the fair value of which cannot be reliably estimated, are measured at cost. However, if the Group is provided with a reliable measurement of the financial asset at any given time, it is then recorded at fair value, recognising any related gains or losses based on their classification.

In investments in equity instruments measured at cost, the Group recognises the income from the investments only to the extent that reserves for retained earnings of the associate, arisen after the acquisition, are distributed. Dividends received exceeding such earnings are considered as a recovery of the investment and are therefore recognised as a reduction in such investment.

vi) Amortised cost

The amortised cost of a financial asset or liability is the amount for which it was initially measured less repayment of the principal, plus or less the gradual accumulated allocation or repayment, using the effective interest rate method, of any difference existing between the initial value and the repayment value at maturity, less any decrease due to impairment loss or default.

Additionally, the effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or shorter where appropriate, to the carrying amount of the financial asset or liability. For financial instruments in which the variable to which commissions, basis points, transactions costs, discounts and premiums are related is reviewed at market rates before expected maturity, the amortisation period is that until the next review of conditions.

Cash flows are estimated considering all contractual conditions of the financial instrument, excluding future credit losses. The calculation includes the commissions and basis points of interest paid or received by the parties to the contract, as well as the transaction costs and any other premium or discount. In the event that the Group cannot reliably estimate cash flows or the expected life of a financial instrument, contractual cash flows over the whole contractual period are used.

vii) Impairment and irrecoverability of financial assets

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset and that event (or events) has 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 losses and default on loans and other receivables by recording an allowance account for financial assets. When impairment and default are considered irreversible, the carrying amount is eliminated against the balance of the allowance account. The reversals of impairment losses are likewise recognised against the balance of the allowance account.

- *Impairment of financial assets carried at amortised cost*

For financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the carrying amount and the present value of estimated future cash flows, excluding future credit losses not incurred, discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss, and can be reversed in subsequent years if the decrease can be objectively related to an event subsequent to their recognition. The loss can only be reversed to the limit of the amortised cost of the assets had the impairment loss not been recognised. The reversal of the impairment loss is recognised against the balance of the allowance account.

- *Impairment of financial assets measured at cost*

For assets carried at cost, the amount of the impairment loss is measured as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the present rate of return for similar financial assets. These losses cannot be reversed, and are therefore recorded against the value of the asset rather than against the allowance account.

- *Impairment of available-for-sale financial assets*

In the case of available-for-sale financial assets, the decrease in fair value that is recorded directly in other consolidated comprehensive income is recognised in profit or loss when there is objective evidence of impairment, even though the financial asset has not been derecognised from the consolidated statement of financial position. The impairment losses recognised in profit or loss are calculated as the difference between acquisition cost, net of any repayment of the principal amount and present fair value, less any impairment loss previously recognised in the consolidated income statement for the year.

Impairments losses on investments in equity instruments cannot be reversed.

The increase in the fair value of debt instruments, which can be objectively related to an event subsequent to the recognition of the impairment loss, is recorded against profit or loss up to the amount of the previously recognised impairment loss, and the surplus, if any, against other comprehensive income.

viii) Financial liabilities

Financial liabilities, including trade and other payables, that are not classified at fair value through profit or loss are initially recognised at fair value less any transaction costs directly attributable to the issue of the financial liability. These financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

ix) Derecognition of financial assets

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset have expired or when the financial assets have been transferred, provided that the Group has transferred substantially all the risks and rewards of ownership of the financial asset. Additionally, financial assets for which the Group retains the contractual rights to receive the cash flows are only derecognised when it assumes contractual obligations to pay the cash flows to one or more recipients and the following requirements are met:

- Payment of the cash flows is dependent on prior collection;
- The Group may not sell or pledge the financial asset; and
- The cash flows collected on behalf of the recipients are remitted without material delay. Accordingly, the Group is not capable of reinvesting them. Investments in cash and cash equivalents made by the Group during the settlement period comprised between the collection date and the remission date agreed upon with the recipients are an exception to the above criterion, provided that accrued interest is attributed to the recipients.

When the Group transfers a financial asset in its entirety but retains the administration right to it in exchange for a fee, an asset or liability is recognised for the rendering of such service.

In transactions in which a financial asset is derecognised in its entirety, the financial assets or financial liabilities obtained, including the liabilities corresponding to the administration services incurred, are recognised at fair value.

In the transactions in which a financial asset is partially derecognised, the carrying amount of the entire asset is allocated to the sold portion and the retained portion, including the assets corresponding to the administration services, in proportion to the fair value of each portion.

On derecognition of a financial asset in its entirety, the gain or loss is determined as the difference between the carrying amount of the asset, and the consideration received net of transaction costs, including any new asset obtained less any liability assumed, plus accumulated gain or loss deferred in other comprehensive income.

The criteria for the derecognition of financial assets in transactions in which the Group neither transfers nor retains substantially the risks and rewards incidental to ownership are based on an analysis of the level of control held. Accordingly,

- If the Group has not retained control, the financial asset is derecognised and any rights or obligations created or retained as a result of the transfer are separately recorded as assets or liabilities.
- If control has been retained, the Group continues to recognise the financial asset for its continuing commitment to it and records an associated liability.

In transactions in which the Group retains substantially all the risks and rewards of ownership of the transferred asset, it continues to recognise the transferred asset in its entirety and recognises a financial liability for the consideration received. Transaction costs are recognised in profit or loss using the effective interest rate method.

i) Derivatives and hedge accounting

The Group uses derivative financial instruments to cover the interest rate and foreign currency risks derived from its activity. Under the Group's finance policies derivatives may not be acquired or held for trading. However, the derivative financial instruments that do not qualify as hedging derivatives are recorded as trading instruments and measured as financial assets and liabilities at fair value through profit or loss.

Derivative financial instruments are initially recognised at fair value.

The Group arranges cash flow hedges on interest rate risk. At the inception of the hedge, the Group formally designates and documents the hedging relationship and the risk management objective and strategy for undertaking the hedge. Hedge accounting is only applicable when the hedge is expected to be highly effective at the inception of the hedge and in subsequent periods in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, throughout the period for which the hedge was designated (prospective analysis) and the actual effectiveness, which can be reliably measured, is within a range of 80% - 125% (retrospective analysis).

For cash flow hedges of a forecast transaction, the Group assesses whether the forecast transaction that is the subject of the hedge is highly probable and presents an exposure to variations in cash flows that could ultimately affect consolidated profit or loss.

The Group recognises as other consolidated comprehensive income the gain or loss on the measurement at fair value of a hedging instrument that correspond to the portion determined to be an effective hedge. The ineffective portion and the specific component of the gain or loss or cash flows on the hedging instrument, excluding the measurement of the hedge effectiveness, are charged or credited to the finance income or costs accounts.

The separate component of consolidated equity associated with the hedged item is adjusted to the lesser of the cumulative gain or loss on the hedging instrument from inception of the hedge and the cumulative change in fair value (present value) of the expected future cash flows on the hedged item from inception of the hedge. However, if the Group expects that all or part of a loss recognised in other comprehensive income will not be recovered in one or more future periods, it reclassifies the amount that is not expected to be recovered to profit or loss as finance income or cost.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised in other comprehensive income are reclassified to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss and under the same caption of the consolidated income statement.

The Group prospectively discontinues hedge accounting when the hedging instrument expires, is sold or the hedge no longer meets the criteria for hedge accounting to be applied. In these cases, the cumulative gain or loss on the hedging instrument recognised in other comprehensive income is not recognised in profit or loss until the forecast transaction occurs. However, as soon as the Group determines that the forecast transaction is no longer expected to occur, any related cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income is reclassified as finance income or cost.

If the Group revokes the hedge accounting designation for forecast transactions the cumulative gain or loss that has been recognised in other comprehensive income is recorded in profit or loss when the transaction is carried out or is no longer expected to be carried out.

j) Inventories

Inventories are measured at the lower of acquisition or production cost and net realisable value.

The acquisition cost comprises the amount invoiced by the seller, after deduction of any discounts, rebates or other similar items, plus any interest on the nominal amount and additional transport and handling costs and other costs directly attributable to the acquisition, as well as finance expenses and indirect taxes not recoverable from Spanish taxation authorities.

Trade discounts granted by suppliers are recognised as a cost reduction of the acquired inventories as soon as it is probable that the necessary conditions for the discounts to qualify as such will be met, and the excess amount, if any, is recognised as a reduction in consumption in the consolidated income statement.

The production cost of inventories includes the acquisition cost of raw materials and other consumables and the costs directly related to the units produced and a systematically calculated portion of either the variable or fixed indirect costs incurred during the transformation process. The allocation of fixed indirect overheads is based on the higher of normal production capacity or actual level of production.

The cost of raw materials, other supplies, goods, and conversion are assigned to the different cash-generating units in stock, based on the average weighted price method.

The Group uses the same cost formula for all inventories having the same nature and similar use within the Group.

When the cost of inventories exceeds net realisable value, an adjustment is made to profit and loss. Net realisable value is understood to be:

- Raw materials and other consumables: replacement cost. However, the Group does not make any adjustments if the finished products in which the raw materials are incorporated are expected to be sold at a price equivalent to their production cost or higher;
- Goods and finished products: estimated selling price less costs to sell;
- Work in progress: the estimated selling price of the related finished goods, less the estimated costs to complete production and the costs necessary to make the sale;

The previously recognised reduction in value is reversed against profit or loss 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 reduction in value is limited to the lower of the cost and the revised net realisable value of the inventories.

k) Cash and cash equivalents

Cash and cash equivalents includes cash on hand and demand deposits at banks. This caption also includes other short-term highly-liquid investments readily convertible into specific amounts of cash that do not mature beyond three months.

For the purpose of the cash flow statement, demand bank overdrafts that are part of the Group's cash management and that are recorded in the consolidated statement of financial position as bank borrowings under financial liabilities are included as cash and cash equivalents.

The Group classifies the cash flows from interest received and paid as operating activities, except for the interest received on loans granted for reasons other than the Group's ordinary activity. Dividends received from associates are classified as investing activities and dividends paid by the Company, as financing activities.

l) Equity instruments

The acquisition by the Group of equity instruments of the Company is presented separately at acquisition cost as a decrease in consolidated shareholders' equity in the consolidated statement of financial position. In the transactions entered into with own equity instruments no profit or loss is recognised in the consolidated income statement.

Transaction costs related to own equity instruments, including issue costs related to a business combination, are recorded as a decrease in reserves, net of any tax effect.

Subsequent repayment of the parent's equity instruments gives rise to a capital reduction for the amount of those shares, and the positive or negative difference between acquisition cost and the nominal amount of the shares is charged or credited to reserve accounts for retained earnings.

Dividends related to equity instruments are recorded as a reduction in consolidated equity when they are approved by the shareholders in general meeting.

m) Government grants

Grants awarded by public administrations are recorded when there is reasonable assurance that the conditions associated with their awarding will be met and they will be received.

i) Capital grants

Capital grants awarded as monetary assets are recorded with a credit to the Government grants caption of the consolidated statement of financial position, and are recorded in the Other income caption as the corresponding financed assets are depreciated or amortised.

ii) Operating grants

Operating grants are recorded as a reduction in the expenses they finance.

Grants received as compensation for expenses or losses incurred, or in order to provide immediate financial support not related to future expenses, are recorded with a credit to other income accounts.

iii) Interest rate grants

Financial liabilities comprising implicit assistance in the form of below-market interest rates are initially recognised at fair value. The difference between this value, adjusted where necessary for the issue costs of the financial liability and the amount received, is recognised as a government grant based on the nature of the grant awarded.

n) Employee benefits

i) Termination benefits

Termination benefits are recognised at the earlier of the date from which the Group can no longer withdraw its offer and that on which it recognises the costs of a restructuring effort that will entail the payment of termination benefits.

In respect of termination benefits as a result of the employees' decision to accept a voluntary redundancy offer, the Group is deemed unable to withdraw its offer at the earlier of the date on which the employees accept the offer and the date of effectiveness of some form of restriction on the Group's ability to withdraw the offer.

In voluntary termination benefits, once the Group notes the plan to the affected employees or union representatives, and the actions necessary to fulfil it indicate that significant changes are unlikely to be made to the plan, the Group can no longer withdraw it. The number of employees to be terminated, their category or functions, place of employment and date of expected termination are identified, and the amount of the voluntary termination benefit is established with sufficient detail to enable the employees to determine the type and amount of remunerations receivable upon termination.

If the Group expects to settle termination benefits fully after the twelve months following year end, the liability is deducted based on market returns corresponding to issuances of high quality bonds and business obligations.

ii) Termination benefits linked to restructuring processes

Termination benefits related to restructuring processes are recognised when the Group has a constructive obligation, i.e., when there is a detailed formal plan for such process identifying at a minimum the business (or parts of the business) concerned, the main locations affected, the function and approximate number of employees who will be compensated for termination of their services, the termination benefits to be paid, and the plan's implementation timing, and a valid expectation has been raised among those affected that the restructuring will be carried out either because the plan has started to be implemented or because the main features of the plan have been announced to those affected by it.

iii) Other long-term employee benefits

The Group has assumed payment to its employees of the obligations derived from the collective agreements to which certain Spanish group companies are adhered, whereby the employees adhered to it with at least 25 years or 40 years of service in the company shall receive 45 or 75 days, respectively, of the last fixed salary. The Group has recorded the estimated liability for this commitment in the Provisions caption of the consolidated statement of financial position.

Additionally, in accordance with prevailing regulations in the corresponding country, certain foreign group companies have commitments to their employees for retirement bonuses, recording the estimated liability in the above-mentioned caption, whereby upon retirement employees will receive an amount accrued over their working lives at the company based on an annual amount accrued derived from applying a ratio over the overall annual remuneration of the employee, with the liability recorded at the beginning of the year subject to the increase in the cost of living. Some of these commitments are financed through the payment of insurance premiums.

The liability for long-term employee benefits recorded in the consolidated statement of financial position corresponds to the present value of the obligations assumed at year end.

In the case of externalized commitments the liability for long-term employee benefits recorded in the consolidated statement of financial position corresponds to the present value of the defined benefit obligations existing at year end less the fair value of the plan assets at that date.

The Group recognises as an expense or income accrued for long-term employee benefits the net amount of the service cost for the year, the net cost of interest and the recalculation of the measurement of the net liability for long-term benefits, as well as the one related to any reimbursement and the effect of any reduction or settlement of the commitments acquired.

The present value of the obligations existing at year end and the service cost is calculated periodically by independent actuaries using the projected unit credit method. The discount interest rate is determined based on the market interest rates for issues of high-rated bonds, denominated in the currency in which the benefits will be paid and with maturity periods similar to those for the corresponding benefits.

The reimbursement rights to some or all payment obligations for defined benefits are only recognised when collection is virtually certain.

The asset or liability for defined employee benefits is recorded as current or non-current based on the realisation or maturity period of the corresponding benefits.

iv) Short-term employee benefits

The Group recognises the expected cost of short-term employee benefits as paid leave, the right to which accumulates from period to period, as employees render the services that vest the right to this remuneration. In the case of non-accumulating compensated absences, the expense is recognised when the absences occur.

The Group recognises the expected cost of profit-sharing and bonus plans when it has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

o) Provisions

Provisions are recognised when the Group has a present obligation (legal or implicit) as a result of a past event; it is more probable than not that an outflow of resources embodying economic benefits will be required to settle the obligation; and the amount of the obligation can be reliably estimated.

The amount recognised as a provision in the consolidated statement of financial position is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account all risks and uncertainties surrounding the amount to be recognised as a provision and, where the time value of money is material, the financial effect of discounting provided that the expenditure to be made each period can be reliably estimated. The discount rate is a pre-tax rate that reflects the time value of money and the specific risks for which future cash flows associated with the provision have not been adjusted at each reporting date.

The financial effect of the provisions is recorded as a finance cost in profit or loss. The provisions do not include the tax effect, nor the disposals or abandonment of assets.

The provision is reversed if it is less probable than not that an outflow of resources will be required to settle the obligation. The provision is reversed against the profit or loss caption in which the corresponding expense was recorded, and the surplus, if any, is recognised in the Other income caption.

p) Share-based payment transactions

The Group recognises the goods and services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received. If the goods or services are received as part of an equity-settled share-based payment, it recognises an increase in equity; if they are received as part of a cash-settled share-based payment, it recognises a liability along with a balancing charge in profit or loss or an asset in the consolidated statement of financial position.

The delivery of equity instruments as consideration for the services performed by the employees of the Group or third parties providing similar services are measured by reference to the fair value of the equity instruments granted.

Employee benefits paid in the form of equity instruments are recognised by applying the following criteria:

- If the equity instruments granted vest immediately on the grant date, the services received are recognised with a charge to profit or loss, with a corresponding increase in equity;
- If the equity instruments granted vest when the employees complete a specified service period, those services are accounted for during the vesting period, with a credit to equity accounts.

The Group measures the fair value of the instruments granted to employees at the grant date.

Market-related vesting conditions and other non-determining vesting conditions are taken into account when measuring the fair value of the equity instruments granted. Vesting conditions, other than market conditions, are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised for services received is based on the number of equity instruments that eventually vest. Consequently, the Group recognises an amount for the services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest, revising this estimate if the number of equity instruments expected to vest differs from previous estimates.

Once the services received and the corresponding increase in equity have been recognised, no additional adjustments to equity are made after the vesting date, without prejudice to making the corresponding reclassifications in equity.

q) Ordinary revenue recognition

Revenue from the sale of goods and the rendering of services is recognised 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 given to customers are recognised as a reduction in sales revenue when it is probable that the discount conditions will be met.

i) Sale of goods

The Group recognises ordinary revenue from the sale of goods when:

- It has transferred to the buyer the significant risks and rewards inherent to ownership of the goods.
- It retains neither continuing involvement in the management of the goods to the degree usually associated with ownership, nor effective control over the goods sold.
- The amount of income and costs incurred can be measured reliably.
- It is probable that the economic benefits associated with the sale will flow to the Group.
- The costs incurred or to be incurred in respect of the transaction can be measured fairly.

The Group sells certain goods for which the customers have the right to receive a refund. In these instances, the revenue from the sale of the goods is recognised when the above conditions are met and it is possible to reliably estimate the amount of the refunds on the basis of prior experience and other relevant factors. Estimated refunds are recorded against ordinary income with a charge to the provision for sales returns, recognising the estimated cost value of the goods returned as inventories on consignment, net of the effect of any reduction in value.

ii) Services rendered

Revenue from the rendering of services is recognised considering the stage of completion of the transaction at the reporting date, provided that the outcome of the transaction can be estimated reliably. This circumstance arises when the amount of revenue, the stage of completion, the costs already incurred and those that will be incurred, can be measured reliably and it is likely that the financial benefits deriving from the service will be received.

iii) Dividend income

Income from dividends on investments in financial instruments is recognised in profit or loss when the Group's right to receive payment is established.

r) Income tax

Tax expense (income) comprises current tax and deferred tax.

Current tax is the amount of income taxes payable (recoverable) in respect of consolidated taxable profit (tax loss) for the year. Current tax liabilities and assets are measured at the amount expected to be paid or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences while deferred tax assets are the amounts of income taxes recoverable in future periods in respect of deductible temporary differences, the carryforward of unused tax losses and the carryforward of unused tax credits. Temporary differences are defined as differences between the carrying amount of an asset or liability in the statement of financial position and its tax base.

Current and deferred tax is recognised in profit or loss, except to the extent that the tax arises from: (i) a transaction or event which is recognised, in the same or a different period, outside profit or loss, directly in consolidated equity; or (ii) a business combination.

Tax credits on the income tax granted by public administrations as a decrease on the amount payable for this tax are recognised as a decrease in the income tax expense when there is reasonable assurance that the conditions related to the right to deduction will be met.

The Directorate General of Taxation has allowed Fluidra, S.A. and some of the Company's subsidiaries to file consolidated taxes, and consequently, the separate taxable base of the companies indicated in Appendix I (except for non-resident companies in Spain and resident companies that file separate taxes such as Productes Elastomers, S.A, Tecnical Pool Service, S.L. and Manufacturas Gre, S.A.U., a company resident in the Basque Country) is integrated into the consolidated taxable base of Fluidra, S.A., which is the parent company of the tax consolidation group. Likewise, outside of Spain, certain Group subsidiaries also file consolidated taxes, their groups being as follows:

- The French tax authorities have allowed Fluidra Services France, S.A.S. and subsidiaries to file consolidated taxes (except for non-resident companies in France and resident companies that file separate taxes such as Trace Logistic France, S.A.S., Fluidra Assistnace, S.A.S. and Poolweb, S.A.S.).
- The American tax authorities have allowed U.S. Pool Holdings, Inc. and subsidiaries (Aqua Products, Inc., Fluidra Projects USA, Inc and Fluidra USA, LLC) to file consolidated taxes.
- The Italian tax authorities have allowed Fluidra Services Italia, S.R.L. and subsidiaries (Fluidra Commerciale Italia, S.p.a. and Inquide Italia, S.R.L.) to file consolidated taxes.

i) Recognition of taxable temporary differences

A deferred tax liability is recognised for all taxable temporary differences, except:

- to the extent that the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit (tax loss);
- to the extent that the deferred tax liability relates to taxable temporary differences associated with investments in subsidiaries or joint ventures where the Group has the capacity to control the date of reversal and it is not probable that reversal will happen in the foreseeable future.

ii) Recognition of deductible temporary differences

Deferred tax assets are recognised provided that:

- it is probable that sufficient future taxable profit will be available against which the they can be utilized, unless the differences arise from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit (tax loss);
- they relate to deductible temporary differences associated with investments in subsidiaries or joint ventures to the extent that temporary differences will be reversed in the foreseeable future and future taxable profit will be available to offset the differences;

Tax planning opportunities are only considered for the purpose of assessing the recoverability of deferred tax assets if the Group intends to use them or it is probable that it will use them.

iii) Measurement

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods in which the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period and factoring in the tax consequences that would follow from the manner in which the Group expects to recover or settle the carrying amount of its assets and liabilities.

The Group reviews the carrying amounts of its deferred tax assets at the end of each reporting period with a view to reducing these carrying amounts to the extent that it is no longer probable that sufficient taxable profit will be available to allow part or all of the assets to be utilized.

Deferred tax assets that do not satisfy the above conditions are not recognised in the consolidated statement of financial position. At the end of each reporting period, the Group reassesses unrecognised deferred tax assets to determine whether the recognition criteria have been met.

iv) Offsetting and classification

The Group only offsets current tax assets and current tax liabilities if it has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group only offsets deferred tax assets and liabilities if it has a legally enforceable right, when they relate to income taxes levied by the same taxation authority and on the same taxable entity and when the taxation authority permits the Group to make or receive a single net payment, or to recover the assets and settle the liabilities simultaneously in each future year in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

s) Offsetting of assets and liabilities, income and expenses

Assets and liabilities and income and expenses are not offset, unless offsetting is required or allowed by a Standard or Interpretation.

t) Classification of current and non-current assets and liabilities

The Group classifies assets and liabilities in the consolidated statement of financial position as current and non-current. For these purposes, assets and liabilities are classified as current in accordance with the following criteria:

- Assets are classified as current when they are expected to be realised or are intended for sale or consumption in the Group's normal operating cycle, they are held primarily for trading, they are expected to be realised within twelve months from the reporting date, or are cash or cash equivalents, unless they are restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.
- Liabilities are classified as current when they are expected to be settled in the Group's normal operating cycle, they are held primarily for the purpose of trading, they are due to be settled within twelve months after the reporting period, or the Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.
- Financial liabilities are classified as current liabilities when they are due to be settled within twelve months after the reporting date, even if the original term was for a period longer than twelve months, and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue.
- Deferred tax assets and deferred tax liabilities are recognised in the consolidated statement of financial position as non-current assets and non-current liabilities, irrespective of the expected date of recovery or settlement.

u) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment, assess its performance, and for which discrete financial information is available.

v) Environment

The Group carries out activities whose primary purpose is to prevent, reduce or repair damages caused to the environment from its operations.

Expenses incurred for environmental activities are recognised under Other operating expenses during the year in which they are incurred.

Property, plant and equipment acquired by the Group for long-term use to minimize 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 (c) above.

Where appropriate, the Group records provisions for environmental activities when such expenses are known in the same year or previous year, and when the related concepts are clearly specified. These provisions are recorded based on the criteria indicated in section (o) Provisions of this note. Compensation to be received by the Group in connection with environmental obligations is recognised as an amount receivable in assets on the consolidated statement of financial position, provided that there is no doubt as to whether this compensation will actually be received, and that it does not exceed the amount of the recorded obligation.

4. Segment information

The Group is structured into three divisions, two of which include the Group's sales and distribution activities based on a geographical approach, and the third division includes the Group's transactions and logistics chain. All three divisions are centrally defined and managed by the Group's Management Committee.

The Sales Divisions are the Europe Division and the Expansion Division. The purpose of this structure is to enhance the approach to each market and rationalize the supply chain by unifying purchases, production, storage and logistics under a single management. Additionally, the Europe Division, concentrated on markets showing more modest growth, focuses on gaining efficiency in its processes and profitability through operating leverage, and the Expansion Division, concentrated on markets with greater growth expectations, focuses on increasing our market share in those markets. These Divisions include the following business units: Swimming-pool and Wellness, Domestic, Industrial and Other Irrigation and Water treatment, each of them focused on marketing products in the residential, commercial and industrial markets. This commercial structure allows the Company to combine a more direct approach to each business and market segments and operating synergies such as sharing the capillarity of distribution networks by country.

The Operations Division, which is mainly located in Spain, France, Israel and China, focuses on increasing cost efficiency through the rationalization of production plant structure and the optimization of industrial assets.

This organizational structure affects the identification of the cash generating units (CGUs) of the Group (see note 7) and the segment information.

Segment information shows the information used by Fluidra Group's Management in accordance with IFRS 8.

Holding, real estate and services companies do not form operating segments (they do not generate significant revenue to third parties or revenue is supplementary to the Group's activity). All these companies are grouped into the Shared services caption.

The inter-segment selling prices are established based on standard terms and conditions available to unrelated third parties.

The difference between the sum of the items of the different business segments and the total thereof in the consolidated income statement corresponds to the Shared services caption and to the intra-segment consolidation adjustments, basically the sales between the Operations division and the Sales divisions, and their corresponding margin adjustment in inventories, as well as other adjustments derived from the business combinations and the consolidation process.

As for assets and liabilities, financial assets and liabilities have not been allocated to any of the aforementioned business segments ("unallocated" column). The difference between the items of the different segments and the "unallocated" column and the total assets and liabilities in the consolidated statement of financial position mainly corresponds to intra-segment consolidation adjustments, the elimination of investment-shareholders' equity of the financial investments in group companies, as well as other adjustments derived from the business combinations and the consolidation process.

There are no customer accounts for sales to third parties greater than 10% of total sales.

The Details of the Group's segment information for 2017 and 2016 is shown in Appendices II and III to these consolidated financial statements.

5. **Business combinations and sales of group companies**

The breakdown of transactions resulting in a business combination in 2017 and 2016 is as follows:

2017

On 5 April 2017, the Group acquired the French company Poolweb, SAS, which distributes spare parts for swimming pools and spas for sale online. It paid out an amount of Euros 46 thousand on this acquisition.

During the period comprised between the date of acquisition and 31 December 2017 the acquired business has generated consolidated total sales of goods and finished products amounting to Euros 4,261 thousand and consolidated losses after tax amounting to Euros 313 thousand.

If the acquisition had occurred on 1 January 2017, the Group's sales of goods and finished products would have increased by Euros 1,397 thousand and consolidated profit after tax would have increased by Euros 2 thousand.

Due to commercial and management synergies, this acquisition has been integrated into the Europe CGU.

On 6 July 2017, the Group acquired a 90% interest in Italian company Agrisilos, S.R.L.

Agrisilos, S.R.L. manufactures and markets high-end designer above-ground pools under the Laghetto brand. This acquisition completes the Group’s above-ground pool range.

The acquisition of this business meant the acquisition of its trademark, property, plant and equipment, distribution licenses, inventories, employees and the other assets and liabilities related to this activity.

An initial amount of Euros 1,800 thousand was paid for this acquisition and contingent amounts were established mainly subject to the results that the acquired business obtains during 2017 and 2018. The Group has recognised an amount of Euros 995 thousand related to this contingent consideration at the date of acquisition. The Group has estimated the fair value of this consideration weighing the potential outcomes based on the probabilities estimated for each one. The agreement does not establish any maximum limit to be paid.

As a result of this acquisition, the Group has a purchase commitment for the remaining 10% which must be executed in June 2020 and the price of which is largely subject to 2017, 2018 and 2019 sales and profits recorded by the business acquired. At acquisition date, the Group has recorded a non-current liability for the present amount of the price of this commitment amounting to Euros 414 thousand, and no non-controlling interest has been recognised.

During the period comprised between the date of acquisition and 31 December 2016 the acquired business has generated consolidated total sales of goods and finished products amounting to Euros 2,605 thousand and consolidated losses after tax amounting to Euros 229 thousand.

If the acquisition had occurred on 1 January 2017, the Group's sales of goods and finished products would have increased by Euros 5,616 thousand and consolidated profit after tax would have increased by Euros 402 thousand.

Due to commercial and management synergies, this acquisition has been integrated into the Europe CGU.

On 27 July 2017, the Group acquired an 80% interest in Belgian company Riiot Labs NV/SA.

Riiot Labs NV/SA is a start-up which created the “Blue by Riiot” smart device, an innovative remote-control technology for pool maintenance.

The acquisition of this business meant the acquisition of its patents, property, plant and equipment, distribution licenses, inventories, employees and the other assets and liabilities related to this activity.

An initial amount of Euros 3,341 thousand was paid for this acquisition and contingent amounts were established mainly subject to the sales of the acquired business up to 31 December 2020. The Group has recognised an amount of Euros 993 thousand related to this contingent consideration at the date of acquisition. The Group has estimated the fair value of this consideration weighing the potential outcomes based on the probabilities estimated for each one. The agreement establishes a maximum and minimum limit for this contingent consideration of Euros 2,400 thousand and Euros 1,200 thousand, respectively.

As a result of this acquisition, the Group has granted a call option to the minority shareholder for the remaining 20%, which can be executed by third parties from 1 January 2021 to 1 January 2023. In turn, the minority shareholder has granted a call option to the Group that can be exercised at any time. The price of this option is largely subject to the sales and profits recorded by the business acquired in the years ended before the option is executed. At acquisition date, the Group has recorded a non-current liability for the present amount of the price of said put option amounting to Euros 1,014 thousand, and no non-controlling interest has been recognised.

During the period comprised between the date of acquisition and 31 December 2017 the acquired business has not generated consolidated total sales of goods and finished products and has generated consolidated losses after tax amounting to Euros 314 thousand.

If the acquisition had occurred on 1 January 2017, the Group's sales of goods and finished products would have increased by Euros 589 thousand and consolidated profit after tax would have increased by Euros 44 thousand.

Due to commercial and management synergies, this acquisition has been integrated into the Operations CGU.

Details of the consideration paid, of the fair value of the net assets acquired and goodwill for the business combinations carried out during the twelve-month period ended 31 December 2017 are as follows:

	Thousands of Euros
Consideration paid	
Cash paid	5,187
Contingent consideration	3,416
Total consideration paid	8,603
Fair value of net assets acquired	2,481
Goodwill	6,122

The intangible assets that have not been recorded separately from goodwill and have therefore been included in it since they do not meet the separability criterion required by IFRS-EU mainly relate to distribution networks, work force and synergies of the acquired businesses.

The amounts that have been recorded in the consolidated statement of financial position at the date of acquisition of the assets, liabilities and contingent liabilities of the businesses acquired during the twelve-month period ended 31 December 2017, by significant categories, are as follows:

	Thousands of Euros
	Fair value
Property, plant and equipment	597
Other intangible assets	4,997
Other non-current financial assets	41
Other non-current accounts receivable	281
Deferred tax assets	437
Inventories	4,581
Trade and other receivables	3,273
Other current financial assets	9
Cash and cash equivalents	1,900
Total assets	16,116
Bank borrowings	2,830
Deferred tax liabilities	1,189
Non-current provisions	1,054
Government grants	25
Other non-current liabilities	2,168
Trade and other payables	6,277
Current provisions	92
Total liabilities and contingent liabilities	13,635
Total net assets	2,481
Total net assets acquired	2,481
Paid in cash	5,187
Cash and cash equivalents acquired	1,900
Cash paid for the acquisitions	3,287

In line with Fluidra's strategy of divesting non-core activities in order to concentrate on the Group's core business, on 28 March 2017 the company Aplicaciones Técnicas Hidráulicas, S.L.U. was sold for Euros 10,476 thousand.

The breakdown of the sale of the abovementioned company during the twelve-month period ended 31 December 2017 was as follows:

	Thousands of Euros
Amount received in cash	7,609
Deferred collections	2,867
Total	10,476
Total net assets sold	9,029
Profit from the sale	1,447

The amounts derecognised in the consolidated statement of financial position at the date of disposal of the assets, liabilities and contingent liabilities of the businesses sold during the twelve-month period ended 31 December 2017, by significant categories, are as follows:

	Thousands of Euros
Property, plant and equipment	66
Other intangible assets	12
Goodwill	3,113
Other non-current financial assets	50
Deferred tax assets	12
Inventories	3,604
Trade and other receivables	10,940
Cash and cash equivalents	294
Total assets	18,091
Bank borrowings	5,792
Trade and other payables	3,270
Total liabilities and contingent liabilities	9,062
Total net assets	9,029
Total net assets sold	9,029
Amount received in cash	7,609
Cash and cash equivalents disposed of	294
Net cash generated by the sale	7,315

During 2017, Euros 186 thousand have been received corresponding to deferred collections on the sale of the company Accent Graphic, S.L.U. (Euros 250 thousand in 2016).

As a result of deferred collections on the sale of Aplicaciones Técnicas Hidráulicas, S.L.U., Euros 2,867 thousand was also collected.

During 2017 cash has been disbursed in connection with the acquisitions of subsidiaries and non-controlling interest for an amount of Euros 17,570 thousand (Euros 11,983 thousand in 2016).

2016

On 12 January 2016, the Group acquired the business of the French company EGT Aqua for the marketing of wooden pools in Europe in both the mass market channel and the professional channel. The transaction, which was measured at Euros 1,000 thousand, included the design of pools and broad experience in the sale of these products in the large distribution channel. Goodwill arisen on this transaction was included in the Europe CGU.

On 21 July 2016, the Group acquired 70% of the Dutch company SIBO B.V. (subsequently SIBO Fluidra Netherlands B.V.)

SIBO is a leading company in natural pools and water installations with strong distribution presence in Northern Europe, especially Benelux and Germany. The purpose of this acquisition was to strengthen the Group's presence in said market.

The acquisition of this business meant the acquisition of its customer portfolio, trademark, property, plant and equipment, distribution licenses, inventories, employees and the other assets and liabilities related to this activity.

An initial amount of Euros 6,393 thousand was paid for this acquisition and contingent amounts were established mainly subject to the results that the acquired business obtains during 2017. The Group recognised an amount of Euros 4,047 thousand related to this contingent consideration at the date of acquisition. The Group estimated the fair value of this contingent consideration weighing the potential outcomes based on the probabilities estimated for each one. The agreement does not establish any maximum limit to be paid.

As a result of this acquisition, the Group granted a put option to the minority shareholder for the remaining 30%, and the minority shareholder granted the Group a call option, which can be exercised between 1 January 2021 and 30 June 2021, the price being mainly subject to the results obtained by the acquired business in 2017. At acquisition date, the Group recorded a non-current liability for the present amount of the price of said put option amounting to Euros 6,348 thousand, and no non-controlling interest has been recognised.

During the period comprised between the date of acquisition and 31 December 2016 the acquired business generated consolidated total sales of goods and finished products amounting to Euros 7,535 thousand and consolidated losses after tax amounting to Euros 167 thousand.

If the acquisition had occurred on 1 January 2016, the Group's sales of goods and finished products would have increased by Euros 11,489 thousand and consolidated profit after tax would have increased by Euros 845 thousand.

Due to commercial and management synergies, this acquisition was integrated into the Europe CGU.

The breakdown of the consideration paid, of the fair value of the net assets acquired and goodwill for the business combinations that were carried out during the twelve-month period ended 31 December 2016 are as follows:

	Thousands of Euros
Consideration paid	
Cash paid	7,393
Contingent consideration	10,395
Total consideration paid	17,788
Fair value of net assets acquired	11,740
Goodwill	6,048

The intangible assets that were not recorded separately from goodwill and were therefore included in it since they do not meet the separability criterion required by IFRS-EU mainly relate to distribution networks, work force and synergies of the acquired business.

The amounts that were recorded in the consolidated statement of financial position at the date of acquisition of the assets, liabilities and contingent liabilities of the businesses acquired during the twelve-month period ended 31 December 2016, by significant categories, were as follows:

	Thousands of Euros
	Fair value
Property, plant and equipment	148
Other intangible assets	6,149
Inventories	5,234
Trade and other receivables	2,448
Cash and cash equivalents	977
Total assets	14,956
Remuneration payable	56
Trade and other payables	1,022
Income tax liabilities	460
Provisions	145
Deferred tax liabilities	1,533
Total liabilities and contingent liabilities	3,216
Total net assets	11,740
Total net assets acquired	11,740
Paid in cash	7,393
Cash and cash equivalents acquired	977
Cash paid for the acquisitions	6,416

On 24 November 2016, the Spanish subsidiary Calderería Plástica del Norte, S.L. was sold to a third party for an amount of Euros 3,350 thousand.

This transaction followed Fluidra's strategy to sell investments in non-core activities to focus on the Group's core business.

The breakdown of the sale of the abovementioned companies during the twelve-month period ended 31 December 2016 was as follows:

	Thousands of Euros
Amount received in cash	3,350
Total	3,350
Total net assets sold	1,872
Profit from the sale	1,478

The amounts derecognised in the consolidated statement of financial position at the date of disposal of the assets, liabilities and contingent liabilities of the businesses sold during the twelve-month period ended 31 December 2016, by significant categories, were as follows:

	Thousands of Euros
Property, plant and equipment	265
Goodwill	1,581
Other intangible assets	242
Other non-current financial assets	32
Deferred tax assets	101
Trade and other receivables	861
Inventories	752
Cash and cash equivalents	230
Total assets	4,064
Trade and other payables	936
Other non-current liabilities	842
Deferred tax liabilities	54
Other non-current provisions	360
Total liabilities and contingent liabilities	2,192
Total net assets	1,872
Total net assets sold	1,872
Amount received in cash	3,350
Cash and cash equivalents disposed of	230
Net cash generated by the sale	3,120

During 2016, Euros 250 thousand were received corresponding to deferred collections on the sale of the company Accent Graphic, S.L.U. (Euros 190 thousand in 2015).

During 2016 cash was disbursed in connection with the acquisitions of subsidiaries and non-controlling interest for an amount of Euros 11,983 thousand (Euros 15,399 thousand in 2015).

On 25 July 2016, the call option was executed on 10% of the share capital of the company I.D. Electroquímica, S.L. for an amount of Euros 1,625 thousand, thereby reducing the value of non-controlling interests.

6. Property, plant and equipment

The movements in the Property, plant and equipment accounts during 2017 and 2016 are as follows:

	Thousands of Euros							
	Balances at 31.12.16	Business combinations (note 5)	Additions	Disposals	Impairment	Transfers	Exchange gains (losses)	Balances at 31.12.17
Cost								
Land and buildings	74,883	-	102	(1,604)	-	(2,398)	(259)	70,724
Plant and machinery	136,313	1,456	8,392	(9,990)	-	331	(1,667)	134,835
Other installations, tools and equipment	132,582	1,560	3,753	(1,428)	-	796	(1,032)	136,231
Other PP&E	25,047	427	2,700	(1,229)	-	63	(608)	26,400
Property, plant and equipment under construction	1,157	1	2,967	(1)	-	(1,549)	(25)	2,550
	369,982	3,444	17,914	(14,252)	-	(2,757)	(3,591)	370,740
Accumulated depreciation								
Buildings	(32,461)	-	(1,872)	410	-	791	53	(33,079)
Plant and machinery	(108,240)	(1,342)	(6,661)	9,913	-	393	1,012	(104,925)
Other installations, tools and equipment	(107,548)	(1,246)	(5,808)	1,132	-	(45)	627	(112,888)
Other PP&E	(20,444)	(259)	(2,114)	1,112	-	(121)	484	(21,342)
	(268,693)	(2,847)	(16,455)	12,567	-	1,018	2,176	(272,234)
Net carrying amount	101,289	597	1,459	(1,685)	-	(1,739)	(1,415)	98,506

	Thousands of Euros							
	Balances at 31.12.15	Business combinations (note 5)	Additions	Disposals	Impairment	Transfers	Exchange gains (losses)	Balances at 31.12.16
Cost								
Land and buildings	72,722	-	1,299	(26)	(384)	1,187	85	74,883
Plant and machinery	131,623	106	6,703	(2,815)	-	243	453	136,313
Other installations, tools and equipment	127,822	931	4,495	(1,583)	(69)	804	182	132,582
Other PP&E	24,350	93	1,673	(1,149)	-	(66)	146	25,047
Property, plant and equipment under construction	1,547	-	2,465	(10)	-	(2,845)	-	1,157
	358,064	1,130	16,635	(5,583)	(453)	(677)	866	369,982
Accumulated depreciation								
Buildings	(30,825)	-	(1,560)	35	-	(101)	(10)	(32,461)
Plant and machinery	(104,047)	(92)	(6,721)	2,459	-	308	(147)	(108,240)
Other installations, tools and equipment	(102,202)	(818)	(6,039)	1,491	-	(63)	83	(107,548)
Other PP&E	(19,378)	(72)	(2,259)	950	-	380	(65)	(20,444)
	(256,452)	(982)	(16,579)	4,935	-	524	(139)	(268,693)
Net carrying amount	101,612	148	56	(648)	(453)	(153)	727	101,289

a) Property, plant and equipment pledged as guarantees

At 31 December 2017 and 2016 no property, plant and equipment items are mortgaged.

Additionally, at 31 December 2017 and 2016 no property, plant and equipment items have been pledged as guarantees.

b) Insurance

The consolidated Group has taken out insurance policies to cover the risks to which its property, plant and equipment items are exposed. The coverage of these policies is considered sufficient.

c) Goods acquired under finance lease arrangements

The following assets are held by the Group under finance leases at 31 December 2017 and 2016:

	Thousands of Euros	
	2017	2016
Land and buildings	15,561	18,596
Plant and machinery	4,457	4,225
Other installations, tools and equipment	839	951
Other property, plant and equipment	866	1,148
	21,723	24,920
Less: accumulated depreciation	(7,948)	(6,509)
Balance at 31 December	13,775	18,411

The main characteristics of the most significant finance lease arrangements by subsidiary are as follows:

1) Fluidra Commercial, S.A.U.: real estate leasing with BBVA for the purchase of an industrial unit in La Garriga at a cost value of Euros 10,700 thousand. Agreement signed on 21/12/04, the last payment matures on 21/12/19. Lease payments are settled monthly and the outstanding amount at 31/12/2017 is Euros 2,344 thousand (Euros 3,357 thousand in 2016), with a purchase option of Euros 100 thousand. It accrues a fixed interest rate of 3.8% until 2014 and a variable interest rate of Euribor plus 0.5%.

2) Astral Pool Australia Pty Ltd.: equipment leasing with West-Pac Banking Corporation for the acquisition of machinery at a cost value of Euros 2,432 thousand. Agreement signed on 18/10/16, maturing on 18/10/22. Lease payments are settled monthly and the outstanding amount at 31/12/2017 is Euros 1,913 thousand (Euros 2,351 in 2016). It accrues a fixed interest rate of 5.6%.

Details of the minimum lease payments and the present value of finance lease liabilities by term to maturity at 31 December 2017 and 2016 are shown in note 18.

The finance lease liabilities are effectively guaranteed since the rights to the leased asset revert to the lessor in the event of default.

During 2017 no contingent rents have been paid in connection with these contracts, except for the interest spread resulting from the annual evolution of Euribor, in accordance with the initial terms and conditions agreed upon in said contracts.

The Group has acquired property, plant and equipment items under finance leases in 2017 for an amount of Euros 367 thousand funded with a debt for the same amount (Euros 3,614 thousand funded with a debt for the same amount in 2016).

d) Fully depreciated assets

The cost of fully depreciated property, plant and equipment items still in use at 31 December 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	2016
Buildings	21,571	16,062
Plant and machinery	77,175	74,470
Other installations, tools and equipment	87,920	80,122
Other property, plant and equipment	17,487	15,492
	204,153	186,146

e) Property, plant and equipment items located abroad

At 31 December 2017 property, plant and equipment items located outside Spain amount to Euros 30,548 thousand (Euros 35,148 thousand at 31 December 2016).

f) Gains (losses) on disposals of fixed assets

Proceeds from disposals of fixed assets during the year ended 31 December 2017 mainly correspond to the profits on the sale of the company Aplicaciones Técnicas Hidráulicas, S.L.U. for an amount of Euros 1,447 thousand (see note 5), as well as profits on the sale of a property located in France for an amount of Euros 324 thousand.

At 31 December 2016, no significant disposals were recorded.

7. **Goodwill and Other intangible assets**

The movements in the Goodwill and Other intangible assets accounts during 2016 and 2015 are as follows:

a) Goodwill

	Thousands of Euros						
	Balances at 31.12.16	Business combinations (note 5)	Additions	Disposals	Impairment	Exchange gains (losses)	Balances at 31.12.17
Carrying amount							
Goodwill	199,557	6,122	94	(3,113)	(3,242)	(3,200)	196,218

	Thousands of Euros						
	Balances at 31.12.15	Business combinations (note 5)	Additions	Disposals	Impairment	Exchange gains (losses)	Balances at 31.12.16
Carrying amount							
Goodwill	190,655	6,048	4,259	(1,581)	(2,112)	2,288	199,557

b) Other intangible assets

	Thousands of Euros							
	Balances at 31.12.16	Business combinations (note 5)	Additions	Disposals	Impairment	Transfers	Exchange gains (losses)	Balances at 31.12.17
Cost								
Development expenses for work in progress	39,916	773	4,158	(1,695)	(1,528)	(2,051)	(1,047)	38,526
Relations with customers/Contractual relations	42,293	-	-	(4,684)	(824)	2,495	(3,618)	35,662
Computer software	31,682	242	6,081	(364)	(133)	243	(205)	37,546
Patents, Trademarks and Other intangible assets	36,611	4,596	540	(1,135)	(435)	(661)	(1,758)	37,758
	150,502	5,611	10,779	(7,878)	(2,920)	26	(6,628)	149,492
Accumulated amortisation								
Product development expenses	(33,186)	(335)	(3,873)	1,694	-	22	852	(34,826)
Relations with customers/Contractual relations	(28,984)	-	(4,306)	4,684	-	73	2,809	(25,724)
Computer software	(18,039)	(231)	(4,909)	343	-	1	173	(22,662)
Patents, Trademarks and Other intangible assets	(29,500)	(48)	(4,244)	1,122	-	(9)	1,591	(31,088)
	(109,709)	(614)	(17,332)	7,843	-	87	5,425	(114,300)
Net carrying amount	40,793	4,997	(6,553)	(35)	(2,920)	113	(1,203)	35,192

	Thousands of Euros							
	Balances at 31.12.15	Business combinations (note 5)	Additions	Disposals	Impairment	Transfers	Exchange gains (losses)	Balances at 31.12.16
Cost								
Development expenses for work in progress	36,442	-	4,284	(1,024)	(90)	(78)	382	39,916
Relations with customers/Contractual relations	37,913	5,751	-	-	(3,500)	-	2,129	42,293
Computer software	23,457	444	7,376	(78)	-	382	101	31,682
Patents, Trademarks and Other intangible assets	34,336	382	921	(288)	(300)	(334)	1,894	36,611
	132,148	6,577	12,581	(1,390)	(3,890)	(30)	4,506	150,502
Accumulated amortisation								
Product development expenses	(28,620)	-	(5,269)	982	-	3	(282)	(33,186)
Relations with customers/Contractual relations	(25,254)	-	(2,148)	-	-	-	(1,582)	(28,984)
Computer software	(13,581)	(428)	(4,026)	76	-	(9)	(71)	(18,039)
Patents, Trademarks and Other intangible assets	(22,927)	-	(5,368)	90	-	(3)	(1,292)	(29,500)
	(90,382)	(428)	(16,811)	1,148	-	(9)	(3,227)	(109,709)
Net carrying amount	41,766	6,149	(4,230)	(242)	(3,890)	(39)	1,279	40,793

No intangible assets have been pledged as guarantees.

Additions of product development expenses in 2017 amounting to Euros 4,158 thousand (Euros 4,284 thousand in 2016) correspond to work performed by the Group and capitalised as non-current assets, and are included in said caption of the consolidated income statement.

Additions of software in 2017 include an amount of Euros 5,725 thousand (Euros 6,669 thousand in 2016) related to set-up costs and licenses for the design and implementation of the Group's new ERP (Invictus Project).

The cost of fully amortised intangible assets still in use at 31 December 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	2016
Development expenses for work in progress	27,752	25,810
Computer software	12,170	10,285
Patents, Trademarks and Other intangible assets	29,685	13,834
	69,607	49,929

At 31 December 2017 intangible assets located outside Spain amount to Euros 19,368 thousand (Euros 29,220 thousand at 31 December 2016).

c) Impairment and allocation of goodwill to CGUs

For the purpose of impairment testing, the Group has allocated goodwill to its cash-generating units (CGUs) in accordance with the geographical area of the transaction and the business segment.

During 2017, with the departure from management of the Aqua Group partners, the Group has proceeded to restructure the Aqua Group into two different units. On the one hand, Aqua Manufacturing, the Group's automatic pool cleaner factory is focused on producing automatic pool cleaning systems for sale on the Fluidra distribution network in Europe and the rest of the world, including the United States. On the other hand, Aqua USA remains as an independent distribution unit on the American market. In this way, the Fluidra Group is hoping to achieve a positive evolution with greater market specialisation.

The redistribution of the values assigned to Goodwill in accordance with the new Aqua Group structure was done taking into account the relative value in use at 31 December 2016. This value in use was calculated on the basis of the estimated cash flows at that date, with discount rates after tax of 7.5% for Aqua USA and 7.7% for Aqua Manufacturing, and a long-term growth rate of 2%.

The breakdown of goodwill allocated by CGU or groups of CGUs at 31 December 2017 and 2016 is as follows:

		Thousands of Euros	
	Segment	31.12.17	31.12.16
Europe	Europe	41,386	43,086
Expansion	Expansion	45,290	45,044
Operations	Operations	59,705	56,003
Certikin Internacional, LTD	Europe	3,427	3,439
SSA Fluidra Österreich, GmbH	Europe	4,991	4,991
Fluidra Australia PTY LTD and subsidiaries	Expansion	8,773	9,223
Aqua Manufacturing	Operations	17,051	17,538
Aqua USA	Expansion	-	4,384
Fluidra Waterlinx	Expansion	10,547	10,801
SIBO	Europe	5,048	5,048
Total		196,218	199,557

Changes in goodwill are attributable, inter alia, to the business combinations entered into in 2017 (see note 5), the disposal of the company Aplicaciones Técnicas Hidráulicas, S.L.U. (see note 5) which was integrated into the Europe CGU, as well as the impairment of the Aqua USA CGU.

The movement in goodwill is a result of the change in the currency translation differences arisen from the goodwill denominated in foreign currency, mainly due to fluctuations in the exchange rates of the pound sterling, Australian dollar, US dollar, Israeli shekel, Chinese renminbi and the South African rand.

The CGUs correspond to the Group's management structure, which is split into three divisions, two of which are based on a geographical approach: the Europe and Expansion divisions which manage the Group's sales and distribution activity, and the third division which covers operations and the entire Group's logistics chain. That is, they correspond to the segments reported in APPENDIX II (see note 4).

When there is a management unit whose cash flows can be individualized at the company or group of companies level and there is a single management (Australia, SSA, Waterlinx, Certikin Internacional, Aqua Manufacturing, Aqua USA, SIBO) the lowest company or group of companies level is used as CGU.

The recoverable amount of each CGU is based on value-in-use calculations. These calculations use cash flow projections based on finance budgets and/or strategic plans, approved by Management, for the cash generating units to which goodwill has been allocated and cover a period of 4 years. The process for preparing the strategic plans of the Europe and Expansion CGUs considers the current situation of each CGU's market, analyzing the macroeconomic and competitive environments, as well as the CGU's position in those environments and the opportunities for growth based on market projections and competitive positioning. The key factors of business evolution are mainly the evolution of the pool stock existing in each market for the maintenance business and the evolution of the manufacture of new pools. Additionally, the potential operating efficiencies due to growth are considered. These projections are adjusted based on the degree of compliance with the strategic plans and/or financial budgets in prior years.

The key assumptions used in the strategic plans relate to a recovery of the construction of new pools in mature markets (Europe and USA) and sustained growth in emerging markets, combined with an increase in our penetration in commercial pools in some geographical areas where our presence is still small.

As for the Operations division, revenue is associated with the growth of the other two sales divisions (Europe and Expansion), as a result of the integration of production into Fluidra. The assumptions used in the strategic plans relate to a recovery in profitability due to greater efficiency obtained through the lean management plans in production plants, the integration of the logistics chain and the operating leverage due to growth.

The quantitative assumptions used are as follows:

CGU	CAGR Sales (*) 2017-2021	CAGR EBITDA (*) 2017-2021	g	WACC (**) 2017	WACC (***) 2017
Europe	4.30%	9.17%	1.00%	7.63%	9.93%
Expansion	5.56%	7.60%	2.00%	10.56%	12.43%
Operations	4.24%	7.21%	1.50%	7.63%	9.54%
Certikin International, LTD	3.37%	4.47%	1.00%	6.31%	7.82%
FLUIDRA ÖSTERREICH Gmbh "SSA"	0.75%	0.80%	1.00%	6.72%	8.67%
Fluidra Australia PTY LTD and subsidiaries	6.94%	21.49%	1.50%	8.48%	11.49%
Aqua Manufacturing	4.53%	3.67%	2.00%	6.59%	7.18%
Aqua USA	5.42%	56.07%	2.00%	6.71%	8.36%
Fluidra Waterlinx Pty Ltd	4.06%	8.76%	2.00%	10.33%	13.68%
SIBO Fluidra Netherlands B.V.	5.13%	5.43%	2.00%	5.93%	7.23%

(*) CAGR stands for Compound Annual Growth Rate over 4 years.

(**) After-tax discount rate.

(***) Before-tax discount rate.

In all cases, impairment tests are based on cash flow projections based on strategic plans and/or financial budgets, which cover a period of four years. Cash flow projections from year five onwards are calculated using a growth rate in perpetuity according to each market. This rate does not exceed the medium- and long-term growth rate for the businesses in which the CGUs operate. The rates applied are detailed in the table above.

The discount rate applied to cash flow projections used for the CGUs has been calculated based on risk-free rates (interest rates for sovereign debt of each country, always the one applicable to each market at 31 December), tax rate, market risk premiums, and debt spreads for the markets in which the CGUs operate. The before and after-tax rates applied are detailed in the table above.

In the case of the Aqua USA CGU, the value in use, which amounts to Euros 12.4 million does not cover the value of the net assets and goodwill allocated, and therefore, the Group has recognised an impairment amounting to Euros 3.2 million. The impairment of this goodwill is due to an evolution of the sales business in the USA which was lower than projected at 2016 year end.

The Group performs a sensitivity analysis of the calculation of impairment by means of reasonable changes in the key assumptions used in the calculation. For the CGUS with significant goodwill (Europe, Expansion, Operations and Aqua Manufacturing) the following decreases have been assumed:

- Decrease of 100 basis points in the EBITDA margin for 2020 (EBITDA)
- Growth rate in perpetuity - Decrease of 0.5% (g)
- Discount rate - Increase of 0.5% (WACC)

The quantitative result of these reasonable variations, shown as a percentage surplus/shortfall over the book value of goodwill at 31 December 2017, is as follows:

CGU	EBITDA	g	WACC
Europe	>100%	>100%	>100%
Expansion	>100%	>100%	>100%
Operations	>100%	>100%	>100%
Aqua Manufacturing	>100%	>100%	>100%

Changes in the assumptions used to determine the value in use may modify the estimate of impairment.

The Group's market capitalisation at 31 December 2017 amounts to Euros 1,330.2 million (Euros 486.6 million at 31 December 2016).

8. Investment property

The movements in the Investment property accounts during 2017 and 2016 are as follows:

	Thousands of Euros				
	Balances at 31.12.16	Additions	Disposals	Transfers	Balances at 31.12.17
Cost					
Land	1,430	-	-	450	1,880
Buildings	1,253	-	(15)	2,280	3,518
	2,683	-	(15)	2,730	5,398
Accumulated depreciation					
Buildings	(975)	(34)	13	(1,104)	(2,100)
	(975)	(34)	13	(1,104)	(2,100)
Net carrying amount	1,708	(34)	(2)	1,626	3,298

	Thousands of Euros				
	Balances at 31.12.15	Additions	Disposals	Transfers	Balances at 31.12.16
Cost					
Land	1,233	-	-	197	1,430
Buildings	934	-	-	319	1,253
	2,167	-	-	516	2,683
Accumulated depreciation					
Buildings	(616)	(35)	-	(324)	(975)
	(616)	(35)	-	(324)	(975)
Net carrying amount	1,551	(35)	-	192	1,708

The fair value of investment property does not substantially differ from the net carrying amount.

9. Investments accounted for using the equity method

The movements in investments accounted for using the equity method are as follows:

	Thousands of Euros	
	2017	2016
Balances at 1 January	120	93
Share in profit/(loss)	(32)	27
Additions/ Inclusions	(88)	-
Balance at 31 December	-	120

The breakdown of the key financial figures of companies accounted for using the equity method in 2017 and 2016 is as follows:

			2017				
			Thousands of Euros				
	Country	% ownership interest	Assets	Liabilities	Equity	Income	Profit/(loss)
Astral Nigeria, LTD	Nigeria	25	985	329	656	2,197	175
OCM Products Limited	Great Britain	50	371	698	(327)	162	(152)
			1,356	1,027	329	2,359	23

			2016				
			Thousands of Euros				
	Country	% ownership interest	Assets	Liabilities	Equity	Income	Profit/(loss)
Astral Nigeria, LTD	Nigeria	25	577	95	482	1,437	110
			577	95	482	1,437	110

On 3 July 2017, the Group acquired a 50% non-controlling interest in OCM Products Limited, a company that manufactures and markets residential and commercial pool filter systems.

10. **Current and non-current financial assets**

The breakdown of Other current and non-current financial assets is as follows:

		Thousands of Euros	
	Note	2017	2016
Available-for-sale financial assets		502	1,030
Deposits and guarantees		3,700	4,583
Derivative financial instruments	11	-	-
Total non-current assets		4,202	5,613
Available-for-sale financial assets		-	-
Deposits and guarantees		4,138	4,147
Derivative financial instruments	11	78	274
Total current assets		4,216	4,421

The movements in available-for-sale financial assets are as follows:

	Thousands of Euros	
	2017	2016
At 1 January	1,030	719
Additions	668	-
Disposals	(360)	(73)
Reversals / (Impairment)	(396)	34
Adjustment at fair value recognised in profit or loss	(440)	350
At 31 December	502	1,030
Less: Current portion	-	-
Total non-current assets	502	1,030

The Deposits and guarantees caption mainly includes time deposits that earn market interest rates and are classified in the Loans and receivables caption, as well as deposits and guarantees given as a result of rental contracts. These are measured following the criteria established for financial assets in note 3. The difference between the amount given and fair value is recognised in the income statement as a prepayment over the lease term.

The fair value of quoted securities is determined based on their price at the reporting date of the consolidated financial statements.

11. **Derivative financial instruments**

The breakdown of the derivative financial instruments is as follows:

	2017				
		Thousands of Euros			
		Fair values			
	Notional amount	Assets		Liabilities	
		Non-current	Current	Non-current	Current
1) Derivatives held for trading					
a) Exchange rate derivatives					
Foreign currency contracts	19,902	-	78	-	472
Total derivatives traded on over-the-counter markets		-	78	-	472
Total derivatives held for trading		-	78	-	472
2) Hedging derivatives					
a) Cash flow hedges					
Interest rate swaps	99,563	-	-	1,349	-
Total hedging derivatives		-	-	1,349	-
Total recognised derivatives		-	78	1,349	472
		(Note 10)	(Note 10)		

	2016				
		Thousands of Euros			
		Fair values			
	Notional amount	Assets		Liabilities	
		Non-current	Current	Non-current	Current
1) Derivatives held for trading					
a) Exchange rate derivatives					
Foreign currency contracts	14,606	-	274	-	249
Total derivatives traded on over-the-counter markets		-	274	-	249
Total derivatives held for trading		-	274	-	249
2) Hedging derivatives					
a) Cash flow hedges					
Interest rate swaps	120,036	-	-	1,958	-
Foreign currency swaps	6,173	-	-	-	598
Total hedging derivatives		-	-	1,958	598
Total recognised derivatives		-	274	1,958	847
		(Note 10)	(Note 10)		

The overall amount of the change in fair value of derivatives held for trading, which has been estimated using measurement techniques, has been recognised in profit or loss and amounts to a profit of Euros 242 thousand (a loss of Euros 632 thousand in 2016).

The overall amount of the change in fair value of hedging derivatives, which has been estimated using measurement techniques and has been recognised in consolidated equity as it has been considered an effective hedge, has resulted in an increase of Euros 621 thousand (a decrease of Euros 304 thousand in 2016).

The overall amount of cash flow hedges that has been transferred in 2017 from other comprehensive income in equity to the consolidated income statement (under finance cost) amounts to a loss of Euros 776 thousand (a loss of Euros 627 thousand in 2016).

a) Interest rate swaps

The Group uses interest rate swaps, at a floating interest rate without knock-out barriers, with fixed rate values ranging from 0.36% to 0.49% in 2017 and 2016. These derivatives are used to manage exposure to fluctuations in the interest rates mainly of bank loans.

Hedging derivatives at 31.12.17			
Notional amount in thousands of euros	Start date	End date	Type of derivative
12,861	05/03/2015	25/02/2020	Fixed swap
20,076	05/03/2015	25/02/2020	Fixed swap
12,861	05/03/2015	25/02/2020	Fixed swap
6,431	05/03/2015	25/02/2020	Fixed swap
12,861	05/03/2015	25/02/2020	Fixed swap
6,431	05/03/2015	25/02/2020	Fixed swap
8,470	05/03/2015	25/02/2020	Fixed swap
8,470	05/03/2015	25/02/2020	Fixed swap
4,705	05/03/2015	25/02/2020	Fixed swap
3,137	05/03/2015	25/02/2020	Fixed swap
2,510	05/03/2015	25/02/2020	Fixed swap
750	28/04/2015	25/03/2020	Fixed swap
99,563			

Hedging derivatives at 31.12.16			
Notional amount in thousands of euros	Start date	End date	Type of derivative
14,374	05/03/2015	25/02/2020	Fixed swap
22,438	05/03/2015	25/02/2020	Fixed swap
14,374	05/03/2015	25/02/2020	Fixed swap
7,187	05/03/2015	25/02/2020	Fixed swap
14,374	05/03/2015	25/02/2020	Fixed swap
7,187	05/03/2015	25/02/2020	Fixed swap
9,466	05/03/2015	25/02/2020	Fixed swap
9,466	05/03/2015	25/02/2020	Fixed swap
5,259	05/03/2015	25/02/2020	Fixed swap
3,506	05/03/2015	25/02/2020	Fixed swap
2,805	05/03/2015	25/02/2020	Fixed swap
1,050	28/04/2015	25/03/2020	Fixed swap
8,550	03/06/2016	03/06/2019	Fixed swap
120,036			

The breakdown, by notional amount and residual maturity term, of the swaps prevailing at year end is as follows:

	Thousands of Euros	
	2017	2016
Less than one year	-	-
Between one and five years	99,563	120,036
	99,563	120,036

Since derivatives are not traded on organized markets, the fair value of swaps is calculated using the discounted value of expected cash flows due to the spread in rates, based on observable market conditions at the date of measurement (corresponding to the level 2 measurement method in accordance with IFRS 13).

b) Exchange rate derivatives

To manage exchange rate risk in future firm sales and purchases, the Group has arranged option contracts and currency forwards in the main markets in which it operates. For some of them, the Group applies hedge accounting.

The breakdown, by type of foreign currency, of the notional amounts of exchange rate derivatives at 31 December 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	2016
GBP / USD	2,918	1,976
GBP / EUR	5,475	2,900
EUR / USD	5,837	949
EUR / ILS	5,500	4,950
EUR / ZAR	111	4,170
USD / ZAR	61	441
BRL / EUR	-	5,393
	19,902	20,779

At 31 December 2017, all foreign exchange derivatives are held for trade, with no hedging derivatives at that date.

At 31 December 2016, the exchange rate derivatives in EUR/ZAR and BRL/EUR with a notional amount of Euros 3,943 thousand and Euros 2,230 thousand, respectively, are hedging derivatives.

The breakdown, by notional amount and residual maturity term, of the exchange rate derivatives is as follows:

	Thousands of Euros	
	2017	2016
Less than one year	19,902	20,779
	19,902	20,779

The fair value of these derivatives has been estimated using the discounted cash flow method based on forward exchange rates available in public databases at the reporting date (corresponding to the level 2 measurement method in accordance with IFRS 13).

The gains and losses from measuring and settling these contracts are taken to finance costs for the year.

12. Inventories

Details of inventories are as follows:

	Thousands of Euros	
	2017	2016
Goods	33,529	33,301
Raw materials and other supplies	40,563	39,485
Finished products and work in progress	98,672	91,825
	172,764	164,611

At 31 December 2017 and 2016 there are no inventories with a recovery period greater than 12 months from the date of the consolidated statement of financial position.

As a result of the business combinations carried out during 2017 inventories amounting to Euros 4,581 thousand were incorporated (Euros 5,234 thousand in 2016).

The consolidated group companies have taken out a range of insurance policies to cover the risks to which inventories are exposed. The coverage of these policies is considered sufficient.

There are no significant commitments to purchase or sell goods.

During 2017, the Group has recorded impairment losses on inventories amounting to Euros 551 thousand to adjust them to their net carrying amounts (Euros 350 thousand in 2016) (see note 22).

13. Trade and other receivables

The breakdown of this caption in the consolidated statement of financial position is as follows:

	Thousands of Euros	
	2017	2016
Non-current		
Other non-current accounts receivable	3,053	2,285
Current		
Trade receivables for sales and services	157,279	159,199
Other current accounts receivable and prepayments	7,625	6,558
Public administrations	9,743	12,351
Current income tax assets	16,020	10,391
Provisions for impairment and bad debts	(30,692)	(34,372)
Total current	159,975	154,127

At 31 December 2017 and 2016 the Other non-current receivables caption includes Euros 1,138 thousand corresponding to repayment commitments to the shareholders taken on when they contributed securities in the capital increase, as detailed in note 28.

The fair value of trade and other receivables does not significantly differ from book value.

There is no significant concentration of credit risk over trade receivables in any of the Group segments.

The most significant balances in currencies other than the euro at 31 December 2017 and 2016 are as follows:

	Thousands of Euros	
	2017	2016
US Dollar	22,360	22,149
Australian dollar	17,543	17,087
Pounds sterling	7,625	8,441
UAE dirham	7,021	7,277
South African rand	6,374	7,361
Brazilian real	3,634	4,957
Moroccan Dirham	3,425	2,662
Singapore dollar	3,079	1,788
Chinese renminbi	2,753	2,980
Turkish lira	1,745	2,045
Indonesian rupiah	1,183	560
Chilean peso	1,113	1,179
Thai bhat	907	992
Mexican peso	803	1,345
	79,565	80,823

Receivables from public administrations mostly relate to VAT receivable balances.

The movement in the provisions for impairment losses and bad debts for 2017 and 2016 is as follows:

	Thousands of Euros
Balance at 31 December 2015	37,595
Business combinations	107
Charge for the year	7,674
Recoveries	(3,490)
Exchange gains (losses)	61
Write-offs	(7,575)
Balance at 31 December 2016	34,372
Business combinations	309
Charge for the year	5,305
Recoveries	(3,679)
Exchange gains (losses)	(1,063)
Write-offs	(4,552)
Balance at 31 December 2017	30,692

14. Cash and cash equivalents

The balances of cash and cash equivalents mostly correspond to balances in cash and at banks.

15. Equity

The breakdown of and movements in consolidated equity are shown in the consolidated statement of changes in equity.

- Share capital

At 31 December 2017, Fluidra, S.A.'s share capital consists of 112,629,070 ordinary shares with a par value of Euro 1 each, fully subscribed. The shares are represented by book entries and are established as such by being recorded in the corresponding accounting record. All shares bear the same political and financial rights.

On 31 October 2007, Fluidra, S.A. (the "Company") completed its initial public offering process through the public offering of 44,082,943 ordinary shares with a par value of Euro 1 each.

These shares representing share capital are quoted on the Barcelona and Madrid stock exchanges, and also on the continuous market.

The Company only knows the identity of its shareholders through the information that they provide voluntarily or in compliance with applicable regulations. In accordance with the Company's information, the structure of significant ownership interest at 31 December 2017 and 2016 is as follows:

Ownership percentage

	31.12.2017	31.12.2016
Boyser, S.R.L.	14.12%	14.12%
Edrem, S.L.	13.50%	13.50%
Dispur, S.L.	12.28%	12.24%
Aniol, S.L.	10.16%	10.16%
NMAS1 Asset Management	0.00%	8.00%
Santander Asset Management	4.99%	6.42%
Maveor, S.L.	5.01%	5.01%
Bansabadell Inversió Desenvolupament, S.A.	0.00%	5.00%
Other shareholders	39.94%	25.55%
	100.00%	100.00%

On 3 November 2017, Fluidra, S.A., the syndicated shareholders of the Company, and in Luxembourg, Piscine Luxembourg Holdings 1 S.à.r.l. and Piscine Luxembourg Holdings 2 S.à.r.l., as ultimate and penultimate holders, respectively, of the Luxembourgian company Zodiac Pool Solutions S.à.r.l., signed an investment agreement whereby they agreed to combine the businesses of the Fluidra Group and the Zodiac Group by means of a cross-border merger. For further details on this merger, please refer to note 35.

- Share premium

  This reserve can be freely distributed, except for that established in the section on Dividends and limitations on dividend distribution of this note.

- Legal reserve

  Pursuant to article 274 of the Consolidated Text of the Corporate Enterprises Act, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital.

  This reserve can be used to increase capital by the amount exceeding 10% of the new capital after the increase. Otherwise, until it exceeds 20% of share capital and provided there are no sufficient available reserves, the legal reserve may only be used to offset losses.

- Parent company shares

  The movements in treasury shares during 2016 and 2015 are as follows:

		Euros	
	Number	Face value	Average acquisition/disposal price
Balances at 01.01.16	509,786	509,786	3.0632
Acquisitions	1,464,174	1,464,174	3.6114
Disposals	(156,816)	(156,816)	(4,0528)
Balances at 31.12.16	1,817,144	1,817,144	3,4772
Acquisitions	352,281	352,281	7,1808
Disposals	(530,187)	(530,187)	(6,8013)
Balances at 31.12.17	1,639,238	1,639,238	4,2024

On 18 February 2011, a liquidity contract was signed with a management company on the Fluidra, S.A. shares. The content of this agreement is in accordance with Circular 3/2007 of 19 December.

On 8 July 2014 there was a change in the management entity of the liquidity contract, although no significant changes were made to the conditions in comparison with the former liquidity contract.

At the general meeting of Fluidra, S.A. held on 6 June 2012, in accordance with articles 146 and related articles of the Spanish Corporate Enterprises Act, the shareholders authorized the Company to make a derivative acquisition of treasury shares, directly or through group companies, as well as selling them, and with the express power to decrease share capital for redeeming treasury shares, delegating in the Board of Directors the necessary powers for the execution of the agreements adopted by the shareholders in general meeting to this respect, thus rendering void the former authorization (of 8 June2011), and authorizing the appropriation of the treasury shares portfolio to execute or cover remuneration schemes.

On 25 November 2015 Fluidra, S.A. temporarily suspended the liquidity contract signed with BNP Paribas, S.A. in order to carry out a programme for the repurchase of shares. This programme was launched to meet the obligations of the share-based incentive plan for executives approved by the shareholders in general meeting on 5 May 2015 (see note 29, section (b). On 26 September 2016 the maximum number of shares to be acquired under the repurchase programme was reached, and therefore, on 27 September its ending was communicated and operations under the liquidity contract signed with BNP Paribas, S.A. resumed.

The time and maximum percentage limits of treasury shares meet the statutory limits.

There are no shares of the Parent Company owned by group companies.

- Recognised income and expense

This caption includes the currency translation differences and changes in fair value of available-for-sale financial assets, as well as gains and losses on the measurement at fair value of the hedging instrument that corresponds to the portion identified as an efficient hedge, net of tax effect, if any.

- Dividends and limitations on the distribution of dividends

The Parent Company's voluntary reserves at 31 December 2017 amounting to Euros 22,723 thousand (Euros 19,379 thousand at 31 December 2016), as well as the share premium profit/(loss) for the year of the Parent, are subject to the legal limitations on their distribution.

By virtue of the agreements reached by the shareholders at the general meeting held on 3 May 2017, the distribution of dividends against profit for the year for an overall amount of Euros 10,000 thousand was approved by the Company.

The proposed appropriation of profit included in the Parent Company's financial statements for the years 2017 and 2016 is as follows:

	Thousands of Euros	
	2017	2016
Basis of allocation:		
Profit / (loss) for the year	24,988	17,879
Distribution to:		
Legal reserves	2,499	1,788
Voluntary reserves	22,489	1,091
Dividends	-	15,000
Prior years' losses	-	-
Total	24,988	17,879

- Capital management

The objectives of the Group's capital management are to ensure that it maintains the ability to continue as a going concern so that it can provide returns to shareholders and benefit other stakeholders, and to maintain an optimal capital structure in order to reduce its cost of capital.

To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, issue shares and sell assets in order to reduce debt.

Fluidra, S.A. controls its capital structure based on total leverage and net financial debt over EBITDA ratios (see note 34).

- The total leverage ratio is calculated as total assets divided by total equity.
- The net financial debt ratio (NFD) over EBITDA is calculated as net financial debt divided by EBITDA. The net financial debt is determined by the sum of current and non-current bank borrowings and other marketable securities and derivative financial liabilities less non-current financial assets, less cash and cash equivalents, less other current financial assets, less derivative financial assets.

During 2017 the strategy, which has remained unchanged over prior years, was to keep the total leverage ratio and the net financial debt over EBITDA ratio between 2 and 2.5. The ratios for 2017 and 2016 have been determined as follows:

Total leverage ratio:

	Thousands of Euros	
	2017	2016
Total consolidated assets	764,506	785,283
Total consolidated equity	343,684	336,319
Total leverage ratio	2.22	2.33

Net Financial Debt / EBITDA ratio:

	Thousands of Euros	
	2017	2016
Bank borrowings and other marketable securities	217,084	249,974
Plus: Derivative financial instruments	1,821	2,805
Less: Cash and cash equivalents	(64,756)	(86,099)
Less: Non-current financial assets	(4,202)	(5,613)
Less: Other current financial assets	(4,138)	(4,147)
Less: Derivative financial instruments	(78)	(274)
Net financial debt	145,731	156,646
Ebitda (note 34)	98,996	85,962
Net Financial Debt over Ebitda	1.47	1.82

- Non-controlling interest

During 2017 the movement in non-controlling interest has been as follows:

	Percentage of non-controlling interest	
Company	31.12.2017	31.12.2016
Astralpool Cyprus, LTD (1)	10.00%	20.00%
Astral Pool México, S.A. de C.V. (1)	0.00%	6.17%
AO Astral SNG (1)	20.00%	15.00%
Astramatic Malaysia Sdm (3)	0.00%	0.01%
Agrisilos, S.R.L. (2)	9.00%	0.00%
Laghetto France S.A.R.L. (2)	9.00%	0.00%

(1) Purchase/sale of shares in 2017.
(2) Companies acquired in 2017.
(3) Company wound up in 2017.

An amount of Euros 323 thousand has been paid as a result of transactions derived from these variations (Euros 2,544 thousand in 2016).

There are no significant restrictions on the group's capacity to act on the assets of non-controlling interest.

The most significant non-controlling interest at 31 December 2017 is as follows:

			2017				
			Thousands of Euros				
	Country	% ownership interest	Assets	Liabilities	Equity	Income	Profit/(loss)
Fluidra Tr Su Ve Havuz Ekipmanlari AS	Turkey	49	1,729	415	1,314	2,663	243
Ningbo Dongchuan Swimming Pool Equipments Co, LTD	China	30	2,991	1,582	1,409	6,012	619
Fluidra Balkans JSC	Bulgaria	33.33	2,014	1,838	176	1,852	87
Fluidra Youli Fluid System (Wenzhou) Co., LTD	China	30	5,972	2,027	3,945	1,757	(314)

			2016				
			Thousands of Euros				
	Country	% ownership interest	Assets	Liabilities	Equity	Income	Profit/(loss)
Fluidra Tr Su Ve Havuz Ekipmanlari AS	Turkey	49	2,313	644	1,669	3,115	400
Ningbo Dongchuan Swimming Pool Equipments Co, LTD	China	30	2,658	1,305	1,353	3,985	497
Fluidra Balkans JSC	Bulgaria	33.33	600	136	464	878	55
Fluidra Youli Fluid System (Wenzhou) Co., LTD	China	30	6,870	2,400	4,470	2,282	170

The figures indicated above correspond to the ownership percentage of each company.

16. **Earnings per share**

a) Basic earnings

Basic earnings per share amounts are calculated by dividing consolidated profit / (loss) for the year attributable to equity holders of the Parent by the weighted average number of ordinary shares outstanding during the twelve-month period ended 31 December 2017 and 2016, excluding own shares.

The breakdown of the basic earnings per share calculation is as follows:

	31.12.2017	31.12.2016
Profit/(loss) for the period attributable to equity holders of the Parent (thousands of euros)	31,053	24,068
Weighted average number of ordinary shares outstanding	110,915,538	111,743,841
Basic earnings per share (euros)	0.27997	0.21539

Profit/(loss) for the year corresponds to the profit/(loss) for the year attributable to equity holders of the Parent.

The weighted average number of ordinary shares during the year was calculated as follows:

	Number of shares	
	31.12.2017	31.12.2016
Ordinary shares outstanding at 1 January	112,629,070	112,629,070
Effect of changes in treasury shares	(1,713,532)	(885,229)
Weighted average number of ordinary shares outstanding at 31 December	110,915,538	111,743,841

b) Diluted earnings

Diluted earnings per share amounts are calculated by adjusting profit for the year attributable to equity holders of the Parent and the weighted average number of ordinary shares outstanding for all dilutive effects inherent to potential ordinary shares. Given that there are no potential ordinary shares, this calculation is not necessary.

17. **Provisions**

The breakdown of Other provisions is as follows:

	Thousands of Euros			
	2017		2016	
	Non-current	Current	Non-current	Current
Guarantees	-	7,249	-	6,050
Provisions for taxes	3,876	-	3,830	-
Provisions for obligations with employees	5,687	-	4,087	-
Provisions for long-term employee benefits	4,211		-	-
Litigation and other liabilities	1,033	-	502	-
Total	14,807	7,249	8,419	6,050

The Provisions caption includes, on the one hand, current provisions for Guarantees entered into to cover possible incidents relating to the product sold by the Group and, on the other hand, non-current provisions, which are broken into four captions: Provisions for taxes made to cover possible risks in relation to the tax obligations of the different countries in which the Group operates; Provisions for commitments with employees in accordance with labour legislation in certain countries in which the Group operates, to deal with possible employee compensation and future benefits; Provision for long-term employee benefits which includes cash compensation for the beneficiaries of the share plan detailed in note 29; and Provisions for Litigation and other liabilities which include provisions made by different Group companies in relation to contingencies deriving from their operations.

The movements during 2017 and 2016 are as follows:

	Guarantees	Provision for obligations with employees	Litigation and other liabilities	Provision for taxes	Provision for long-term employee benefits	Total
At 1 January 2016	4,872	3,833	1,940	2,900	-	13,545
Charge for the year	967	484	163	1,586	-	3,200
Business combinations	145	-	-	-	-	145
Payments / Disposals	(56)	(252)	(360)	(126)	-	(794)
Applications	(89)	(51)	(1,244)	(330)	-	(1,714)
Transfers	55	30	-	(200)	-	(115)
Exchange gains (losses)	156	43	3	-	-	202
At 31 December 2016	6,050	4,087	502	3,830	-	14,469
Charge for the year	1,867	918	567	1,750	4,211	9,313
Business combinations	92	965	89	-	-	1,146
Payments / Disposals	(37)	(146)	-	(204)	-	(387)
Applications	(424)	(140)	(120)	(1,499)	-	(2,183)
Transfers	(70)	167	3	-	-	100
Exchange gains (losses)	(229)	(164)	(8)	(1)	-	(402)
At 31 December 2017	7,249	5,687	1,033	3,876	4,211	22,056

18. Bank borrowings and other marketable securities

The breakdown of this caption in the consolidated statement of financial position is as follows:

	Thousands of Euros	
	2017	2016
Bank borrowings	133,757	168,786
Finance lease payables	4,017	6,203
Total non-current	137,774	174,989
Bank borrowings	38,790	37,322
Bank loans	28,493	35,401
Discount facilities	-	-
Finance lease payables	2,049	2,262
Other marketable securities	9,978	-
Total current	79,310	74,985
Total bank borrowings and other marketable securities	217,084	249,974

All the balances shown in the table above correspond to the financial liabilities at amortised cost category.

At 31 December 2017 and 2016 bank borrowings and discount lines accrue an average market interest rate, except for those granted by Public Bodies, which accrue an interest rate between 0% and 2.5% (between 0% and 2% in 2016). There are no significant differences between the carrying amounts of financial liabilities and their fair values at 31 December 2017 and 2016.

On 25 February 2015, the Group signed a loan agreement and revolving credit facility with a syndicate of banks amounting to Euros 155 and Euros 55 million, respectively. As a result of signing this agreement, the former loan agreement and revolving credit facility signed on 27 July 2012 has been fully repaid. At 31 December 2017 the Company has an outstanding repayable amount on that loan amounting to Euros 126.41 million and the credit line has not been drawn down (Euros 147.25 million of outstanding capital and no amount drawn down at 31 December 2016).

The banks involved in this transaction are BBVA, Banco Santander, Caixabank, Banco Sabadell, Banco Popular, Bankia, Bankinter and Banca March, and the agent is BBVA.

The loan received for a period of 5 years matures on a half-year basis according to an increasing repayment timetable, whereby the first repayment is 12 months after the signing of the agreement. The credit line also matures on a half-year basis.

The interest rate for these financing facilities is Euribor plus a spread that ranges from 1.40% to 2.50% based on the Net Financial Debt / EBITDA ratio.

Additionally, the financing agreement establishes compliance with some covenants based on the need for the Net Financial Debt / EBITDA ratio to be kept below 3.5x.

It also establishes the need for the EBITDA / Net Finance Cost to be kept above 3 throughout the term of the loan, and for the Net Financial Debt / Shareholders' equity ratio to be kept below 1. Additionally, these agreements include a set of non-financial obligations that shall be fulfilled. Non-compliance with any of the above ratios would cause the total financed amount and interest accrued to become immediately payable if the banks demand so. At 31 December 2017 and 2016 these obligations have been met.

On 11 July 2017, in order to reduce financial costs and diversify sources of financing, the Group has set into action a promissory notes scheme on the Alternative Fixed Income Market (MARF) with a maximum maturity of one year and with a limit of Euros 50 million. The debt amount at the end of the year is Euros 10,000 thousand and the average interest rate on the existing issuances at 31 December 2017 is 0.25%.

This amount is recorded in Other marketable securities under the current liabilities caption Bank borrowings and other marketable securities and has accrued a financial expense of Euros 17 thousand, recorded under Finance costs for other marketable securities in the income statement (see note 27).

The data on the most significant loans and finance lease transactions are as follows:

	Company	Outstanding amount (thousand euros)	
		2017	2016
Syndicated revolving loan with a nominal amount of Euros 155,000 and Euros 55,000 thousand maturing on 25/02/2020 and earning variable interest at 6-month Euribor plus a spread ranging between 1.40% and 2.50%, taken out for debt restructuring purposes.	Fluidra, S.A.	126,415	147,250
Loan with a nominal amount of Euros 5,000 thousand signed on 17 June 2014, maturing on 30 June 2019 and earning fixed interest at a 3.764% rate until 31 December 2014 and variable interest at 12-month Euribor plus a spread for the whole period, taken out to finance productive investments in the current year.	Fluidra, S.A.	2,000	3,000
Loan with a nominal amount of Euros 5,000 thousand signed on 10 July 2014, maturing on 30 June 2019 and earning fixed interest at a 3.4530% rate until 31 December 2016 and variable interest at 6-month Euribor plus a spread for the remaining period, taken out to finance productive investments.	Fluidra, S.A.	1,500	2,500
Loan with a nominal amount of South African rand 150,000 (ZAR) signed on 17 September 2015, maturing on 30 September 2020 and earning fixed interest at 9.80% until 31 December 2015 and variable interest tied to prime rate plus a spread for the remaining period, taken out to refinance the existing loan and finance the acquisition of the Waterlinx group.	Fluidra Waterlinx, Pty Ltd.	7,396	9,511
Real estate leasing with a nominal amount of Euros 10,700 thousand maturing on 21/01/2020 and earning fixed interest at 3.80% until 2013 and variable interest of Euribor plus a 0.5% spread.	Fluidra Commercial, S.A.U.	2,255	3,357
Loan with a nominal amount of Australian dollars 4,466 thousand, signed on 2 August 2016, maturing on 1 July 2019 and earning fixed interest at 4.81%, taken out for the restructuring of lines.	Astral Pool Australia Pty Ltd	2,480	2,969
Loan with a nominal amount of Euros 7,000 thousand signed on 7 March 2016, maturing on 31 March 2021 and earning fixed interest at a 1.500% rate until 1 October 2016 and variable interest at 6-month Euribor plus a spread for the remaining period, taken out to finance productive investments.	Fluidra, S.A.	4,900	6,300
Loan with a nominal amount of Euros 9,500 thousand signed on 3 June 2016, maturing on 3 June 2021 and earning fixed interest at a 1.500% rate until 3 September 2016 and variable interest at 12-month Euribor plus a spread for the remaining period, taken out to finance productive investments.	Fluidra, S.A.	6,650	8,550
Loan with a nominal amount of Euros 5,000 thousand signed on 3 June 2016, maturing on 3 June 2021 and earning fixed interest at a 1.500% rate until 3 December 2016 and variable interest at 12-month Euribor plus a spread for the remaining period, taken out to finance productive investments.	Fluidra, S.A.	3,541	4,525
Loan with a nominal amount of Euros 7,000 thousand signed on 28 June 2016, maturing on 28 June 2021 and earning fixed interest at a 1.500% rate until 28 December 2016 and variable interest at 6-month Euribor plus a spread for the remaining period, taken out to finance productive investments.	Fluidra, S.A.	4,900	6,300
Loan with a nominal amount of Euros 7,000 thousand signed on 13 October 2016, maturing on 13 October 2021 and earning fixed interest at a 1.400% rate until 13 April 2017 and variable interest at 6-month Euribor plus a spread for the remaining period, taken out to finance productive investments.	Fluidra, S.A.	5,600	7,000
Leasing with a nominal amount of Australian dollars 3,250 thousand signed on 13 October 2016, maturing on 13 September 2022 and earning fixed interest at 5.631%, taken out to finance productive investments.	Astral Pool Australia Pty Ltd.	1,913	2,351

There are no significant financial liabilities that may be affected by the United Kingdom's withdrawal from the European Union (Brexit).

The most significant balances in currencies other than the Euro at 31 December 2017 and 2016 are as follows:

Bank borrowings:

	Thousands of Euros	
	2017	2016
US Dollars	17,012	30,599
Australian dollar	14,301	12,292
Pounds sterling	534	73
South African rand	10,582	12,253
Other currencies	1,732	1,015
	44,161	56,232

The Group has the following credit and discount facilities at 31 December 2017 and 2016:

	Thousands of Euros			
	2017		2016	
	Amount drawn down	Limit	Amount drawn down	Limit
Credit facilities	28,493	157,934	35,401	162,168
Discount facilities	-	12,500	-	10,000
	28,493	170,434	35,401	172,168

At 31 December 2017 and 2016 there are no borrowings backed by mortgage guarantees (see note 6).

The maturity of the loans taken out with financial institutions is as follows:

	Thousands of Euros	
Maturity	2017	2016
Less than one year	38,790	37,322
Within 2 years	44,145	34,370
Within 3 years	82,621	41,306
Within 4 years	5,416	86,024
Within 5 years	815	5,437
Over five years	760	1,649
	172,547	206,108

The breakdown of the minimum lease payments and the present value of finance lease liabilities by term to maturity is as follows:

	Thousands of Euros					
	2017			2016		
	Minimum payments	Interest	Principal	Minimum payments	Interest	Principal
Within one year	2,174	125	2,049	2,490	228	2,262
One to five years	4,206	189	4,017	6,169	390	5,779
Over five years	-	-	-	432	8	424
	6,380	314	6,066	9,091	626	8,465

During 2017 and 2016 the interest rate on all the loans taken out by the Group is renewed on a monthly, quarterly, half-yearly or yearly basis.

The Group considers that there are no significant differences between the carrying amounts and fair values of financial assets and liabilities.

Details of changes in liabilities for financing activities and in cash flows are as follows:

	Balances at 01.01.17	Non-monetary changes					Balances at 31.12.17
		Cash flows	Business combinations/Sale of companies	Accumulated interest	Exchange rate changes	New leases	
Non-current bank borrowings	168,786	(35,024)	388	-	(393)	-	133,757
Current bank borrowings	37,322	(208)	830	907	(61)	-	38,790
Non-current finance lease payables	6,203	(2,386)	-	-	(119)	319	4,017
Current finance lease payables	2,262	(228)	-	4	(37)	48	2,049
Discount facilities	-	(85)	85	-	-	-	-
Current bank loans	35,401	(4,495)	(4,266)	20	1,833	-	28,493
Other marketable securities	-	9,978	-	-	-	-	9,978
	249,974	(32,448)	(2,963)	931	1,223	367	217,084
Cash and cash equivalents	86,099	(20,085)	1,606	-	(2,864)	-	64,756

19. Trade and other payables

The breakdown of this caption in the consolidated statement of financial position is as follows:

	Thousands of Euros	
	2017	2016
Trade payables for purchases and services	90,378	83,444
Other payables	1,623	1,031
Liabilities arisen in business acquisitions / Suppliers of assets	10,738	19,359
Public administrations	11,932	13,364
Current income tax liabilities	4,358	2,532
Remuneration payable	16,404	14,979
	135,433	134,709

At 31 December 2017 the Liabilities arisen in business acquisitions/Suppliers of assets caption include Euros 5,227 thousand corresponding to the best estimate of the fair value of the current contingent consideration derived from the acquisition of SIBO Fluidra Netherlands B.V. On 31 December 2017 the fair value of this contingent consideration has been revalued. As a result of this revaluation, the Group has recorded Euros 996 thousand in the Losses on the fair value of financial instruments caption of the consolidated income statement for the year ended 31 December 2017 related to the increase in the contingent liability initially recorded (see note 27)

The Liabilities arisen in business acquisitions/Suppliers of assets caption also includes Euros 2,871 thousand corresponding to cross options, including those pertaining to the key management of the company Fluidra Waterlinx Pty Ltd. On 31 December 2017 the fair value of this contingent consideration has been revalued. As a result of this revaluation, the Group has recorded Euros 80 thousand in the Losses on the fair value of financial instruments caption of the consolidated income statement for the year ended 31 December 2017 related to the increase in the contingent liability initially recorded (see note 27).

The same item also includes Euros 489 thousand corresponding to the best estimate of the fair value of the current consideration deriving from the acquisition of Agrisilos, S.R.L. (see note 5).

Additionally, this item includes Euros 1,545 thousand corresponding to the deferred payment of the business acquisitions made in prior years, mainly the purchase of Fluidra Waterlinx Pty Ltd.

At 31 December 2016 the Liabilities arisen as a result of business acquisitions/Suppliers of assets caption included Euros 17,841 thousand corresponding to the best estimate of the fair value of the current contingent consideration derived from the acquisition of the Aqua Group. This balance was fully denominated in US dollars and corresponds to the category Financial liabilities at fair value through profit or loss. On 17 March 2011 a contingent consideration that can be exercised by the seller during the period comprised between 1 May 2015 and 2 July 2017 was established. Its calculation base was initially determined mostly by the average EBITDA for the past two years prior to the exercise date. Additionally, on 14 December 2012, an agreement was signed whereby a maximum and minimum amount of USD 40,000 thousand and USD 18,000 thousand, respectively, was established for this contingent consideration. At 31 December 2015 the fair value of said contingent consideration was estimated below its recorded minimum amount, and therefore, the contingent liability for the agreed minimum amount. This liability has been settled during 2017 for Euros 16,847 thousand.

The above-mentioned caption also includes Euros 585 thousand derived from the cross put/call options held with the key executives of Fluidra Waterlinx Pty Ltd, the exercise period of which is determined by the key executives leaving the company.

Additionally, this caption also includes Euros 211 thousand derived from the deferred fixed and firm payment related to the business acquisitions carried out in 2016.

Liabilities for contingent considerations from SIBO Fluidra Netherlands B.V., Fluidra Waterlinx Pty Ltd and Agrisilos, S.R.L. correspond to level 3 fair value hierarchy in accordance with IFRS 13.

For these liabilities, the Group has used measurement models that take into account the present value of expected cash flows discounted at a risk-adjusted discount rate. Estimated cash flows have been determined considering different forecast EBITDA scenarios and other variables in accordance with the formula indicated in the agreements on the acquisition of the businesses, the payable amount for each scenario and the estimated probability of each scenario.

The most significant balances in currencies other than the euro at 31 December 2017 and 2016 are as follows:

Trade payables for purchases and services:

	Thousands of Euros	
	2017	2016
Australian dollar	12,995	12,665
Chinese renminbi	8,244	7,388
South African rand	6,856	6,188
Pound sterling	6,511	6,280
Israeli shekel	3,215	3,931
Bulgarian lev	2,206	37
US Dollars	2,129	5,166
Brazilian real	1,528	3,345
Moroccan Dirham	897	1,023
	44,581	46,023

Payable balances to Public Administrations are as follows:

	Thousands of Euros	
	2017	2016
Tax payables to tax authorities		
VAT	5,573	6,996
Withholdings	1,507	1,598
Social Security, payables	4,242	3,881
Other	610	889
	11,932	13,364

20. Other non-current liabilities

The breakdown of non-current liabilities is as follows:

	Thousands of Euros	
	2017	2016
Liabilities arisen in business acquisitions	16,444	19,247
Other	6,289	4,343
Total	22,733	23,590

At 31 December 2017, the Liabilities arisen in business acquisitions caption includes Euros 7,426 thousand from the cross put/call options with the minority shareholder of the company SIBO Fluidra Netherlands B.V., which can be exercised between 1 January 2021 and 30 June 2021. On 31 December 2017 the Group has re-estimated the value of the cross options with the minority shareholder, recording an amount of Euros 1,138 thousand in the consolidated income statement caption Impairment in fair value of financial instruments for the year ended 31 December 2017, corresponding to the increase in value of the cross option initially recorded (see note 27).

Under the caption Liabilities from business acquisitions an amount of Euros 6,047 thousand is also included corresponding to the put option of I.D. Elecroquímica, S.L. This option can be exercised between 1 January 2020 and 31 December 2025. On 31 December 2017 the Group has re-estimated the value of the put option, recording an amount of Euros 194 thousand in the consolidated income statement caption Impairment in fair value of financial instruments for the year ended 31 December 2017, corresponding to the increase in value of the put option initially recorded (see note 27).

Euros 778 thousand is also included, pertaining to the options with the controlling shareholders of the company Riiot Labs NV/SA, and Euros 420 thousand, pertaining to the purchase agreement with the minority shareholder of Agrisilos, S.R.L. (see note 5).

Additionally, this caption also includes Euros 1,263 thousand from the contingent liability for the acquisition of Riiot Labs NV/SA and Euros 510 thousand from the contingent liability for the acquisition of Agrisilos, S.R.L. (see note 5).

On 31 December 2017 the Group has re-estimated the fair value of the contingent liability derived from the acquisition of Price Chemicals Pty Ltd, recording an amount of Euros 767 thousand in the consolidated income statement caption Increase in fair value of financial instruments for the year ended 31 December 2017, corresponding to the decrease in the contingent liability initially recorded (see note 27).

At 31 December 2016 the Liabilities arisen in business acquisitions caption includes Euros 2,159 thousand derived from the cross put/call options with the significant shareholders of the company Fluidra Waterlinx Pty Ltd, which can be exercised between 1 January 2018 and 31 December 2018. An amount of Euros 5,856 thousand is also included relating to the put option of I.D. Electroquímica, S.L., which can be exercised between 1 January 2020 and 31 December 2025, as well as Euros 6,423 thousand from the cross put/call options with the minority shareholder of the company SIBO Fluidra Netherlands B.V., which can be exercised between 1 January 2021 and 30 June 2021.

Additionally, this caption also includes Euros 707 thousand from the contingent liability for the acquisition of Price Chemicals Pty Ltd and Euros 4,092 thousand from the contingent liability for the acquisition of SIBO Fluidra Netherlands B.V. (See note 5).

Liabilities relating to the contingent considerations of Price Chemicals Pty Ltd, Fluidra Waterlinx Pty Ltd, SIBO Fluidra Netherlands B.V., I.D. Electroquímica, S.L., Riiot Labs NV/SA, and Agrisilos, S.R.L. correspond to level 3 of the fair value hierarchy as per IFRS 13.

For these liabilities, the Group has used measurement models that take into account the present value of expected cash flows discounted at a risk-adjusted discount rate. Estimated cash flows have been determined considering different forecast EBITDA scenarios and other variables in accordance with the formula indicated in the agreements on the acquisition of the businesses, the payable amount for each scenario and the estimated probability of each scenario.

None of the liabilities arisen in business acquisitions is fixed or firm.

The Other caption includes Euros 777 thousand (Euros 759 thousand in 2016) corresponding to loans granted by Centro para el Desarrollo Tecnológico Industrial (CDTI) at a finance cost of 0.643% and Euros 1,345 thousand (Euros 1,740 thousand in 2016) relating to loans granted by the same boy at no cost.

The Other caption also includes Euros 3,432 thousand relating to a loan granted by a third party at a finance cost of between 6.5% and Euribor plus 6.5%.

Additionally, at 31 December 2016 the Other caption includes Euros 1,291 thousand derived from the deferred fixed and firm payment related to the companies acquired during the prior year.

21. Risk management policy

Fluidra's risk management system has been designed to mitigate all risks to which the company is exposed on account of its business activities. The three cornerstones of Fluidra's risk management structure are as follows:

- Common management systems specifically designed to mitigate business risks.
- Internal control procedures, aimed at mitigating the risks arising from the preparation of financial reporting and improving its reliability, which have been designed in accordance with ICSFR.
- The risk map, which is the methodology use by Fluidra for identifying, understanding and measuring the risks that affect the company. Its purpose is to get a comprehensive perspective thereon, designing an efficient response system that is aligned with the business objectives.

These elements form an integrated system that allows the Group to appropriately manage the risks and mitigating controls throughout the organization.

Fluidra has a comprehensive and dynamic risk management system in place. It is applicable to the entire organization and its environment, is intended for the long term and is binding upon all employees, executives and directors of the company.

The Audit Committee is responsible for the preparation and execution of the risk system, specifically assisted by the internal audit department.

The internal audit department is responsible for the supervision and proper functioning of the risk management system.

The objectives of the audit committee are to:

- Inform the shareholders at the general meeting of any questions that may arise regarding matters that come within its competence.
- Propose the appointment of the auditors or audit firms to the Board of Directors, to be submitted for approval by the shareholders in general meeting, in accordance with article 264 of the Spanish Corporate Enterprises Act, as well as the terms of engagement, the scope of the professional engagement and the renewal or cancellation of the appointment.

- Supervise the efficiency of the Company's internal control, and especially the Internal Control over Financial Reporting, the internal audit, and where applicable, risk management systems, in addition to discussing with auditors significant weakness in the internal control system detected during the audit.
- Monitor the process for preparing and presenting regulated financial information.
- Review the Company's accounts, watch over compliance with legal requirements and the proper adoption of generally accepted accounting principles, with the direct assistance of the external and internal auditors.
- Manage appropriate relationships with auditors or audit firms to obtain information on questions which might jeopardize their independence, for review by the Committee, and any other audit-related items, as well as any other communications provided for in audit legislation and standards. In any event, annual written confirmation of their independence must be received from the auditors or audit companies regarding the entity or directly or indirectly related entities, and information on additional services of any kind provided to these entities by the aforesaid auditors or companies, or by the persons or entities related thereto, in accordance with the provisions of Law 19/1988, dated 12 July, on audits of financial statements.
- Prior to issuing the yearly audit report, a report expressing an opinion on the independence of the auditors of financial statements or audit firms must be published. This report in any event must opine on the provision of additional services to those discussed in the previous section.
- Oversee the fulfilment of the audit agreement, ensuring that the opinion on the financial statements and main contents of the audit report have been written clearly and accurately, as well as assessing each audit's results.
- Oversee compliance with regulations on related-party transactions. In particular, it shall ensure that the information on these transactions is notified to the market, in compliance with Order 3050/2004 issued by the Ministry of Economy and Finance on 15 September 2004.
- Examine compliance with the Internal Code of Conduct, the Board of Directors Regulations and, in general, the Company's governance rules and propose the necessary improvements therein.
- Receive information and, where appropriate, issue a report on the disciplinary measures that are intended to be taken against members of the Company's senior management.

In the identification, understanding and measurement of the risks affecting the Company, the following risk factors have been considered:

- Security incidents
- Irregular activities and relations with and between employees
- Risks related to the markets and activities in which the Group operates
- Brand reputation
- Process-related risks
- Economic environment
- Climatology
- Geopolitical risk
- Addition of new companies
- Financial risks
- Environmental issues

The risks are identified and assessed by analyzing the potential events that may give rise to them. Metrics are used to measure the probability and impact of the risks. The existing mitigating controls are determined, as well as the necessary additional action plans if those controls were considered insufficient.

This process, which is performed annually, allows the Company to obtain its Risk Map. From this map the most relevant risks are extracted, which together with the main changes over the prior year are submitted to the Audit Committee for discussion and approval.

The severity scale and probability scale are defined based on qualitative and quantitative criteria. Once the critical risks have been identified and reassessed, Company Management sets specific actions, appoints the persons responsible, and establishes the terms for mitigating their impact and probability, while reviewing the current controls over them. The analysis of risks, controls and actions taken to mitigate their impact and probability is submitted annually to the Audit Committee for supervision and approval. Subsequently, the Audit Committee reports to the Board of Directors.

In 2017 the following risks materialized:

- <u>Non-fulfilment of expectations in the USA market</u>

In 2011 Fluidra acquired the Aqua group, a leading company in the robotic pool cleaners sector with presence in the USA and Israel. The expectations of growth and penetration in the USA market have not been as initially expected. In turn, the value in use of the Aqua USA cash generating unit does not cover the value of net assets and goodwill allocated and, therefore, an impairment on the goodwill resulting from the purchase was recorded by reducing it by Euros 3.2 million.

- <u>Political tensions in Spain</u>

Political tensions in Spain have generated uncertainties that may have had negative consequences for the economy as a whole and for companies. Although we have verified that the Fluidra Group's operations in Spain, on a like-for-like basis, have grown throughout 2017, a slight drop in the rate of sales growth has been observed in the last quarter. This has not, however, had a significant impact thanks to the action taken by the Fluidra Group's General Management. The Company continues to monitor the political and economic situation in order to act and make the most appropriate decisions given the current circumstances.

The response and supervision plans to mitigate the risks that the entity is exposed to are as follows:

a) <u>Development of new products</u>

Continuing analysis of sales of new strategic products and comparison with competitors using market research monitoring tools, analysis of statistical databases by type of market and product. Comparative studies that allow product differentiation compared to competitors and enable product valuation files to be updated with the information obtained. Specific action plans aimed at ensuring that production capacities are adapted to the expected levels of demand for these new products.

b) <u>Technology risks</u>

Given the activities carried out by Fluidra's business units, the protection of their technology and developments is an essential milestone for maintaining their competitive advantage. For such purpose, the Group follows certain development criteria and policies and legal protocols that ensure protection.

c) <u>Subsidiary management risk</u>

Fluidra is clearly determined and convinced that the strengthening and standardization of its internal procedures and controls in the Group's subsidiaries is the right path to the prompt detection and eradication of any irregularity in the management of the subsidiaries. In this regard, the INVICTUS project, consisting of a new Group-wide operations streamlining system, is a highly valuable tool for achieving this goal.

d) <u>Development of new activities</u>

Fluidra's continuous assessment of new activities and organisations that can bring more value to the Group has culminated in 2017 with the merger agreement entered into with the Zodiac Group, a multinational group with a very significant presence in the United States.

Since Fluidra is aware that any new activity poses intrinsic risks, it has hired the services of expert external consultants that have advised it on purchase processes, and the Company has established the necessary controls to mitigate the risk associated with the development and integration of any new activity.

e) <u>Human capital risks</u>

Fluidra group companies have a variable remuneration policy linked to professional development and achievement of personal goals in order to identify and reward their best professionals.

The Parent has a whistle-blowing channel created by the Audit Committee, under the joint management of the Corporate Human Resources, Internal Audit and Legal departments so that any group employee can report any internal control, accounting or audit-related matters.

The Company has an Internal Code of Conduct related to the securities market.

f) Process-related risks

These risks are centrally managed and monitored by the Finance and Legal departments, and verified by the Internal Audit department.

The processes for obtaining the consolidated economic and financial information are developed centrally and under corporate criteria, and both the consolidated and each subsidiary's individual financial statements are verified by the external auditors.

g) Climatology

The Company manages climate risk through internationalization and the development of products and applications that allow it to use and operate its premises in adverse climates.

h) Economic environment

Continuing valuation of company assets by a multidisciplinary team in order to detect any impairment situation early and determine the actions to be taken to secure the profitability of the area's activities.

i) Financial risks

Market, liquidity, foreign exchange and interest rate risk management is monitored by the Group's Central Cash Department in accordance with the policies defined. This department identifies, evaluates, and covers financial risks in close collaboration with the Group's operating units.

i. Credit Risk

Credit risk is managed separately by each operating unit of the Group in accordance with the parameters set by Group policies, except for the subsidiaries in Spain, Portugal, France and Italy, where credit risk is managed centrally by the Group's Risk Department.

Credit risk exists when a potential loss may arise from Fluidra, S.A.'s counterparties not meeting their contractual obligations, that is, due to not collecting the financial assets according to the established amounts and time frame.

In the case of the Group, the risk is mainly attributable to trade receivables. This risk, however, is mitigated since the Group has a highly diversified domestic and international customer portfolio, where none of the customers accounts for a significant percentage of total sales for the year.

Credit risk arising from the failure of a counterparty to meet its contractual obligations is duly controlled by policies and risk limits which establish requirements regarding:

- Appropriate agreements to the transaction made.
- Sufficient internal or external credit quality of the counterparty.
- Additional guarantees when necessary.

Additionally, there is an impairment loss policy for trade receivables that ensures that fair values of accounts receivable do not significantly differ from their book value. This policy is mainly focused on accounts receivable more than 120 days past due.

The Group's exposure to past due not impaired financial assets is solely focused on the Trade and other receivables caption, and there are no other past due financial asset balances.

The tables below show the aging analysis of past due not impaired Trade and other receivables at 31 December 2017 and 2016:

	2017	2016
Not due	91,494	91,758
Past due	35,093	33,069
0 - 90 days	27,305	27,177
90 - 120 days	3,826	2,228
More than 120 days	3,962	3,664

ii. Liquidity Risk

Liquidity risk is the possibility that Fluidra, S.A. will not have sufficient funds or access to sufficient funds at an acceptable cost to meet its payment obligations at all times.

The Group manages liquidity risk based on prudent criteria in order to maintain sufficient cash and marketable securities, secure the availability of committed credit facilities to provide financing, and ensure its capacity to exit market positions. Due to the dynamic nature of the underlying businesses, the Group's Treasury Department aims to maintain sufficient headroom on its undrawn committed borrowing facilities.

The table below shows the Group's exposure to liquidity risk at 31 December 2017 and 2016. The table below shows an analysis of financial liabilities by contractual maturity:

	2017					
	Thousands of Euros					
	1 year	2 years	3 years	4 years	5 years	More than 5 years
Bank borrowings and other marketable securities	81,981	47,250	84,472	5,558	841	860
Capital	77,261	44,145	82,621	5,416	815	760
Interest	4,720	3,105	1,851	142	26	100
Finance lease liabilities	2,174	2,215	826	693	472	-
Capital	2,049	2,129	767	658	463	-
Interest	125	86	59	35	9	-
Derivative financial liabilities	472	-	1,349	-	-	-
Trade and other payables	135,433	-	-	-	-	-
Other non-current liabilities	-	1,499	1,757	11,481	218	7,778
	220,060	50,964	88,404	17,732	1,531	8,638

	2016					
	Thousands of Euros					
	1 year	2 years	3 years	4 years	5 years	More than 5 years
Bank borrowings and other marketable securities	76,804	37,292	43,959	87,641	5,565	1,716
Capital	72,723	34,370	41,306	86,024	5,437	1,649
Interest	4,081	2,922	2,653	1,617	128	67
Finance lease liabilities	2,490	2,399	2,334	791	645	432
Capital	2,262	2,229	2,218	721	611	424
Interest	228	170	116	70	34	8
Derivative financial liabilities	847	-	-	1,958	-	-
Trade and other payables	134,709	-	-	-	-	-
Other non-current liabilities	-	15,289	510	481	6,904	406
	214,850	54,980	46,803	90,871	13,114	2,554

During the next few months, based on its cash flow forecasts and financing available, the Group does not expect any difficulties in terms of liquidity.

iii. Currency risk

The Group operates in the international arena and therefore is exposed to foreign exchange risks on transactions denominated in foreign currencies, especially in US dollar, pound sterling, Australian dollar, South African rand, Brazilian real, and Israeli shekel. Foreign exchange risk arises on future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Group companies manage the foreign currency risk of future commercial transactions, recognised assets and liabilities by forward currency contracts mainly entered into by the Group's Treasury Department. Foreign exchange risk arises when future commercial transactions or firm commitments, recognised assets and liabilities and net investments in foreign operations are denominated in a currency that is not the Company's functional currency. This risk also arises as a result of balances between group companies that have been eliminated on consolidation. The Group's Treasury Department is responsible for managing the net position of each foreign currency by entering into external forward currency contracts.

The purpose of the Group's risk management policy is to cover the risk arising in transactions carried out in dollars through natural hedges (offsetting collections against payments), using forward instruments to hedge the excess or shortfall. All transactions in pound sterling and Israeli shekel are hedged against the euro using forward instruments. No hedging instruments are used to hedge transactions carried out in the other foreign currencies. The Group also has several investments in foreign operations whose net assets are exposed to foreign currency translation risk. The Group manages the foreign currency risk relating to the net assets of its foreign operations in the United Kingdom, Australia, the United States, South Africa, Brazil and Israel mainly by holding borrowings denominated in the related foreign currency.

In the case of South African rand and Brazilian reals, the contingent liabilities and intragroup loans are fully or partially hedged against the euro with forward instruments.

Although the Group arranges forward contracts for the economic hedging of foreign currency risks, not all of them are recognised applying hedge accounting.

At 31 December 2017, if the euro had appreciated by 10% with respect to the US dollar, the Australian dollar, the sterling pound, the South African rand, the Brazilian real and the Israeli shekel, keeping the rest of variables constant, consolidated profit after tax would have decreased by Euros 2,037 thousand, and if the euro had depreciated by 10% with respect to the aforementioned foreign currencies, consolidated profit after tax would have increased by Euros 2,489 thousand, mainly as a result of the translation of accounts receivable denominated in foreign currency. Exchange differences included in recognised income and expenses would have decreased by Euros 9,002 thousand if the euro had appreciated by 10% and they would have increased by Euros 11,003 thousand if the euro had depreciated by 10%.

At 31 December 2016, if the euro had appreciated by 10% with respect to the US dollar, the Australian dollar, the sterling pound, the South African rand, the Brazilian real and the Israeli shekel, keeping the rest of variables constant, consolidated profit after tax would have increased by Euros 1,179 thousand, and if the euro had depreciated by 10% with respect to the aforementioned foreign currencies, consolidated profit after tax would have decreased by Euros 1,441 thousand, mainly as a result of the translation of accounts receivable denominated in foreign currency. Exchange differences included in recognised income and expenses would have increased by Euros 7,781 thousand if the euro had appreciated by 10% and they would have decreased by Euros 10,681 thousand if the euro had depreciated by 10%.

The potential impact of foreign exchange rate derivatives has not been included in the calculation above.

The main balances in currencies other than the euro are described in notes 13, 18 and 19 to the consolidated financial statements.

iv. Cash flow interest rate risk

Since the Group does not have any significant remunerated assets, income and cash flows from operating activities are not significantly exposed to the risk of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at floating rates expose the Group to cash flow interest rate risk. As indicated in note 18, most loans taken out by the Group are linked to floating market interest rates that are updated every six months.

The Group manages its cash flow interest rate risk with floating-to-fixed interest rate swaps without barriers. The effect of these interest rate swaps is to convert floating borrowings to fixed borrowings. Generally, the Group borrows at a floating rate and swaps for a fixed rate, which is generally lower than the fixed rate at which the Group could have borrowed. Under interest rate swaps, the Group agrees with other parties to exchange, on a regular basis (usually quarterly), the difference between fixed interest and floating interest calculated on the notional principal agreed upon.

If interest rates at 31 December 2017 had been 25 basis points higher or lower, all other variables held constant, consolidated profit before tax would have been Euros 465 thousand lower or higher (Euros 500 thousand in 2016), mainly due to higher / lower finance costs via floating rates.

The potential impact of interest rate derivatives has not been included in the calculation above.

v. Market risk

Apart from the swaps arranged by the Group mentioned in the section above, there are no significant price risks related to equity instruments classified as held for sale or at fair value through profit or loss.

22. Cost of sales and change in inventories of finished goods and work in progress

The breakdown of this income statement caption is as follows:

	Thousands of Euros	
	31.12.2017	31.12.2016
Purchases of raw and secondary materials	389,727	356,729
Changes in inventories of finished goods and work in progress	(4,094)	(5,972)
Change in inventories of goods for resale, raw materials and other consumables	(3,073)	(4,733)
Net charge to the provision for obsolescence	551	350
Total	383,111	346,374

23. Revenue from the rendering of services

This caption mainly includes the revenue from sales transportation services and other logistic services rendered by the Group.

24. Personnel costs

The breakdown of personnel costs in 2017 and 2016 is as follows:

	Thousands of Euros	
	31.12.2017	31.12.2016
Wages and salaries	129,682	124,442
Termination benefits	1,847	1,428
Social security expense	26,553	25,304
Other employee benefit expenses	11,274	7,086
	169,356	158,260

The Group's average headcount during the years 2017 and 2016 by professional category is as follows:

	31.12.2017	31.12.2016
Management	82	88
Sales, logistics and production staff	3,459	3,423
Administration and purchasing staff	869	837
	4,410	4,348

The average number of employees with a disability equal to or greater than 33% during 2017 amounts to 39 employees (43 employees in 2016), with 37 of them belonging to the professional category Sales, logistics and production staff and the other 2 to Administration and purchasing staff (38 and 5, respectively, in the prior year).

The Group's headcount by gender at year end is as follows:

	31.12.2017		31.12.2016	
	Male	Female	Male	Female
Directors (includes 1 senior executive)	8	1	9	1
Management	74	7	92	11
Sales, logistics and production staff	2,402	1,004	2,384	923
Administration and purchasing staff	459	440	401	413
	2,943	1,452	2,886	1,348

25. Other operating expenses

The breakdown of Other operating expenses is as follows:

	Thousands of Euros	
	31.12.2017	31.12.2016
Leases and fees	24,153	22,761
Repairs and maintenance	11,237	10,210
Independent professional services	16,881	12,839
Temporary employment agency expenses	8,490	5,748
Commissions	4,097	4,427
Sales transportation and logistics services	37,052	34,023
Insurance premiums	2,520	2,621
Bank services	1,499	1,452
Advertising and publicity	10,141	10,282
Utilities	9,609	9,145
Communications	3,013	2,949
Travel expenses	9,929	9,702
Tax	3,332	3,663
Changes in trade provisions	1,626	4,184
Guarantees	4,560	3,567
Other (*)	5,824	7,162
	153,963	144,735

(*) It includes remuneration earned by the members of the Board of Directors, research and development expenses and other expenses.

In 2017, the Independent Professional Services caption includes Euros 3,285 thousand corresponding to the merger with Piscine Luxembourg Holdings 2 S.à.r.l. explained in note 35.

26. Operating leases

The Group has entered into operating leases with third parties on several warehouses, premises and industrial units.

The main operating lease arrangements on warehouses and buildings have been entered for a term between one and seven years (slightly shorter than the useful lives of the assets), at market prices, there are no advantageous purchase options thereon, and most of them can be renewed at the date of termination by mutual agreement of both parties to the contract. Lease payments are periodically updated in accordance with a price index established in each agreement.

The future minimum lease payments payable under non-cancellable operating leases are as follows:

	Thousands of Euros	
	2017	2016
Less than one year	18,472	17,212
One to five years	33,752	24,638
Over five years	24,189	13,956
	76,413	55,806

Operating lease payments recognised as expenses in 20167 amounted to Euros 24,153 thousand (Euros 22,761 thousand in 2016) (see note 25).

27. Finance income and costs

The breakdown of finance income and costs is as follows:

	Thousands of Euros	
	31.12.2017	31.12.2016
Finance income		
Other finance income	865	779
Reversals due to impairment losses on available-for-sale financial assets	13	350
Reversals due to impairment losses on financial assets amortised at cost other than trade and other receivables	287	-
Gains on the fair value of financial instruments	1,200	1,662
Total finance income	2,365	2,791
Finance expense		
Interest on debt (leases and loans)	(5,251)	(5,773)
Interest on utilization of credit facilities and bills discounted	(2,017)	(2,092)
Other finance costs	(1,348)	(1,295)
Losses on the fair value of financial instruments	(3,225)	(2,032)
Impairment losses on available-for-sale financial assets	(440)	-
Impairment losses on financial assets at amortised cost other than trade and other Receivables	(404)	-
Finance costs of other marketable securities	(17)	-
Total finance costs	(12,702)	(11,192)
Exchange gains and losses		
Exchange gains	21,139	25,368
Exchange losses	(23,642)	(23,416)
Total exchange gains / (losses)	(2,503)	1,952
Net profit / (loss)	(12,840)	(6,449)

The caption Gains on the fair value of financial instruments includes Euros 767 thousand (Euros 1,249 in 2016) corresponding to the estimated fair value of the contingent liability deriving from the acquisition of Price Chemicals Pty Ltd.

The caption Losses on the fair value of financial instruments includes Euros 2,134 thousand corresponding to the estimated fair value of the contingent liability deriving from the acquisition of SIBO Fluidra Netherlands B.V. It also includes Euros 194 thousand corresponding to the estimated fair value of the contingent liability deriving from the acquisition of I.D. Electroquímica, S.L., as well as Euros 80 thousand corresponding to the estimated fair value of the contingent liability deriving from the acquisition of Fluidra Waterlinx Pty Ltd.

Other finance costs includes Euros 620 thousand corresponding to implicit interest on the contingent payments for the acquisitions of Waterlinx Pty Ltd, SIBO Fluidra Netherlands B.V., Price Chemicals Pty Ltd, Rioot Labs NV/SA, I.D. Electroquímica, S.L. and Agrisilos, S.R.L. (see note 20). At 31 December 2016 Other finance costs included Euros 406 thousand corresponding to implicit interest on the contingent payments for the acquisitions of Waterlinx Pty Ltd, SIBO Fluidra Netherlands B.V. and Price Chemicals Pty Ltd (see note 20).

28. Deferred taxes and Income tax

During 2017 and 2016, the Group is being taxed under the consolidated tax return regime, through four tax subgroups: Fluidra, S.A., Fluidra Services France, S.A.S., U.S. Pool Holdings Inc. and Fluidra Services Italia, S.R.L., with the head of each subgroup being the parent of said tax consolidation and responsible for making the corresponding payments to the relevant tax authorities. The companies comprising each tax subgroup and the applicable tax rates are as follows:

Fluidra, S.A. (25%)

Fluidra Export, S.A.U.
Cepex, S.A.U.
Fluidra Commercial, S.A.U.
Fluidra Comercial España, S.A.U.
Fluidra Industry, S.A.U.
Fluidra J.V. Youli, S.L.
Fluidra Services España, S.L.U.
Industrias Mecánicas Lago, S.A.U.
Fluidra Industry España, S.A.U
Inquide, S.A.U.
Metalast, S.A.U.
Poltank, S.A.U.
Fluidra Global Distribution, S.L.U.
Sacopa, S.A.U.
Talleres del Agua, S.L.U.
Togama, S.A.U.
Trace Logistics, S.A.U.
Unistral Recambios, S.A.U.
Fluidra Engineering Services, S.L.U.
Innodrip, S.L.U.
I.D. Electroquímica, S.L. (*)
Puralia Systems, S.L.U. (*)

Fluidra Services France, S.A.S. (33.33%)

Fluidra Commercial France, S.A.S.
Piscines Techniques 2000, S.A.S.
Fluidra Industry France, S.A.R.L

U.S. Pool Holdings, Inc. (40%)

Fluidra USA, LLC
Aquaproducts, Inc.
Fluidra Projects USA, Inc.

Fluidra Services Italia, S.R.L. (27.5%)

Fluidra Commerciale Italia, S.p.a.
Inquide Italia, S.R.L.

(*) Companies included in 2017.

The Company and the remaining subsidiaries (except for Fluidra Middle East FZE, and Certikin Middle East FZE) are required to file an annual corporate income tax return.

The breakdown of deferred tax assets and liabilities according to their nature is as follows:

	Thousands of Euros					
	Assets		Liabilities		Net	
	2017	2016	2017	2016	2017	2016
PPE and investment property	1,260	1,571	1,741	1,994	(481)	(423)
Deferred gains	125	40	1,764	1,764	(1,639)	(1,724)
Inventories	4,613	4,042	1,169	1,014	3,444	3,028
Provision for inventory	1,027	1,000	-	-	1,027	1,000
Provision for receivables	2,411	2,647	-	-	2,411	2,647
Other provisions	3,873	2,679	-	-	3,873	2,679
Tax credit for unused tax loss carryforwards and deductions	7,033	10,753	-	-	7,033	10,753
Financial goodwill	-	-	6,827	8,240	(6,827)	(8,240)
Customer portfolio	21	9	2,731	3,149	(2,710)	(3,140)
Other items	1,963	1,919	6,802	6,450	(4,839)	(4,531)
	22,326	24,660	21,034	22,611	1,292	2,049

The breakdown of changes in net tax assets and liabilities is as follows:

	Thousands of Euros						
	31.12.2016	Profit and loss	Impact of the change in tax rate on profit or loss	Equity	Business combinations (note 5)	Exchange gains (losses) / Others	31.12.2017
PPE and investment property	(423)	(83)	-	-	1	24	(481)
Deferred gains	(1,724)	89	-	-	-	(4)	(1,639)
Inventories	3,028	414	-	-	-	2	3,444
Provision for inventory	1,000	(8)	-	-	84	(49)	1,027
Provision for receivables	2,647	(405)	-	-	202	(33)	2,411
Other provisions	2,679	1,258	-	-	12	(76)	3,873
Tax credit for unused tax loss carryforwards and deductions	10,753	(4,583)	-	-	-	863	7,033
Financial goodwill	(8,240)	1,413	-	-	-	-	(6,827)
Customer portfolio	(3,140)	381	-	-	-	49	(2,710)
Other items	(4,531)	902	-	(207)	(1,051)	48	(4,839)
Total	2,049	(622)	-	(207)	(752)	824	1,292

	Thousands of Euros							
	31.12.2015	Profit and loss	Impact of the change in tax rate on profit or loss	Equity	Business combinations (note 5)	Exchange gains (losses) / Others	Transfers	31.12.2016
PPE and investment property	(225)	(135)	16	-	-	(79)	-	(423)
Deferred gains	(1,724)	-	-	-	-	-	-	(1,724)
Inventories	3,065	(37)	-	-	-	-	-	3,028
Provision for inventory	1,033	(47)	(15)	-	-	29	-	1,000
Provision for receivables	3,311	(536)	(134)	-	-	6	-	2,647
Other provisions	2,277	524	(11)	-	-	(111)	-	2,679
Tax credit for unused tax loss carryforwards and deductions	9,085	(5,346)	(12)	-	-	26	7,000	10,753
Financial goodwill	(10,348)	2,089	-	-	-	19	-	(8,240)
Customer portfolio	(745)	(610)	-	-	(1,438)	(347)	-	(3,140)
Other items	3,063	(722)	(5)	102	(95)	126	(7,000)	(4,531)
Total	8,792	(4,820)	(161)	102	(1,533)	(331)	-	2,049

After the winding up of the subsidiary Way Fit, S.L. an amount of Euros 7,000 thousand was reclassified from Other items to Tax credit for unused tax loss carryforwards and deductions.

On 30 March 2006 the company made a capital increase through the non-monetary contribution of shares under the special tax regime set forth in Chapter VIII, Title VII of Royal Legislative Decree 4/2004, of 5 March, which enacts the Revised Text of the Spanish Corporate Income Tax Law.

Initially, the shareholders who contributed shares in the above-mentioned transaction availed themselves of said tax exemption, therefore transferring to the parent company their commitment to the tax authorities regarding the corresponding deferred tax, which amounted to Euros 7,790 thousand. However, on 31 March 2006 these shareholders signed a commitment to the Parent Company to return the entire amount subject to the exemption, which will be callable in the event that the equity shares linked to it are sold by the parent company or the corresponding tax is directly paid by the contributing shareholders in the event that they fully or partially sell the shares received as consideration for said contribution. Consequently, at 31 December 2006 the Company recognised a non-current deferred tax and a non-current account receivable amounting to Euros 7,790 thousand. In the event that the Company generated a collection right to the contributing shareholders, the amount to be paid by the contributing shareholders will be offset with future dividends to be distributed by the Company. After the sale of shares carried out by the shareholders on 31 October 2007 due to the Company's initial public offering, the non-current deferred tax and the non-current account receivable were reduced to Euros 1,365 thousand, which are included in the Other non-current accounts receivable caption (see note 13). At 31 December 2017 and 2016 both non-current deferred tax and non-current account receivable have not shown any variation.

The items directly charged and credited to consolidated equity accounts for the year correspond to hedging instruments amounting to Euros 207 thousand in 2017 (Euros 101 thousand in 2016 corresponding to hedging instruments and the provision for long-term defined benefits).

The other deferred tax assets and liabilities recorded and reversed in 2017 and 2016 have been recognised with a charge or credit to the income statement, except for those arising from business combinations, exchange gains and losses and other concepts.

The deferred tax liabilities and assets expected to be reversed in the next 12 months amount to Euros 1,199 thousand and Euros 15,272 thousand, respectively (Euros 1,006 thousand and Euros 21,569 thousand, respectively, in 2016).

The breakdown of the corporate income tax expense is as follows:

	Thousands of Euros	
	2017	2016
Current tax		
For the year	13,346	8,195
Tax deductions	(2,589)	(269)
Adjustment in respect of prior years	107	(102)
Provision for taxes	1,477	330
Other	-	-
Deferred taxes		
Origination and reversal of temporary differences	(3,963)	(526)
Tax credit for unused tax loss carryforwards and deductions	4,585	5,346
Effect of the change in the tax rate	-	161
Total income tax expense	12,963	13,135

The reconciliation of the current income tax with the net current income tax liabilities is as follows:

	Thousands of Euros	
	2017	2016
Current tax	10,757	7,926
Withholdings and payments made on account during the year	(16,345)	(11,696)
Other	351	(1,306)
Exchange gains (losses)	-	(22)
Payable tax in 2016	(6,425)	-
Payable tax in 2015	-	(2,761)
	(11,662)	(7,859)

The relationship between the income tax expense and the profit from continuing operations is as follows:

	Thousands of Euros	
	2017	2016
Profit for the year before tax from continuing operations	45,777	39,667
Profit at 25%	11,444	9,917
Effect of applying different effective tax rates in other countries	6,816	6,593
Permanent differences	(3,910)	(3,010)
Utilization of unrecognised tax loss carryforwards from prior years	(548)	(667)
Differences in the income tax expense from prior years	107	(102)
Tax deductions	(2,589)	(269)
Effect of the change in the tax rate	-	161
Other	1,643	512
Income tax expense	12,963	13,135

Deferred tax assets related to unused tax loss carryforwards and unused tax credits recorded in the consolidated financial statements of the Group at 31December 2017 and 2016 are as follows:

	Thousands of Euros	
	2017	2016
Deductions	3,611	4,556
Tax loss carryforwards	3,422	6,197
	7,033	10,753

The Group only recognises deductions and tax loss carryforwards for which recovery is considered probable. Tax loss carryforwards and deductions amounting to Euros 2,628 thousand and capitalised in prior years were utilized in 2017 (Euros 8,017 thousand in 2016). Additionally, after the winding up of the subsidiary Way Fit, S.L. in 2016, an amount of Euros 7,000 thousand was reclassified from Other items to Tax credit for unused tax loss carryforwards and deductions. Mainly as a result of tax losses from the Spanish companies filing consolidated taxes, in 2017 an amount of Euros 600 thousand has been capitalised related to deductions and tax loss carryforwards (Euros 2,368 thousand in 2016).

The amounts and periods of reversal for the capitalised deductions at 31 December 2017 are as follows:

Years	Thousands of Euros	Last year for utilization
2007-2014	1,985	2022-2032
2015	750	2033
2004-2017	876	No time limit
	3,611	

The amounts and periods of reversal for the capitalised tax loss carryforwards at 31 December 2017 are as follows:

Years	Thousands of Euros	Last year for utilization
2014	944	2032
2015	411	2033
2009-2015	2,067	No time limit
	3,422	

Deferred tax assets, unused tax loss carryforwards and unused deductions not recorded in the consolidated financial statements of the Group are as follows:

	Thousands of Euros	
	2017	2016
Deductions	2,618	3,100
Tax loss carryforwards	27,947	26,260
	30,565	29,360

The amounts and periods of reversal for non-capitalised deductions at 31 December 2017 are as follows:

Years	Thousands of Euros	Last year for utilization
2004-2015	2,209	2020-2033
2011-2015	325	No time limit
2017	84	2035
	2,618	

The amounts and periods of reversal of unrecorded unused tax loss carryforwards are as follows:

Year	Thousands of Euros	Last year for utilization
2002-2014	21,010	2018-2034
2015	8,718	2020-2035
2016	21,159	2036
2017	2,836	2037
2002-2016	24,065	Losses with no time limit for utilization
	77,788	

The companies Fluidra Waterlinx Pty Ltd and Fluidra Brasil Indústria e Comércio LTDA have tax inspections under way, in relation to which no significant liabilities are expected for the Fluidra group, other than those stated in the Group's Balance Sheet.

The Spanish companies are open to inspection for the following tax periods:

Tax	Years open to inspection
Income tax	From 2013 to 2017
Value added tax	From 2014 to 2017
Personal income tax	From 2014 to 2017
Tax on Economic Activities	From 2014 to 2017

During 2015, the Tax Agency notified of Corporation Tax inspections to be carried out on certain companies in the Spanish tax Group. The years to be inspected were 2010-2012. The inspections were completed throughout 2017, with no significant contingent tax liabilities arising in addition to those already recorded.

The Group's Directors consider that in the event of additional tax inspections above and beyond those mentioned, the possibility that contingent liabilities arise is remote and the additional tax payable, if any, that may derive would not have a significant impact on the consolidated financial statements of the Group taken as a whole.

29. Related party balances and transactions

The breakdown of balances receivable from and payable to related parties and associates and their main characteristics is as follows:

	Thousands of Euros			
	31.12.2017		31.12.2016	
	Balances receivable	Balances payable	Balances receivable	Balances payable
Customers	278	-	436	-
Debtors	232	-	74	-
Suppliers	-	651	-	601
Creditors	-	25	-	-
Total current	510	676	510	601

a) Consolidated Group transactions with related parties

Current related-party transactions correspond to the Company's normal trading activity, have been carried out on an arm's length basis and mainly include the following transactions:

a. Purchases of finished products, in particular, purchases of spas and accessories from Iberspa, S.L. (with ownership interest by Boyser, S.R.L., Edrem, S.L., Dispur, S.L. and Aniol, S.L.).
b. Lease agreements on buildings between the Group and Inmobiliaria Tralsa, S.A., Constralsa, S.L. and Stick Inmobiliere (with ownership interest by Boyser, S.R.L., Edrem, S.L., Dispur, S.L. and Aniol, S.L.) included in expenses for services.
c. Sales of necessary parts and materials produced by the Group for the manufacture of spas to Iberspa, S.L.
d. Rendering of services by the Group to Iberspa, S.L.

The nature of the relationship with the above-mentioned related parties is the existence of significant shareholders in common.

The amounts of the consolidated Group transactions with related parties are as follows:

	Thousands of Euros			
	31.12.2017		31.12.2016	
	Associates	Related parties	Associates	Related parties
Sales	478	1,020	370	909
Income from services	37	203	28	202
Purchases	(162)	(5,660)	-	(4,739)
Expenses from services and other	-	(3,015)	-	(3,131)

b) Information on the Parent Company's Directors and the Group's key management personnel

No advances or loans have been given to key management personnel or Directors.

The remuneration earned by key management personnel and Directors of the Company is as follows:

	Thousands of Euros	
	2017	2016
Total key management personnel	2,222	1,944
Total Directors of the Parent Company	1,645	1,511

The members of the Parent Company's Board of Directors have earned Euros 861 thousand in 2017 (Euros 872 thousand in 2016) from the consolidated companies in which they act as board members. Additionally, for the performance of executive duties, they have earned Euros 697 thousand in 2017 (Euros 548 thousand in 2016). The amounts earned for executive duties include in kind remuneration related to the share plan, vehicle and life insurance. Also, the members of the Board of Directors have received Euros 87 thousand compensation for travel expenses (Euros 91 thousand in 2016).

The Company has taken a pension commitment to one of its senior executives consisting of an income supplement in the event of total permanent invalidity on active duty. This commitment has been externalized through a life insurance policy whereby the Company has recognised an expense of Euros 25 thousand in 2017 (Euros 19 thousand in 2016).

Additionally, the Company made a contribution of Euros 24 thousand in 2017 (Euros 41 thousand in 2016) to cover the survival, death and temporary and permanent invalidity for the aforementioned senior director.

In addition to the above-mentioned, the Group has no pension plan or life insurance policies for former or current members of the Board of Directors or key management personnel, nor has it given any guarantees on their behalf.

The Group's key management includes the executives that answer directly to the Board of Directors or the Company's senior management, as well as the internal auditor.

At the general meeting held on 5 June 2013 the shareholders approved a new stock option plan for the CEO and the members of the executive team who belong to the Group's Executive Committee.

The plan is implemented through two instruments:

a) Part of the incentive is implemented through the granting of a certain number of restricted stock units (RSUs), which will be settled in shares once a certain period of time has elapsed.

b) The other part of the incentive is implemented through the granting of share appreciation rights (SARs) settled in shares once a certain period of time has elapsed and once the Company's shares have increased in value in the reference period.

The plan consists of three cycles, each one of them covering a 3-year period. The concession dates of each of the cycles are: 15 July 2013, 15 July 2014, 15 July 2015, ending 15 July 2016, 15 July 2017 and 15 July 2018, respectively.

The RSUs and SARs are free and non-transferable, and grant their holders the option of receiving Company shares. Provided that the RSUs and SARs are not converted into Company shares they do not confer their holders the nature of Company shareholders, and do not grant the beneficiaries the right to receive more RSUs and/or SARs in the future, since this is a one-off event that does not consolidate or guarantee future granting of RSUs and/or SARs.

The maximum number of RSUS that can be granted under the Plan is 300,000.

The maximum number of SARs that will be taken as a reference for establishing the variable remuneration to be paid to the beneficiaries will be 900,000.

At the general meeting held on 5 May 2015 the shareholders approved the cancellation and early termination of the third cycle of the share-based payment plan for Fluidra Group executives in force until that date in accordance with its renewal on 5 June 2013. This cancellation agreement does not affect the cycles granted prior to the adoption of this agreement, the agreements for which will remain in force under the terms and conditions prevailing to date.

At 31 December 2017 the amount recorded in equity for this item amounts to Euros 37 thousand (Euros 108 thousand at 31 December 2016). The best estimate of the fair value of the whole Plan amounts to approximately Euros 420 thousand. The fair value of the first cycle granted on 15 July 2013 amounts to Euros 195 thousand and the fair value of the second cycle granted on 15 July 2014 amounts to Euros 225 thousand.

In 2017 the settlement of this plan to the beneficiaries amounted to 100,745 shares, which are equivalent to Euros 697 thousand.

This settlement cancels all obligations from previous plans.

In 2016 the settlement of this plan to the beneficiaries amounted to 76,642 shares, which are equivalent to Euros 287 thousand.

On 8 January 2016, due to the termination of the contract with one of the plan beneficiaries, it was resolved to settle 22,176 shares, which were equivalent to Euros 71 thousand (15,508 shares equivalent to Euros 50 thousand corresponding to the first cycle, and 6,667 shares equivalent to Euros 21 thousand corresponding to the second cycle).

At the general meeting held on 5 May 2015 the shareholders approved a new long-term variable remuneration plan for executive directors and the executive team of Fluidra, S.A. and the subsidiaries comprising the consolidated group.

The new plan is implemented through the granting of a certain number of performance share units (PSUs), which will be settled in Company shares once a certain period of time has elapsed. 25% of these PSUs may be directly converted into shares once certain length-of-service requirements are met. The remaining 75% may be converted subject to the following financial objectives: 50% are subject to the evolution of the quotation of Fluidra shares, and 50% to the evolution of the EBITDA of Fluidra or the EBIT of the Fluidra subsidiary for which the beneficiary is responsible.

The maximum number of PSUs to be granted under the new plan amounts to 1,672,615, without prejudice to the inclusion of new executives to this plan with a maximum limit of 2,161,920 shares.

At the end of 2017, this number of shares is insufficient to cover the total shares resulting from applying the degree of attainment of the metrics (3,076,819 shares).

Therefore, based on the proposal of the Appointment and Remuneration Committee, the Board of Directors has decided to make cash payments for each share exceeding the maximum number of shares authorised by the General Shareholders' Meeting, at a value of Euros 8 per share. The beneficiaries of this cash compensation are members of management who are on the Group's payroll at the date of settlement of the plan, with the exception of the executive chairman, who will receive a distribution proportional to the shares authorised by the General Shareholders' Meeting. The total number of shares expected to be settled via equity instruments or in cash is 2,951,489 shares.

At 31 December 2017 the best estimate of the fair value of the plan's total amount comes to approximately Euros 9,857 thousand, which will be settled as Euros 3,540 in equity instruments and

Euros 6,317 thousand in cash. During 2017 an amount of Euros 1,227 thousand was taken to equity (Euros 812 thousand at 31 December 2016), which corresponds to the portion to be settled via equity instruments. The portion of the plan to be settled in cash has been recorded in the caption Provisions for long-term employee benefits for an amount of Euros 4,211 thousand (see note 17).

The new plan started on 1 January 2015 and will end on 31 December 2018, although effective settlement will occur during January 2019.

c) Transactions performed by the Directors of the Parent Company outside of its ordinary course of business or other than on an arm's length basis

During 2017 and 2016 the Directors of the Parent Company have not carried out any transactions with the Company or with group companies other than those conducted on an arm's length basis in the normal course of business.

d) Situations representing a conflict of interest for the Directors of the Parent Company.

Neither the Company's directors nor any persons related to them were party to any conflicts of interest requiring disclosure in these notes pursuant to the provisions of article 229 of the consolidated text of the Corporate Enterprises Act.

30. Environmental information

The significant systems, equipment or installations incorporated into property, plant, and equipment at 31 December 2017 and 2016 for the purpose of minimizing environmental impact and protecting and improving the environment are as follows:

	2017		
	Thousands of Euros		
	Cost	Accumulated depreciation	Carrying amount
Waste treatment	3,138	(3,010)	128
Energy saving	2,125	(668)	1,457
Emissions reduction	813	(763)	50
Reduction of pollution	912	(788)	124
	6,988	(5,229)	1,759

	2016		
	Thousands of Euros		
	Cost	Accumulated depreciation	Carrying amount
Waste treatment	3,041	(3,001)	40
Energy saving	1,629	(486)	1,143
Emissions reduction	763	(763)	-
Reduction of pollution	914	(765)	149
	6,347	(5,015)	1,332

Expenses incurred in 2017 and 2016 for the protection and improvement of the environment were as follows:

	Thousands of Euros	
Description of expenses	2017	2016
External services	225	403
Environmental protection	159	196
	384	599

The Directors estimate that there are no significant contingencies related to environmental improvement and protection and, therefore, no provision for risks and expenses has been recognised in any group company at 31 December 2017 and 2016.

No grants in connection with environmental activities have been received at 31 December 2017 and 2016.

31. Other commitments and contingencies

At 31 December 2017 and 2016 the Group has not presented any mortgage guarantees.

At 31 December 2017, the Group has guarantees from financial institutions and other companies amounting to Euros 5,133 thousand (Euros 6,585 thousand in 2016), of which Euros 220 thousand correspond to technical guarantees (Euros 189 thousand in 2016).

At the general meeting held on 5 June 2013 the shareholders approved a stock option plan for the CEO and the members of the executive team who belong to the Group's Executive Committee (see note 29).

At the general meeting held on 5 May 2015 the shareholders approved the cancellation and early termination of the third cycle of the share-based payment plan for Fluidra Group executives in force until that date in accordance with its renewal on 5 June 2013. This cancellation agreement does not affect the cycles granted prior to the adoption of this agreement, the agreements for which will remain in force under the terms and conditions prevailing to date (see note 29).

Also at said general meeting the shareholders approved a new long-term variable remuneration plan for executive directors and the executive team of Fluidra, S.A. and the subsidiaries comprising the consolidated group (see note 29).

32. Auditors' and related group companies' fees

Net fees accrued to Ernst & Young, S.L. as the auditor of the Group's consolidated financial statements for the year ended 31 December 2017 and 2016 for professional services were as follows:

	Thousands of Euros	
	31.12.2017	31.12.2016
Audit services	451	460
Other assurance services	226	1
Other services	-	1
Total	677	462

The amount of Other assurance services for 2017 includes fees charged by Ernst & Young, S.L. (audit firm) to the Parent and other Group companies in relation to the following review engagements:

- Report on Covenants - Euros 10 thousand.
- Report on the Financial Reporting Internal Control System (SCIIF) - Euros 15 thousand.
- Proforma report on the consolidated financial information of Fluidra, S.A. and Piscine Luxembourg Holdings 2 S.à.r.l. at 30 June 2017 – Euros 190 thousand.
- ECOEMBES Report - Euros 5.5 thousand.
- Philips royalties review - Euros 6 thousand.

The amounts presented in the tables above include all of the fees related to the services rendered in 2017 and 2016, regardless of when they were invoiced.

Additionally, the professional services invoiced to the Group by other companies associated to Ernst & Young Global Limited during the year ended 31 December 2017 were as follows:

	Thousands of Euros	
	31.12.2017	31.12.2016
Audit services	265	174
Assurance services	6	15
Total	271	189

Additionally, net fees accrued by the Group to auditors other than Ernst & Young, S.L. during the year ended 31 December 2017 for professional services were as follows:

	Thousands of Euros	
	31.12.2017	31.12.2016
Audit services	169	275
Other assurance services	31	-
Tax advisory services	112	-
Other services	60	33
Total	372	308

33. Information on late payment to suppliers

According to Law 31/2014 of 3 December establishing measures on combating late payment in commercial transactions, the information on late payment to suppliers in Spain is as follows:

	2017	2016
	Days	Days
Average supplier payment period	63.36	67.06
Ratio of transactions paid	63.10	66.84
Ratio of transactions payable	65.35	68.83
	Amount (thousands of euros)	Amount (thousands of euros)
Total payments made	255,227	227,326
Total payments outstanding	32,695	27,959

34. EBITDA

The consolidated income statement shows the amount corresponding to EBITDA, whose definition for the purpose of these financial statements is as follows:

Sales of goods and finished products + Income from services rendered (see note 23) + Work performed by the Group and capitalised as non-current assets + Profit from sales of fixed assets - Change in inventories of finished products and work in progress and raw materials consumables - Personnel expenses (excluding compensation for change in model) - Other operating expenses + Share in profit/(loss) for the year from associates accounted for using the equity method.

Calculation of EBITDA for 2017 and 2016	Thousands of Euros	
	31.12.2017	31.12.2016
Sales of goods and finished products	781,425	713,252
Income from services rendered	15,934	14,928
Work performed by the Group and capitalised as non-current assets	5,902	5,477
Profit from sales of fixed assets	2,197	1,647
Change in inventories of finished products and work in progress and raw materials consumables	(383,111)	(346,374)
Personnel expense	(169,356)	(158,260)
Other operating expenses	(153,963)	(144,735)
Share in profit/(loss) for the year from investments accounted for using the equity method	(32)	27
EBITDA	98,996	85,962

35. Merger agreement with the Zodiac Group

On 3 November 2017, Fluidra, S.A., and the Company's syndicated shareholders, Piscine Luxembourg Holdings 1 S.à r.l. and Piscine Luxembourg Holdings 2 S.à r.l. , as ultimate and penultimate holders, respectively, of the Luxembourgian company Zodiac Pool Solutions S.à.r.l., signed an investment agreement whereby they agreed to combine the businesses of the Fluidra Group and the Zodiac Group by means of a cross-border merger.

Specifically, the transaction described consists of the cross-border takeover merger by Fluidra, S.A. (absorbing company) of Piscine Luxembourg Holdings 2 S.à.r.l. (absorbed company) in the terms set forth in articles 22 and thereafter of Act 3/2009 of 3 April, on structural modifications to corporations and articles 257 and thereafter of the Luxembourgian Corporations Law of 10 August 1915 (loi du 10 août 1915 sur les sociétés commerciales), with the termination by dissolution without liquidation, of the absorbed company and transfer en bloc of all of its equity to the absorbing company, which shall acquire, by universal succession, the entire equity and rights and obligations of the absorbed company, in the terms and conditions set forth in the join merger project.

The rate of exchange at which the shares of Piscine Luxembourg Holdings 2 S.à r.l. will be swapped for Fluidra, S.A. shares is as follows: 69,1666667 ordinary shares in Fluidra, S.A. at €1 par value for each ordinary share in Piscine Luxembourg Holdings 2 S.à.r.l. of €0,01 par value, with no additional monetary compensation. This rate of exchange has been verified by an independent expert appointed by the Mercantile Registry.

In accordance with the rate of exchange stated, the sole shareholder of the absorbed company, the entity Piscine Luxembourg Holdings 1 S.à r.l., controlled by Rhône Capital L.L.C., will be entitled to receive 83,000,000 shares in Fluidra, S.A., which will represent approximately 42.43% of the share capital of Fluidra, S.A. once the merger comes into effect. The date on which the merger will come into effect is the date the deeds formalising the merger agreement are filed with the mercantile registry corresponding to the registered address of Fluidra, S.A. The rest of the shareholders of Fluidra, S.A. (including the Company itself by virtue of its own shares held) shall be joint owners of 57.7% of the share capital after the merger.

The General Meeting of Shareholders of Fluidra, S.A. approved the merger on 20 February 2018.

For these purposes, Fluidra, S.A. will carry out a capital increase for a nominal amount of Euros 83,000,000 by issuing and circulating 83,000,000 new ordinary shares of Euros 1 par value each, which will be fully subscribed by the sole shareholder Piscine Luxembourg Holdings 2 S.à r.l., without entitlement, as per article 304.2 of the Spanish Corporations Act, to any preferential subscription rights. The difference between the fair value of the equity received by Fluidra, S.A. by virtue of the merger and the par value of the new shares will be allocated to the share premium.

For accounting purposes, this merger will be treated like a direct acquisition, wherein Fluidra, S.A. will be considered the acquiring entity and the assets and liabilities of Piscine Luxembourg Holdings 2 S.à r.l. will be measured at fair value, as the acquired entity (in accordance with IFRS 3 (amended) Business Combinations).

Certain members of Zodiac Group management hold payment agreements based on shares in the company Piscine Luxembourg Holdings 1 S.à r.l. (LuxCo) signed between both parties during the first half of 2017, which may be settled in cash in certain exceptional cases, including the case of the merger explained in this note. Due to this the merger agreements between the Fluidra Group and the Zodiac Group stipulate the replacement of this Original Plan with another replacement plan in the terms signed between Rhône Capital L.L.C. and beneficiary management staff.

The Replacement Plan, which was signed between Rhône Capital L.L.C. and the beneficiary management staff prior to the cancellation of the Original Plan, grants these management staff three different instruments:

- Shares in LuxCo convertible to shares in Fluidra, S.A. at the date of their liquidation by the management staff who are currently shareholders of LuxCo and subject to the Original Plan ("Common Equity roll-over").

• Shares in LuxCo convertible to shares in Fluidra, S.A. at the date of their liquidation by the management staff that hold the MIV, in an equivalent number of shares to the value of the MIV under the Original Plan (“MIV Interest roll-over”).

• Restricted additional shares in LuxCo, convertible to shares in Fluidra, S.A. at the liquidation date (“Restricted shares”).

In general, the stated instruments are subject to conditions of permanency as employees of the Company, financial target accomplishment of Rhône Capital L.L.C., share lock-up periods and repurchase options in the event the member of management staff leaves the company. The periods of consolidation of rights and/or share lock-in periods, whichever the case, depend on the total or partial departure of Rhône Capital L.L.C. from Fluidra, S.A. in line with the different tranches contained in the three aforementioned instruments of the plan. In all cases the commitments are payable almost entirely in Fluidra, S.A. shares.

In accordance with IFRS 3, the change of plan in these circumstances should be analysed in order to determine to what extent the impact should be counted as services performed before the transaction, after it, or a combination of both. The services counted as before the transaction will be included in the price paid, whilst services counted as after the transaction date will be taken to the Income Statement as salaries throughout the remaining period until the right accrues. In this case, although it impacts on the future income statement by way of services rendered by management staff who are beneficiaries of the said plan, Fluidra, S.A. is not required to settle the transaction with payments based on shares or cash, since Rhône Capital LLC is obliged to pay these instruments.

As part of the agreements signed between the Fluidra and Zodiac Groups on 3 November 2017, both parties have undertaken to make their best efforts to finance the group resulting from the merger in accordance with the terms and conditions arranged with a pool of three financial entities and set forth in a Best Efforts Engagement Letter and, in the event of not proceeding because changes in the financial conditions (adjustable under the agreement) were to impede it, the parties undertake to accept alternative financing with the same financing entities (Commitment Letter). The percentage participation in the financing agreement under the Best Efforts Engagement Letter by the three financing entities mentioned is also subject to change, including the incorporation of additional financing entities.

The purpose of these agreements is, in the case of the Best Efforts Engagement Letter, to refinance the current debt of the respective groups of both companies and, in the event of alternative financing (Commitment Letter), to refinance the current debts of the Fluidra Group. Moreover, in both cases the transaction costs will be financed as well as the working capital and other general corporate purposes.

An outline of the main terms of both agreements is as follows:

a) Best Efforts Engagement Letter:

• Multicurrency loans of approximately Euros 850 million in two tranches: (i) US Dollars 670 million, and (ii) Euros 270 million, with a 7-year term.

• Multicurrency revolving loan of Euros 250 million, with a 6-year term.

• Interest rates are linked to several indexes or rates depending on the currency and other factors.

• Certain loan arrangement costs are established, as well as non-availability of the balance with respect to the revolving loan.

b) Commitment Letter:

• Loan of Euros 270 million, with maturity at 20 December 2023. The interest rate is referenced to the Euribor.

• Multicurrency revolving loan of Euros 130 million, with a 6-year term.

• Certain loan arrangement costs are established, as well as non-availability of the balance with respect to the revolving loan.

The Company's intent is to subscribe the agreements of the Best Efforts Engagement Letter and, therefore, not apply the terms signed under the alternative agreement (Commitment Letter).

36. Subsequent events

On 15 February the Fluidra and Zodiac Groups (see note 35) have commenced a syndication process to refinance the structure of the debt held by both groups. The effects of this process will be deployed from the effective Merger date.

The refinancing plans to include the following multicurrency loans: (i) a guaranteed senior loan of Euros 850 million with 50% in euros and 50% in US dollars; (ii) a revolving credit facility (RCF) of Euros 130 million; and (iii) an asset-based lending facility (ABL) of US dollars 230 million.

On 15 February 2018 Fluidra has obtained for the first time, on a preliminary basis, a credit rating by S&P Globa Ratings and Moody's Investor Service. S&P has given Fluidra a long-term issue credit rating of BB. Moody's has given Fluidra a corporate family rating (CFR) of Ba3. Both S&P and Moody's have assigned these credit ratings with a stable outlook. The financial instruments mentioned in the previous paragraph have received the same credit rating as the company.

On 20 February the General Meeting of Shareholders of Fluidra approved the merger transaction described in note 35.

The General Meeting of Shareholders of Piscine Luxembourg Holdings 2 S.à r.l. is scheduled to take place on 28 February 2018, and the merger described in note 35 is expected to be approved.

Business model

Fluidra is a multinational group dedicated to developing applications for the sustainable use of water in Pools and the Wellness industry, for residential, commercial or public use. It operates in 45 countries through over 160 branches and production centres located in every continent. The companies comprising Fluidra are specialised in water conservation, piping, treatment and leisure.

Fluidra's business model vertically integrates the entire value chain present in the Pools and Wellness field: research and development, production, logistics, marketing and services, grouped in the following areas:

- R&D&i: Fluidra has the support of an Innovation Committee, responsible for establishing the research, development and innovation strategy. It validates and sets the criteria for the projects undertaken at the 16 Fluidra Centres of Excellence. A total of 119 people spend on average 56% of their time working on product R&D.
- Production: the company has 31 production centres, which employ more than 2,000 people. They are located in the main Group markets and work on different technologies to manufacture products for different brands and business units.
- Sales and logistics: The company has a specialised distribution network for the different business units with a direct presence in 45 countries with 131 subsidiaries.
- Services and management: Fluidra offers the group companies shared services to centralise accounting, finance, legal and tax services, marketing, auditing and human resources. Furthermore, Fluidra offers technical after-sales service and training to the end customer.

The non-financial information included in this management report drafted and structured according to the IR framework of the International Integrated Reporting Council (IIRC). For reporting on non-financial aspects, the drafting guide of the Sustainability Report Global Reporting Initiative (GRI) version 4 has been followed.

General business evolution

The Fluidra Group's turnover at 2017 year end amounts to Euros 781.4 million, which means a 9.6% increase in comparison with the prior year (+10.2% at a constant exchange rate).

The evolution of turnover by quarters has been as follows: +17.1% in the first quarter (+14.8% at a constant exchange rate), +11.9% in the second quarter (+10.2% at a constant exchange rate), +5.7% in the third quarter (+7.2% at a constant exchange rate) and +2.3% in the fourth quarter (+5.1% at a constant exchange rate).

In addition to the impact of exchange rates, which has negatively affected the translation of the foreign currencies used in the markets where the company operates, several effects should be considered when analyzing turnover:

- Firstly, the effect of the sales from SIBO Fluidra Netherlands B.V., which was acquired on 21 July 2016. This acquisition contributed a turnover of Euros 7.5 million in 2016, contributing Euros 22.2 million this year (2.1% above total annual growth).
- Secondly, on 28 March 2017, the company Aplicaciones Técnicas Hidraúlicas, S.L.U. was divested. In 2016,, this company contributed turnover of Euros 17.6 million, contributing just Euros 2.3 million this year. This effect has a negative impact of 2.1% on total annual growth.
- Thirdly, on 24 November 2016 Calderería Plástica del Norte, S.L. was divested, which contributed Euros 4.1 million in turnover in 2016, and none in 2017. This effect has a negative impact of 0.6% on the annual growth figure.
- Fourthly, the acquisitions made during 2017 (Poolweb, S.A.S. and Agrisilos, S.R.L.), have contributed a turnover of Euros 6.9 million. (1% of total annual growth).

Considering these four effects and the impact of foreign currency, sales have increased by 9.9%.

In terms of sales by geography, there has been sold growth in the Spanish market (+9.1 in organic growth), despite the effect of the divestments explained above (largely Aplicaciones Técnicas Hidráulicas, S.L.U.), leaving a nominal slowdown in growth of 0.5%. The evolution of the French market (+15%) was impacted by the positive performance of wooden over-ground pool sales, as well as a sound performance of the private pool segment, coupled with the effect of the aforementioned acquisitions. Nominal growth in this market has been 10.3%. On the remaining markets, highlights include growth in Central Europe (+8.6%) driven by the acquisition of SIBO Fluidra Netherlands B.V., and the negative impact of the depreciation of the Sterling pound, which went from 3.5% growth at a fixed exchange rate

(Continued)

to a drop of 2.8%. The markets of Eastern Europe, Asia and Australia show growth of 25.8% and 9%, respectively, with good growth in Asia thanks to commercial pool projects.

As a result of all this, we can conclude that the evolution of turnover has been very positive in almost all markets, although it has been affected by the depreciation of the pound sterling, compensating for the slowing down seen in China with commercial pool projects in Asia.

The evolution of the turnover per business unit highlights the good performance of the Pool&Wellness segment (+11.5%) driven by a positive performance on almost all markets and the acquisition of SIBO Fluidra Netherlands, B.V. In the Pool&Wellness segment, both residential pools, with a growth of +10.4%, and public pools, which have grown by 16.8% (thanks in part to projects in Asia), show sound levels of business development. Irrigation (+9.5%) shows a favourable evolution while domestic water treatment (-61%) was affected by the divestment of Aplicaciones Técnicas Hidráulicas, S.L.U. Industrial Fluid Handling (-18.3%) was mainly affected by the evolution of the China market.

EBITDA was up 15.2%, from Euros 86 million last year to Euros 99 million this year.

Gross Margin is down slightly, from 51.4% last year to 51.0% this year. This evolution is driven by the sales mix and the proportion of industrial expenses on finished products, keeping Industrial Gross Margin (Gross Margin less industrial manufacturing expenses) stable, absorbing the 0.3 percentage-point increase in the price of raw materials.

Net operating expenses (sum of personnel expenses, other operating expenses net of income from services rendered, work performed by the Group and capitalised as non-current assets, profit from the sale of fixed assets and before the change in trading provisions) have increased by 7.6%. The following concepts need be isolated in the analysis of the figure above:

- The effect of the profit generated by the sale in 2017 of the subsidiary Aplicaciones Técnicas Hidráulicas, S.L.U. for Euros 1.5 million.
- The net effect of the inclusion of expenses from companies included in the consolidation (SIBO Fluidra Netherlands B.V., Agrisilos, S.R.L., Riiot Labs NV/SA, and Pool Web, S.A.S.) Euros +6.1 million and expenses resulting from the departure from the scope of consolidation (Aplicaciones Técnicas Hidráulicas, S.L.U. and Calderería Plástica del Norte, S.L.) Euros -4.7 million.
- Expenses relating to the merger with the Zodiac Group (see note 35) amounting to Euros 3.3 million.
- The caption Personnel expenses includes the impact of Euros 1,227 thousand (Euros 812 thousand in 2016) corresponding to the portion of the share plan approved on 5 May 2015 (see note 29) which will be settled using equity instruments. In addition, this caption also includes the portion of this plan to be settled in cash, amounting to Euros 4,211 thousand, whereas no amount was recorded for this in 2016.

Considering the aforementioned effects and the currency effect, the change in operating expenses will have been an increase of 3.9%, which is below the 9.9% sales increase, and is driven by the operating leverage achieved by fixed expenses and a percentage maintenance of industrial expenses and variable expenses associated to the sale.

The evolution of trading provisions, with a decrease of Euros 2.6 million, is due to the improvement in the average collection ratio in Southern Europe, with no one-off insolvency incidents in any area. This provision accounts for 0.2% of sales, mainly due to the improvement in the economic environment and the risk control in the main market in which the company operates. This percentage is below the historic minimum achieved by the Group of 0.5% of sales.

In the Depreciation and amortisation expenses and impairment losses line, the non-recurring impairment of goodwill and intangible assets associated with the Aqua USA CGU amounting to Euros 4.5 million shall be noted, as a result of the low profitability of such investment in the American market, where the expected results have not been obtained.

Finance cost has increased from Euros -6.5 million in 2016 to Euros -12.8 million in 2017, which shows a negative behaviour of exchange differences (Euros -2.5 million vs. Euros + 2.0 million in 2016), as well as the effect of the lower cost of net financial debt. Additionally, this caption also includes the impact of the re-estimates of contingent liabilities arising from the acquisitions (see note 27) for Euros 1.5 million, as a result of SIBO performing better than initially expected. If we leave these effects to one side, and the impact of a loss generated on the sale of available for sale assets for Euro 0.4 million, the finance cost has remained stable.

The net profit attributed to the parent increased from Euros 24.1 million to Euros 31.1 million as a result of improved EBITDA, with sales increasing from 3.4% to 4.0%.

As for the Group's consolidated balance sheet, the good performance of Net Working Capital should be noted, with a reduction from Euros 184.0 million (25.8% over sales) to Euros 197.3 million (25.2% over sales). The accounts receivable ratios have also shown a very positive performance, decreasing from 64 days in 2016 to 59 days in 2017. Stocks have increased 5%, reducing inventory turnover from 175 to 166 days.

Accounts payable include contingent considerations that are already in execution and/or will be paid during the coming year. They amount to Euros 10.7 million in 2017 and Euros 19.4 million in 2016 (see note 19).

Investment is property, plant and equipment and other intangible assets amount to Euros 28.7 million in 2017, which means a decrease of Euros 0.5 million. The most notable investments in 2017 include the new industrial plant for injecting plastic in Spain and the set-up costs and licenses for the design and implementation of the Group's new ERP (Invictus Project).

Net Financial Debt has decreased from Euros 156.7 million to Euros 145.7 million due to the generation of cash flows from operations, and the cash generated on the sale of Aplicaciones Técnicas Hidráulicas, S.L.U. for Euros 10.2 million, which has allowed the Group to finance the disbursements of the contingent liabilities mainly relating to the acquisition of Aqua (Euros 16.8 million), the purchases made in 2017 (see note 5) and the largest dividend paid out.

Human Resources

Fluidra develops corporate management policies that ensure the development of its staff and promote cultural integration.

The main asset of the Fluidra Group is its team of people, and their daily contribution and talent are essential to the success of the business and to the future of the company. Therefore, in order to provide the best working environment and conditions possible, Fluidra develops corporate management policies that ensure the development of its people and encourage gradual culture and values integration within the existing geographical and cultural diversity in the companies that make up the Group.

- Human Resources Policy

Fluidra's Human Resources policy aims to create an environment where the team feel motivated and committed. This policy is structured into five major areas: legal compliance, sourcing talent, developing talent, organisation and recognition.

- Development during the year

Sourcing and retaining talent has become a key asset within any company. At this moment of positive developments within Fluidra, it is essential to develop human resources policies that bolster the business and add value to it, while meeting the training and development needs of people within the organisation, seeking mainly to strengthen the initiative and fostering the creativity of our team in order to successfully carry out Fluidra's projects.

At the end of 2017, the percentage of permanent staff was still 93% of the aggregate workforce according. The Group's average workforce in 2017 was 4,410 employees and the turnover rate was 1.2%.

The average age of Fluidra's workforce is 41 years of age, with 53% in the 30 to 45 year old bracket. In terms of gender, 67% of the staff are men and 33% are women.

When analysing the age pyramid of our staff we see that the Millennial group (born in the 80s and 90s) represents 12% of the total. This group compels us to rethink our HR policies to further adapt them to the interests and expectations of the group.

In terms of remuneration, the management policy by salary level, which helps improve internal equity and external wage competitiveness, has continued to be implemented. For yet another year, the minimum wage of newly recruited staff stood at around 30% above the minimum wage set for Spain.

- Training

In 2017, 510 courses were conducted for a total of 1,695 employees, with an average ratio of 13 hours per employee. The final number of hours invested in training was 21,148.

- Health and safety

The health and safety of Fluidra's employees is a priority for the company. The Group companies' policies on quality, safety and the environment place particular emphasis on the prevention of occupational hazards.

In 2017, this area was strengthened by adding a HSE Corporate Management position to head up Health and Safety policies and ensure the entire organisation is in line with the shared objectives.

Other milestones in terms of health and safety include the implementation of a workplace ergonomics study software, which seeks to improve the working conditions of the staff.

Furthermore, some production plants have held safety audits on the injection machinery, obtaining a score of 15 out of 20.

- Equality, diversity and work-life balance

Fluidra has an equality and diversity policy that contains the objectives, principles and responsibilities at the corporate level. In addition, each company adapts the general guidelines to its specific reality, its own processes and regulations. There are, for example, various Group companies that have their own Equality plans, such as Fluidra S.A. and Fluidra Comercial España, S.A.U. The goal for the coming years is to establish a Corporate Equality Plan linked to the Equality and Corporate Diversity Policy based on the Fluidra,S.A. Equality Plan.

These policies ensure equal treatment between men and women, not differentiating between employees who perform the same functions and according to categories and positions.

Fluidra seeks to help its employees achieve work-life balance within a positive work environment and it does so by implementing measures tailored to the needs of the organisation and the staff. All employees enjoy the rights enshrined in the applicable labour regulations on flexible working hours, maternity leave, paternity leave and other labour rights.

Diversity in Corporate Governance

The Board Member selection and appointment criteria approved by the Board establishes that the company will take gender diversity into consideration when selecting its board members in order to ensure equal opportunities as per the Equality Act (22 March 2007). Similarly, Fluidra also aims to achieve not just gender diversity, but also diversity of geography, age and professional experience among the members of its Board of Directors. For more information in this regard, please refer to the Annual Corporate Governance Report, section C.1.6. and the Board of Directors Regulations article 14.3.

Environment

Respect for the environment is an integral part of the company's day-to-day activities, promoting the use of clean technologies and sustainable use, treatment and recycling of resources. Fluidra's activities generate environmental impacts and its management aims to minimise the environmental impacts of this activity, focusing on its commitment to the efficient use of raw materials, energy and water and the correct treatment of emissions, waste and discharges.

- Environmental Policy

Fluidra's environmental policy aims to:

  - Prevent pollution by eliminating and/or minimising significant environmental impact.
  - Properly manage natural resources, avoiding exploitation, optimising its consumption and promoting use of reusable and/or recyclable materials.
  - Provide training and motivation to and raise awareness among employees and other stakeholders to ensure minimal environmental impact.
  - Engage all Fluidra suppliers, contractors and providers in the commitment to care for the environment through the Supplier Selection Policy and Code of Ethics.
  - Comply with prevailing legislation.
  - Guide the management system towards continuous improvement.

- Energy carrier

Energy consumption in the Fluidra group within the scope of the "2017 Integrated Report" (Australia, Austria, Belgium, Israel, Italy, Netherlands, Portugal, South Africa, Spain, United Arab Emirates, United Kingdom and the US) amounted to 92,700 Gigajoules, including electricity, gas and motor fuel. CO2 emissions directly attributable as an energy carrier amounted to 30,666 tons, taking into account that 95% of the electricity consumed in Spain was obtained from renewable sources.

- Water and discharges

The group is especially concerned about saving water and despite the fact that overall consumption is not high and that processes do not require a large amount of water, companies carry out consumption controls for detecting and repairing leaks in the network and misuse or unnecessary use caused by poor practices, and also carry out continuous awareness internal campaigns for the team on the importance of appropriate use. During 2017, 110,000 m3 were consumed, a slightly higher figure than the previous year due to the rise in production.

- Waste treatment

Fluidra is aware of the waste the packaging of its products generates: mostly paper, cardboard and plastic, since the packaging is made in grouped and palletised cardboard boxes or, depending on the product, in plastic or metal containers. Waste generated and treated in the packaging area in 2017 amounted to 20,000 tons which can be broken down into 60% non-hazardous and 40% hazardous. The total reduction of waste with respect to the prior year was 5%.

- Consumption of raw materials

Fluidra aims to reduce the underselling of raw materials, avoiding exploitation, optimising consumption and minimising waste and disposals, from design, procurement and production, applying best environmental practices. The rise in production in 2017 has led to an increase in consumption of raw materials, although the rise was less than the increase in production of end components and product.

Human Rights and the fight against corruption and bribery

- United Nations Global Compact

One of the basic elements on which Corporate Social Responsibility (CSR) in Fluidra is based is participation in and observance of the commitments of the United Nations Global Compact, to which Fluidra has adhered since 2007, renewing its commitments year after year. The United Nations Global Compact embodies the cornerstone of the Code of Ethics developed in Fluidra since it began structuring its CSR.

- Ethical standards

There are two pillars which support ethical management in Fluidra: its 'People Values' (Code of Ethics), and the Code of Ethics for Suppliers. The first inspires and defines the day to day conduct of all employees of Fluidra and the second works as guidelines for social responsibility and sustainability in the supply chain (see the following section, Supply chain).

The People Values reflect the values and principles that should guide the conduct of the companies in the Fluidra Group. Its implementation is binding on all persons and directors of the Fluidra Group, regardless of the position or role they hold (including administrative bodies, managerial positions and other supervisory bodies), ensuring a responsible ethical behaviour and compliance with the law.

There is also an Ethics Committee which consists of the Human Resources, Internal Audit and Legal divisions. The Ethics Committee receives, examines and responds to inquiries, complaints or allegations raised by employees, customers, suppliers or others. All requests or communications regarding incidents are handled with confidentiality and respect for all parties involved. The Ethics Committee reports to the Audit Committee, the governing body reporting directly to the Board of Directors. During 2017 no breaches of the Peoples Values were detected that required specific actions.

- Compliance with standards

Fluidra has spent several years developing a Corporate Compliance Programme whose main objective is to generate an ethical culture within the company and prevent any violation of the law.

The group has been implementing its Corporate Compliance Programme in line with the schedule approved each year by the Audit Committee. In 2017, it rolled out on three levels: the first level applied to Spanish companies operating in the group; the second level of implementation is made up of a group of three countries (UK, France and Australia); and, lastly, the programme was also implemented on a third level affecting the rest of the countries in which the group operates.

Several on-site visits were carried out and Compliance Kits were provided as support for these visits and the explanations made.

As in prior years, the Group has promoted compliance training for the teams in the different areas susceptible to risk. The visibility of the "Policies and Procedures" area of the intranet has also been promoted.

This roll-out plan has been very well received by the companies, which is a testament to the greater visibility and commitment that -particularly in the last year- has been given to Corporate Compliance.

Supply chain

- Purchase and approval policy

Fluidra has continued to develop the Suppliers' Policy in line with the commitments of honesty and integrity that define the group. The new Purchase Policy has been approved, disseminated and implemented during 2017.

Given the close relationship and knowledge of our suppliers, 40% of the group's purchases are carried out in Spain. The rest are imported products or products used in the same productive areas where they are manufactured. Thus the purchase impact for local suppliers is significant, avoiding unnecessary movements of goods while promoting the local economy. It is important to note that the volume of purchases from China is strongly affected by the purchase of chemicals, as China is the only manufacturer of many of these products in the world.

- CSR in the supply chain

Fluidra has had a Code of Ethics specifically for its supply chain since 2011. This code is inspired by the United Nations Global Compact; advocating human rights and fighting corruption are both essential and paramount. The provisions of this Code are present in the approval process of new suppliers: their membership is automatically implemented by the general clauses in all corporate agreements and automatic system orders.

The criticality of suppliers is determined by their purchase volume and degree of involvement in the business. In this respect, all suppliers of materials and services with purchasing volumes above Euros 500,000 are considered critical and must therefore be assessed regarding their ethical, social and environmental behaviour. In 2017, critical suppliers represented approximately 60% of total purchases.

During 2017, no vulnerabilities in the code have been detected by the suppliers assessed.

- 2017 Purchases

2017 has been characterised in global terms by an almost 10% increase in purchases, in line with the growth in the group's business. The year has been marked by high quoted prices of raw materials (oil, gas, metal), particularly in the last months of the year, which has affected price levels of many raw materials.

The ever increasing price of oil and metals has led to cost increases in derivative product costs, especially resins (ABS, PP, PE, polyester), engines and steel, with certain stress caused by supply.

The Chinese government's environmental and energy policy has given rise to significant restrictions in that country. This has hit the chemicals product family the hardest, with major price hikes, as well as a significant, lasting scarcity of supplies.

Risk management

The structure relating to managing financial and non financial risks, their identification and their control is set out in note 21 of the Consolidated Financial Statements and in section E of the Annual Corporate Governance Report.

The most notable event in 2017 was the inclusion of Catalonia's political situation to the map of potential risks facing Fluidra, even though operations in Spain have grown in double figures during 2017. The company continues to monitor the political and economical situation in order to act and make the most appropriate decisions in accordance with the circumstances that arise.

Related-party transactions

A breakdown of information on third-party transactions is disclosed in note 29.

Treasury shares

Over 2017 the Company has carried out several purchase and sale transactions of treasury shares (352,281 shares purchased and 530,187 sold). At year end the Company owned 1,639,238 treasury shares, which account for 1.46% of share capital and a cost of Euros 6,319 thousand.

Subsequent events

Please refer to note 36.

Other information

The Annual Corporate Governance Report of Fluidra, S.A. and Subsidiaries forms a part of this consolidated management report and is available on www.fluidra.com, and is published as a Relevant Event on the CNMV's website (Comisión Nacional del Mercado de Valores).

Fluidra, S.A. and Subsidiaries

Consolidated financial statements

2017

On 27 February 2018 the Board of Directors of Fluidra, S.A. approved for issue the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union (which comprise the consolidated statement of financial position, the consolidated income statement, the consolidated statements of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement, the notes to the consolidated financial statements and the consolidated management report) for the year ended 31 December 2017. In witness whereof, they are hereby signed on this sheet, by all the members of the Board of Directors, as well as by the non-board member secretary of the Board, Mr. Albert Collado Armengol, on each of the sheets composing the aforementioned documents for identification purposes.

Mr. Eloy Planes Corts

Mr. Oscar Serra Duffo

Mr. Bernardo Corbera Serra

Dispur, S.L.
Ms. Eulalia Planes Corts

Aniol, S.L.
Mr. Bernat Garrigós Castro

Mr. Richard Cathcart

Mr. Juan Ignacio Acha-Orbea Echeverría

Mr. Gabriel López Escobar

Mr. Jorge Valentín Constans Fernández

FLUIDRA, S.A.
AND SUBSIDIARIES

Details of the corporate name
of subsidiaries, associates
and joint ventures directly or indirectly owned

Subsidiaries, accounted for using the full consolidation method

- Agrisilos, S.R.L., domiciled in Vescovato (Italy), is mainly engaged in the production, processing, assembly and marketing of plastic products and other materials for use in agricultural and industrial settings, swimming pools, swimming pool equipment and supplies, water treatment products, robotic cleaning devices and membranes for projects in the gas industry and, in general, products and accessories, spare parts, expandable structures and products relating to the wellness market, including maintenance, repair, management and other services relating to the abovementioned activities.

- AO Astral SNG, domiciled in Moscow (Russia), is mainly engaged in the purchase of pool materials for subsequent sale in the Russian market.

- Aqua Products Inc. domiciled in New Jersey (USA), is mainly engaged in the manufacture and distribution of electronic pool cleaners for public and private pools.

- Aquatron Robotic Technology, Ltd, domiciled in Afula (Israel), is mainly engaged in the manufacture and distribution of electronic pool cleaners for public and private pools.

- Astral Bazénové Prislusentsvi, S.R.O., domiciled in Praha-Vychod (Czech Republic), is mainly engaged in the marketing of pool accessories.

- Astral India Private, Limited, domiciled in Guindi (India), is mainly engaged in the marketing of pool material.

- Astralpool Cyprus, LTD, domiciled in Limassol (Cyprus), is mainly engaged in the distribution of pool-related products.

- Astralpool Hongkong, CO., Limited, domiciled in Hong Kong (Hong Kong), is mainly engaged in the marketing of pool-related accessories.

- Astral Pool México, S.A. de C.V., domiciled in Tlaquepaque (Mexico), is mainly engaged in the marketing of pool material.

- Astral Pool Switzerland, S.A., domiciled in Bedano (Switzerland) is mainly engaged in the marketing of pool material.

- Astralpool (Thailand) Co., Ltd, domiciled in Samuthprakarn (Thailand), is mainly engaged in the marketing of pool-related accessories.

- Astralpool UK Limited., domiciled in Hants (England), is engaged in the manufacture, purchase and sale, distribution, marketing, export and import of all types of swimming-pool products.

- Cepex Mexico, S.A. de CV., domiciled in Mexico City (Mexico), is mainly engaged in the marketing of fluid handling products.

- Cepex S.A.U., domiciled in Granollers (Barcelona, Spain), is mainly engaged in the manufacture, production and distribution of plastic material by injection system and, in particular, plastic parts for armature.

- Certikin International, Limited, domiciled in Witney Oxon (England), is engaged in the marketing of swimming-pool products.

FLUIDRA, S.A.
AND SUBSIDIARIES

Details of the corporate name
of subsidiaries, associates
and joint ventures directly or indirectly owned

- Certikin Swimming Pool Products India Private Limited, domiciled in Bangalore (India), is mainly engaged in the marketing of swimming-pool products.

- Fluidra Adriatic D.O.O., domiciled in Zagreb (Croatia) is mainly engaged in the purchase, sale and distribution of machinery, equipment, materials, products and special equipment for pool and water system maintenance.

- Fluidra Al Urdoun Fz, domiciled in Zarqa Free Zone (Jordan) is mainly engaged in the marketing of pool materials.

- Fluidra Assistance, S.A.S., domiciled in Perpignan (France), is mainly engaged in the installation, assembly and implementation of all products and materials relating to pools and water treatment and the provision of post-sales services and the maintenance and installation of these products and materials.

- Fluidra Australia PTY LTD), domiciled in Melbourne (Australia), is mainly engaged in the purchase, sale and distribution of machinery, equipment, products and special equipment for pool and water system maintenance. This company is the parent of the Australia Group, and fully owns Hurlcon Staffing Pty Ltd, Hurlcon Investments Pty Ltd, Hurlcon Research Pty Ltd, (dormant), Rolachem Pty Ltd. (dormant) and also Astral Pool Australia Pty Ltd.

- Fluidra Balkans JSC, domiciled in Plovdiv (Bulgaria) is mainly engaged in the purchase, sale and distribution of machinery, equipment, materials, products and special equipment for pool and water system maintenance.

- Fluidra Belgique, S.R.L., domiciled in Carcelles (Belgium), is engaged in the manufacture, purchase and sale, distribution, marketing, export and import of all types of swimming-pool products.

- Fluidra Brasil Indústria e Comércio LTDA, domiciled in Jardim Sao Luis (Brazil), is mainly engaged in the marketing, import, export and distribution of equipment, products and services for fluid handling, irrigation, swimming-pools and water treatment, as participant in other companies as partner or shareholder. Rendering of technical assistance services for machines, filters and industrial and electro-electronic equipment. Rental of machines and industrial and/or electro-electronic equipment.

- Fluidra Chile, S.A., domiciled in Santiago de Chile (Chile), is mainly engaged in the distribution and marketing of swimming-pool, irrigation and water treatment and purification products.

- Fluidra Colombia, S.A.S., domiciled in Funza (Colombia) is engaged in the purchase and sale, distribution, marketing, import, export of all types of machinery, equipment, components and machinery spare parts, tools, accessories and products for swimming-pools, irrigation and water treatment and purification in general, built with both metallic materials and any type of plastic materials and processed products.

- Fluidra Comercial España, S.A.U., domiciled in Polinyà (Barcelona), is engaged in the manufacture, purchase and sale and distribution of all types of machinery, equipment, components and machinery spare parts, tools, accessories and products for swimming-pools, irrigation and water treatment and purification. This company is the parent of the F.C.España group, and holds a 67.5% interest in the company Tecnical Pool Service, S.L.

FLUIDRA, S.A.
AND SUBSIDIARIES

Details of the corporate name
of subsidiaries, associates
and joint ventures directly or indirectly owned

- Fluidra Commerciale Italia, S.P.A., domiciled in Brescia (Italy) is engaged in the manufacture, purchase and sale, distribution, marketing, export and import of all types of swimming-pool products.

- Fluidra Commerciale France, S.A.S., domiciled in Perpignan (France) is engaged in the manufacture, purchase and sale, distribution, marketing, export and import of all types of swimming-pool products.

- Fluidra Commercial, S.A.U., domiciled in Sabadell (Barcelona) is engaged in the holding and use of equity shares and securities, and advising, managing and administering the companies in which it holds an ownership interest.

- Fluidra Danmark A/S, domiciled in Roedekro (Denmark), is engaged in the import of technical components and equipment for all types of water treatment processes.

- Fluidra Deutschland, GmbH, domiciled in Hirschberg (Germany) is engaged in the manufacture, purchase and sale, distribution, marketing, export and import of all types of swimming-pool products.

- Fluidra Egypt, Egyptian Limited Liability Company, domiciled in Cairo (Egypt), is mainly engaged in the marketing of swimming-pool accessories.

- Fluidra Engineering Services, S.L.U., domiciled in Sabadell (Barcelona) is engaged in the rendering of advisory services for group companies.

- Fluidra Export, S.A.U., domiciled in Polinyà (Spain), is engaged in both domestic and foreign marketing of all types of products and goods, mainly in the marketing of pool-related products, basically acquired from related parties.

- Fluidra Global Distribution, S.L.U., domiciled in Polinyà (Barcelona), is engaged in the purchase and sale of all types of swimming-pool products and their distribution to group companies.

- Fluidra Hellas, S.A. domiciled in Aspropyrgos (Greece), is mainly engaged in the distribution of pool-related products.

- Fluidra Holdings South Africa Pty Ltd, domiciled in Johannesburg (South Africa) is engaged in the holding and use of equity shares and securities, and advising, managing and administering the companies in which it holds an ownership interest.

- Fluidra Indonesia PT, domiciled in Jakarta (Indonesia) is engaged in the purchase and sale, import, export, storage, manufacture and, in general, marketing of all types of goods, equipment, components, machinery, accessories and chemical specialities for swimming-pools, irrigation and water treatment.

- Fluidra Industry España, S.A.U., domiciled in Sabadell (Barcelona) is engaged in the holding and use of equity shares and securities, and advising, managing and administering the companies in which it holds an ownership interest.

- Fluidra Industry France, S.A.R.L., domiciled in Perpignan (France), is engaged in the manufacture of automatic pool covers.

- Fluidra Industry, S.A.U., domiciled in Sabadell (Barcelona) is engaged in the holding and use of equity shares and securities, and advising, managing and administering the companies in which it holds an ownership interest.

FLUIDRA, S.A.
AND SUBSIDIARIES

Details of the corporate name
of subsidiaries, associates
and joint ventures directly or indirectly owned

- Fluidra JV Youli, S.L.U. domiciled in Sabadell (Barcelona), is engaged in the administration, management and operation of its interest in the share capital of the Chinese company "Fluidra Youli Fluid Systems (Wenzhou) Co., LTD.

- Fluidra Kazakhstan Limited Liability Company, domiciled in Almaty City (Kazakhstan), is engaged in the purchase of swimming-pool material for subsequent sale in the domestic market.

- Fluidra Magyarország, Kft, domiciled in Budapest (Hungary), is mainly engaged in the marketing and assembly of machinery and accessories for swimming-pools, irrigation and water treatment and purification.

- Fluidra Malaysia SDN.BHD, domiciled in Johor (Malaysia) is mainly engaged in the marketing of swimming-pool material.

- Fluidra Maroc, S.A.R.L., domiciled in Casablanca (Morocco), is engaged in the import, export, manufacture, marketing, sale and distribution of spare parts for swimming-pools, irrigation and water treatment.

- Fluidra México, S.A. DE CV, domiciled in Mexico City (Mexico) is engaged in the purchase and sale, import, export, storage, manufacture and, in general, marketing of all types of goods, equipment, components, machinery, accessories and chemical specialties for swimming-pools, irrigation and water treatment.

- Fluidra Middle East Fze, domiciled in Jebel Ali (Dubai), is engaged in the marketing of equipment for swimming-pools and water treatment, as well as related accessories.

- Fluidra Montenegro DOO domiciled in Podgorica (Montenegro) is mainly engaged in the purchase, sale and distribution of machinery, equipment, materials, accessories, products and special equipment for pool and water system and irrigation maintenance.

- Fluidra Österreich GmbH "SSA", domiciled in Salzburg (Austria) is mainly engaged in the marketing of swimming-pool products.

- Fluidra Polska, SP. Z.O.O., domiciled in Wroclaw (Poland) is mainly engaged in the marketing of pool accessories.

- Fluidra Comercial Portugal Unipessoal Lda. (previously Fluidra Portugal, Lda. Unipessoal and merged with Certikin Portugal Lda.), domiciled in São Domingo da Rana (Portugal), is engaged in the manufacture, purchase and sale, distribution, marketing, export and import of all types of swimming-pool products.

- Fluidra Projects USA Inc. domiciled in Wilmington (USA), is engaged in the management, advice and performance of sports, leisure and health centre projects and works, through its own technical, personnel and organizational means or through third-party subcontracting.

- Fluidra Romania S.A., domiciled in Bucharest (Romania) is mainly engaged in the purchase, sale and distribution of machinery, equipment, materials, accessories, products and special equipment for pool and water system and irrigation maintenance.

- Fluidra Serbica, D.O.O. Beograd, domiciled in Belgrade (Serbia) is mainly engaged in the marketing of swimming-pool material.

- Fluidra Services España, S.L.U., domiciled in Granollers (Spain), is mainly engaged in the rendering of administrative services, legal, tax and financial advisory services, staff management and training and computer services.

FLUIDRA, S.A.
AND SUBSIDIARIES

Details of the corporate name
of subsidiaries, associates
and joint ventures directly or indirectly owned

- Fluidra Services France, S.A.S., domiciled in Perpignan (France), is mainly engaged in the rendering of administrative services, legal, tax and financial advisory services, staff management and training and computer services.

- Fluidra Services Italia, S.R.L., domiciled in Brescia (Italy), is engaged in the rendering of services and real estate activity.

- Fluidra Singapore, PTE LTD, domiciled in Singapore (Singapore), is mainly engaged in the marketing of pool-related accessories.

- Fluidra South Africa (Pty), Ltd, domiciled in Johannesburg (South Africa), is engaged in the manufacture, purchase and sale and distribution of all types of machinery, equipment, components and machinery spare parts, tools, accessories and products for swimming-pools, water treatment and fluid handling.

- Fluidra Nordic AB, domiciled in Mölndal (Sweden) is mainly engaged in the purchase, sale, import, export of product categories and products directly or indirectly required for the marketing of materials for swimming-pools, water treatment equipment and related activities.

- Fluidra (Thailand) Co., Ltd, domiciled in Samuthprakarn (Thailand), is engaged in the holding and use of equity shares and securities.

- Fluidra Tr Su Ve Havuz Ekipmanlari AS, domiciled in Kartal (Turkey), is engaged in the import of equipment, chemical products and other secondary materials necessary for swimming-pools, and their subsequent distribution.

- Fluidra USA, INC, domiciled in Jacksonville (USA), is engaged in the marketing of pool-related products and accessories.

- Fluidra Vietnam LTD, domiciled in Ho Chi Minh City (Vietnam) is engaged in advising, allocating and installing pool filtering systems and water applications, as well as the import, export and distribution of wholesale and retail products.

- Fluidra Waterlinx Pty, Ltd, domiciled in Johannesburg (South Africa), is mainly engaged in the manufacture and distribution of swimming-pools, equipment and spa and garden accessories. This company is the parent of the Waterlinx Group, and fully owns the companies Waterlinx International Pty Ltd, and Waterlinx Industrial and Irrigation Pty Ltd.

- Fluidra Youli Fluid Systems (Wenzhou) Co., LTD, domiciled in Luishi Town, Yueqing City (China), is mainly engaged in the development, production and sale of fluid handling products.

- I.D. Electroquímica, S.L., domiciled in Alicante, is engaged in the sale of all types of process development machines and electrochemical reactors.

- Industrias Mecánicas Lago, S.A.U., domiciled in Sant Julià de Ramis (Girona), is engaged in the manufacture and marketing of liquid and fluid transfer pumps, swimming-pools and their accessories.

FLUIDRA, S.A.
AND SUBSIDIARIES

Details of the corporate name
of subsidiaries, associates
and joint ventures directly or indirectly owned

- Innodrip, S.L.U., domiciled in Las Franqueses del Vallés (Spain) is engaged in the rendering of services aimed at the sustainable use of water.

- Inquide Italia, S.R.L., domiciled in Bedizzole (Brescia, Italy), is mainly engaged in the marketing of chemical products for water disinfection.

- Inquide, S.A.U., domiciled in Polinyà (Barcelona), is mainly engaged in the manufacture of chemical products and specialties in general, excluding pharmaceutical products.

- Laghetto France, S.A.R.L., domiciled in Saint-Cannat (France), is mainly engaged in the purchase and sale of sports, leisure and pool materials and equipment and related accessories.

- Loitech (Ningbo) Heating Equipment Co, Ltd, domiciled in Zhenhai (China), is engaged in the production and installation of heat pumps for swimming-pools, as well as other accessories necessary for the assembly.

- Manufacturas Gre, S.A.U., domiciled in Munguia (Vizcaya, Spain), is engaged in the manufacture and marketing of products, accessories and pool-related products.

- Me 2000, S.R.L., domiciled in Brescia (Italy), is engaged in property development and leasing.

- Metalast, S.A.U., domiciled in Polinyà (Barcelona), is engaged in the manufacture of metallic articles, boiler works, street furniture and wholesale sale of accessories.

- Ningbo Dongchuan Swimming Pool Equipements Co., LTD, domiciled in Ningbo (China), is engaged in the production and installation of swimming-pool equipment, brushes, plastic and aluminium products, industrial thermometer, water disinfection equipment and water testing equipment. Import and export of technology for own use or as an agent.

- Ningbo Linya Swimming Pool & Water Treatment Co., Ltd., domiciled in Ningbo (China), is engaged in the design, research, development and production of swimming-pool and water disinfection equipment, pumps, dehumidifiers, metallic products, plastic products and vitreous coatings.

- Piscines Techniques 2000, S.A.S., domiciled in Perpignan (France), is engaged in the sale of spare parts for swimming-pools; the purchase and sale of swimming-pool equipment and used water systems; the sale, distribution, marketing, repair and maintenance of swimming-pool equipment, gardening, irrigation and water treatment; and technical advice to swimming-pool and water professionals.

- Poltank, S.A.U., domiciled in Sant Jaume de Llierca (Girona), is engaged in the manufacture and marketing of filters for swimming-pools through injection, projection and lamination.

- Poolweb, SAS, domiciled in Lyon (France), is engaged in the purchase and sale of equipment for pools and other business areas relating to water and relaxation, in providing technical assistance to professionals in this industry and to creating and selling IT programmes used in the aforementioned activities.

- Price Chemicals PTY LTD, domiciled in Melbourne (Australia) is engaged in the production and distribution of chemical products for swimming-pools and spas. It imports and locally produces its own brands of renowned chemical products in both the residential and commercial markets.

FLUIDRA, S.A.
AND SUBSIDIARIES

Details of the corporate name
of subsidiaries, associates
and joint ventures directly or indirectly owned

- Productes Elastomers, S.A., domiciled in Sant Joan Les Fonts (Girona), is engaged in the manufacture of rubber moulded parts, as well as all types of natural and synthetic rubber; the execution and development of techniques for the maintenance of pressure rollers; their repair and mending; and in general, the production, manufacture and processing of all types of rubber and plastic products.

- Puralia Systems, S.L.U., domiciled in Cervelló (Barcelona), is engaged in marketing the renting of machines, materials, tools and accessories for water installations and treatment.

- Riiot Labs NV/SA, domiciled in Seraing (Belgium), is mainly engaged in the design, development, manufacture, marketing and operation, by any means, including via the granting of patents and licences to third parties, of objects linked to the analysis and treatment of swimming-pool water quality and IT software relating to these objects and any similar, comparable or supplementary product.

- Sacopa, S.A.U., domiciled in Sant Jaume de Llierca (Girona), is mainly engaged in the processing, marketing and sale of plastic materials, as well as the manufacture, assembly, processing, purchase and sale and distribution of all types of lighting and decoration devices and tools. Foreign and domestic trading activities of all types of goods and products directly and indirectly related to the above products, their purchase and sale and distribution. Representation of domestic and foreign brands and commercial and industrial enterprises engaged in the manufacture of the aforementioned products.

- SIBO Fluidra Netherlands B.V., domiciled in Veghel (the Netherlands), is engaged in the manufacture and distribution of natural pools and water installations.

- Splash Water Traders Pvt. Ltd, domiciled in Chennai (India), is mainly engaged in the marketing of swimming-pool material.

- Talleres del Agua, S.L.U., domiciled in Polígono Industrial de Barros, Ayuntamiento de los Corrales de Buelna (Cantabria), is engaged in the building, sale, installation, air-conditioning and maintenance of swimming-pools, as well as the manufacture, purchase and sale, import and export of all types of swimming-pool tools.

- Togama, S.A.U., domiciled in Villareal (Castellón), is engaged in the manufacture of ceramic for electric installations.

- Trace Logistics France, S.A.S., domiciled in Perpignan (France) is engaged in the rendering of commercial and industrial product storage and distribution services, as well as all types of activities that contribute to the performance and expansion of its activity.

- Trace Logistics, S.A.U., domiciled in Maçanet de la Selva (Girona), is engaged in receiving third-party goods in consignment in its warehouses or premises for their storage, control and distribution to third parties at the request of its depositors; performing storage, loading and unloading duties and other supplementary activities that are necessary for managing the distribution of these goods in accordance with the instructions of the depositors and arranging and managing transport.

- Turcat Polyester Sanayi Ve Ticaret A.S., domiciled in Istanbul (Turkey), is engaged in the production, import, export and marketing of products and accessories, purification filters and chemical products.

- Unistral Recambios, S.A.U., domiciled in Maçanet de la Selva (Girona), is engaged in the manufacture, purchase and sale and distribution of machinery, accessories, spare parts, parts and products for water treatment and purification in general.

FLUIDRA, S.A.
AND SUBSIDIARIES

Details of the corporate name
of subsidiaries, associates
and joint ventures directly or indirectly owned

- U.S. Pool Holdings, Inc, domiciled in Delaware (USA), is engaged in the holding and use of equity shares and securities.

- Veico . Com. Br Indústria e Comércio LTDA, domiciled in Ciudad de Brusque (Brazil), is engaged in the manufacture and marketing of all types of swimming-pool articles and accessories.

- W.I.T. Egypt, Egyptian Limited Liability Company, domiciled in Cairo (Egypt), is mainly engaged in the marketing of swimming-pool accessories.

- Ya Shi Tu Swimming Pool Equipment (Shanghai) Co, Ltd, domiciled in Tower E, Building 18, nº 238, Nandandong Road, Xu Hui District (Shanghai), is mainly engaged in the marketing of swimming-pool products.

<u>Associates, accounted for using the equity method</u>

- Astral Nigeria, Ltd., domiciled in Surulere-Lagos (Nigeria), is engaged in the marketing of swimming-pool products.

- OCM Products Limited., domiciled in Wigan (England), is mainly engaged in the production and marketing of filtering equipment for residential and commercial pools.

FLUIDRA, S.A.
AND SUBSIDIARIES

Subsidiaries
31 December 2017

List of subsidiaries, accounted for using the full consolidation method

	% Ownership interest		
	Direct	Indirect	
FLUIDRA COMMERCIAL, S.A.U.	**100%**		
AO ASTRAL SNG		80%	
ASTRAL BAZENOVE PRISLUSENTSVI, S.R.O.		100%	
ASTRAL INDIA PRIVATE, LIMITED		100%	
SPLASH WATER TRADERS PVT. LTD		100%	
ASTRALPOOL CYPRUS, LTD		90%	
ASTRALPOOL HONGKONG, CO., LIMITED		100%	
ASTRAL POOL MEXICO, S.A. DE C.V.		100%	
ASTRAL POOL SWITZERLAND, S.A.		100%	
ASTRALPOOL UK LIMITED		100%	
CEPEX MEXICO, S.A. DE C.V.		100%	
CERTIKIN INTERNATIONAL, LIMITED		100%	
CERTIKIN SWIMMING POOL PRODUCTS INDIA PRIVATE LIMITED		100%	
FLUIDRA ADRIATIC D.O.O.		60%	
FLUIDRA AUSTRALIA PTY LTD		100%	(2)
PRICE CHEMICALS PTY LTD		100%	
FLUIDRA BALKANS JSC		66.67%	
FLUIDRA BRASIL INDÚSTRIA E COMÉRCIO LTDA		80%	
VEICO . COM. BR INDÚSTRIA E COMÉRCIO LTDA		80%	
FLUIDRA CHILE, S.A.		100%	
FLUIDRA COLOMBIA, S.A.S		100%	
FLUIDRA COMERCIAL ESPAÑA, S.A.U.		100%	(2)
FLUIDRA DANMARK A/S		100%	
FLUIDRA DEUTSCHLAND GmbH		100%	
FLUIDRA EGYPT, Egyptian Limited Liability Company		90%	
W.I.T. EGYPT, Egyptian Limited Liability Company		89.91%	
FLUIDRA ENGINEERING SERVICES, S.L.U.		100%	
FLUIDRA EXPORT, S.A.U.		100%	
FLUIDRA GLOBAL DISTRIBUTION, S.L.U.		100%	
FLUIDRA HELLAS, S.A.		96.96%	
FLUIDRA HOLDINGS SOUTH AFRICA PTY LTD		75%	100% / (3)
FLUIDRA WATERLINX PTY, LTD		75%	100% / (3) / (2)
FLUIDRA INDONESIA PT.		100%	
FLUIDRA JV YOULI, S.L.U.		100%	
FLUIDRA YOULI FLUID SYSTEMS (WENZHOU) CO, LTD		70%	
FLUIDRA KAZAKHSTAN Limited Liability Company		60%	
FLUIDRA MAGYARORSZÁG Kft.		95%	
FLUIDRA MALAYSIA SDN.BHD.		100%	
FLUIDRA MAROC, S.A.R.L.		100%	
FLUIDRA MEXICO, S.A. DE C.V.		100%	
FLUIDRA MIDDLE EAST FZE		100%	
FLUIDRA AL URDOUN FZ		70%	
FLUIDRA MONTENEGRO DOO		60%	
FLUIDRA ÖSTERREICH Gmbh "SSA"		95%	
FLUIDRA POLSKA, SP. Z.O.O.		100%	

FLUIDRA, S.A.
AND SUBSIDIARIES

Subsidiaries
31 December 2017

FLUIDRA COMERCIAL PORTUGAL UNIPESSOAL, LDA.	100%	Previously Fluidra Portugal, Lda Unipessoal / Merged with Certikin Portugal, Lda.
FLUIDRA ROMANIA S.A.	66.66%	
FLUIDRA SERBICA, D.O.O. BEOGRAD	60%	
FLUIDRA SERVICES ITALIA, S.R.L.	91%	
FLUIDRA COMMERCIALE ITALIA, S.P.A	91%	
INQUIDE ITALIA, S.R.L..	91%	
AGRISILOS, S.R.L.	81.90%	91% / (3) / (4)
LAGHETTO FRANCE, S.A.R.L.	81.90%	91% / (3) / (4)
FLUIDRA SINGAPORE, PTE LTD	100%	
FLUIDRA SOUTH AFRICA (PTY) LTD	100%	
FLUIDRA NORDIC AB	100%	
FLUIDRA (THAILAND) CO, LTD	100%	
ASTRALPOOL (THAILAND) CO., LTD.	99%	
FLUIDRA TR SU VE HAVUZ EKIPMANLARI AS	51%	
TURCAT POLYESTER SANAYI VE TICARET A.S.	25.50%	
FLUIDRA VIETNAM LTD	100%	
RIIOT LABS NV/SA	80%	100% / (3) / (4)
SIBO FLUIDRA NETHERLANDS B.V.	70%	100% / (3)
YA SHI TU SWIMMING POOL EQUIPMENT (SHANGHAI) Co, Ltd	100%	

FLUIDRA INDUSTRY S.A.U. **100%**

AQUATRON ROBOTIC TECHNOLOGY LTD	100%	
FLUIDRA INDUSTRY ESPAÑA, S.A.U.	100%	
CEPEX S.A.U.	100%	
METALAST, S.A.U.	100%	
NINGBO LINYA SWIMMING POOL & WATER TREATMENT	100%	
POLTANK, S.A.U.	100%	
TURCAT POLYESTER SANAYI VE TICARET A.S.	50%	
SACOPA, S.A.U.	100%	
I.D. ELECTROQUÍMICA, S.L.	78.82%	100% / (3)
INDUSTRIAS MECANICAS LAGO, S.A.U.	100%	
INQUIDE, S.A.U.	100%	
LOITECH (NINGBO) HEATING EQUIPMENT CO., Ltd	100%	
NINGBO DONGCHUAN SWIMMING POOL EQUIPEMENTS CO., LTD	70%	
PRODUCTES ELASTOMERS, S.A.	70%	
PURALIA SYSTEMS, S.L.U.	100%	(5)
TALLERES DEL AGUA, S.L.U.	100%	
TOGAMA, S.A.U.	100%	
UNISTRAL RECAMBIOS, S.A.U.	100%	
U.S. POOL HOLDINGS, INC	100%	
AQUA PRODUCTS INC	100%	
FLUIDRA USA, INC	100%	
FLUIDRA PROJECTS USA INC	100%	

FLUIDRA, S.A.
AND SUBSIDIARIES

Subsidiaries
31 December 2017

MANUFACTURAS GRE, S.A.U.	**100%**		
ME 2000, S.R.L.		100%	
FLUIDRA SERVICES FRANCE, S.A.S.	**100%**		
FLUIDRA COMMERCIAL FRANCE, S.A.S.		100%	
FLUIDRA ASSISTANCE, S.A.S.		100%	(5)
FLUIDRA BELGIQUE, S.R.L.		100%	
POOLWEB S.A.S.		100%	(4)
FLUIDRA INDUSTRY FRANCE, S.A.R.L.		100%	
PISCINES TECHNIQUES 2000, S.A.S.		100%	
TRACE LOGISTICS, S.A.U.	**100%**		
TRACE LOGISTICS FRANCE, S.A.S.		100%	
FLUIDRA SERVICES ESPAÑA, S.L.U.	**100%**		
INNODRIP, S.L.U	**100%**		

<u>List of associates, accounted for using the equity method</u>

ASTRAL NIGERIA, LTD.	25%	(1)
OCM PRODUCTS LIMITED	50%	(1) / (4)

<u>List of companies consolidated at cost</u>

DISCOVERPOOLS COM, INC.	11%	(1)

(1) Companies belonging to the Fluidra Commercial, S.A. and subsidiaries subgroup.
(2) Fluidra Australia Pty Ltd is a group of companies in which the parent fully owns the companies Astral Pool Australia Pty Ltd, Hurlcon Staffing Pty Ltd, Hurlcon Investments Pty Ltd, Hurlcon Research Pty Ltd and Rolachem Australia Pty Ltd. Fluidra Comercial España, S.A.U. is a group of companies in which the parent holds an ownership interest of 67.5% in the company Tecnical Pool Service, S.L. Fluidra Waterlinx Pty Ltd is a group of companies in which the parent fully owns the companies Waterlinx International Pty Ltd, and Waterlinx Industrial And Irrigation Pty Ltd.
(3) Companies that have been fully integrated into the consolidated financial statements and the book value of non-controlling interest has no longer been recognised.
(4) Companies acquired during the current year (note 5).
(5) Newly incorporated companies.
(6) During 2017, Agro-Cepex, S.A.R.L., Astramatic Malaysia Sdn. Bhd, Certikin Middle East Fze, Pro Cepex, S.R.L. and A.P. Inmobiliere have been wound up.
(6) During 2017, Aplicaciones Técnicas Hidráulicas, S.L.U. was divested (see note 5).

Fluidra, S.A. and Subsidiaries

Details of segment results
for the year ended 31 December 2017
(Thousands of euros)

	EUROPE	EXPANSION	TRANSACTIONS	Shared services	Adjustments and eliminations	Total consolidated figures
	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017
Sales to third parties	427,540	275,922	77,766	197	-	781,425
Sales to third parties in Spain	125,277	1,007	26,087	-	-	152,371
Sales to third parties in France	97,399	-	12,366	-	-	109,765
Inter-segment sales	13,740	16,282	326,257	-	(356,279)	-
Segment sales of goods and finished products	441,280	292,204	404,023	197	(356,279)	781,425
Income from services rendered, work performed by the Group and capitalised as non-current assets	8,833	2,679	7,948	2,689	(313)	21,836
Depreciation and amortisation expenses and impairment losses	(3,444)	(6,131)	(15,507)	(31,958)	16,661	(40,379)
Operating profit/(loss) from reporting segments	35,268	21,098	41,805	(49,351)	9,829	58,649
Finance income	654	768	585	7,143	(7,072)	2,078
Finance expense	(1,365)	(4,409)	(713)	(14,038)	8,110	(12,415)
Exchange gains (losses)	66	(1,765)	(713)	477	(568)	(2,503)
Share in profit/(loss) of associates	-	-	-	-	(32)	(32)
Profit before tax	34,623	15,692	40,964	(55,769)	10,267	45,777
Income tax income/(expense)	(10,232)	(4,487)	(9,291)	6,500	4,547	(12,963)
Profit for the year from continuing operations	24,391	11,205	31,673	(49,269)	14,814	32,814
EBITDA	48,853	30,669	62,603	(36,421)	(6,708)	98,996
Other significant non-monetary items before tax:	860	1,113	(179)	5,334	(2,187)	4,941

Fluidra, S.A. and Subsidiaries

Details of segment results
for the year ended 31 December 2016
(Thousands of euros)

	EUROPE	EXPANSION	TRANSACTIONS	Shared services	Adjustments and eliminations	Total consolidated figures
	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016
Sales to third parties	392,031	247,995	73,226	-	-	713,252
Sales to third parties in Spain	127,657	589	24,929	-	-	153,175
Sales to third parties in France	82,565	-	12,908	-	-	95,473
Inter-segment sales	12,193	17,309	260,386	-	(289,888)	-
Segment sales of goods and finished products	404,224	265,304	333,612	-	(289,888)	713,252
Income from services rendered, work performed by the Group and capitalised as non-current assets	7,865	3,434	7,535	2,049	(478)	20,405
Depreciation and amortisation expenses and impairment losses	(3,049)	(26,599)	(17,820)	(55,972)	63,594	(39,846)
Operating profit/(loss) from reporting segments	30,857	(10,854)	36,285	(71,036)	60,837	46,089
Finance income	1,459	1,057	899	6,784	(7,408)	2,791
Finance expense	(891)	(2,931)	(696)	(14,601)	7,927	(11,192)
Exchange gains (losses)	570	2,272	(197)	(696)	3	1,952
Share in profit/(loss) of associates	-	-	-	-	27	27
Profit before tax	31,995	(10,456)	36,291	(79,549)	61,386	39,667
Income tax income/(expense)	(8,332)	(4,307)	(9,841)	5,412	3,933	(13,135)
Profit for the year from continuing operations	23,663	(14,763)	26,450	(74,137)	65,319	26,532
EBITDA	41,135	18,605	59,310	(30,434)	(2,654)	85,962
Other significant non-monetary items before tax:	1,608	(2,011)	5	(88)	(264)	(750)

Fluidra, S.A. and Subsidiaries

Details of segment assets and liabilities
for the year ended 31 December 2017
(Thousands of euros)

	EUROPE	EXPANSION	TRANSACTIONS	Shared services	Unallocated	Eliminations	Total consolidated figures
	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017	31.12.2017
Assets							
Total non-current assets Spain	6,700	3	54,870	29,254	841,189	-	932,016
Total non-current assets Other countries	10,873	26,519	21,581	422	79,762	-	139,157
Total non-current assets Eliminated	-	-	-	-	-	(708,378)	(708,378)
Total non-current assets	17,573	26,522	76,451	29,676	920,951	(708,378)	362,795
Current operating assets[1]	102,948	136,346	151,744	78,132	-	(136,431)	332,739
Current operating liabilities[2]	55,970	73,958	69,982	46,399	-	(110,876)	135,433
Net working capital	46,978	62,388	81,762	31,733	-	(25,555)	197,306
Current non-operating assets	-	-	-	-	305,220	(236,248)	68,972
Current non-operating liabilities	-	-	-	-	323,057	(236,026)	87,031
Total current assets	102,948	136,346	151,744	78,132	305,220	(372,679)	401,711
Total current liabilities	55,970	73,958	69,982	46,399	323,057	(346,902)	222,464
Total non-current liabilities	-	-	-	-	320,761	(122,403)	198,358
Additions of non-current assets other than financial instruments and deferred tax assets	2,885	6,185	13,970	40,592	-	-	63,632

[1] Defined as inventories and trade and other receivables

[2] Defined as trade and other payables

Fluidra, S.A. and Subsidiaries

Details of segment assets and liabilities
for the year ended 31 December 2016
(Thousands of euros)

	EUROPE	EXPANSION	TRANSACTIONS	Shared services	Unallocated	Eliminations	Total consolidated figures
	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016	31.12.2016
Assets							
Total non-current assets Spain	7,199	5	52,632	27,911	856,849	-	944,596
Total non-current assets Other countries	11,427	29,587	25,382	587	78,242	-	145,225
Total non-current assets Eliminated	-	-	-	-	-	(713,796)	(713,796)
Total non-current assets	18,626	29,592	78,014	28,498	935,091	(713,796)	376,025
Current operating assets[1]	100,623	138,332	152,942	56,326	-	(129,485)	318,738
Current operating liabilities[2]	45,092	88,125	80,747	45,621	-	(124,876)	134,709
Net working capital	55,531	50,207	72,195	10,705	-	(4,609)	184,029
Current non-operating assets	-	-	-	-	349,554	(259,034)	90,520
Current non-operating liabilities	-	-	-	-	340,766	(258,884)	81,882
Total current assets	100,623	138,332	152,942	56,326	349,554	(388,519)	409,258
Total current liabilities	45,092	88,125	80,747	45,621	340,766	(383,760)	216,591
Total non-current liabilities	-	-	-	-	356,852	(124,479)	232,373
Additions of non-current assets other than financial instruments and deferred tax assets	3,233	8,509	11,654	19,411	-	-	42,807

[1] Defined as inventories and trade and other receivables

[2] Defined as trade and other payables