מיטרוניקס בע"מ

דו"ח תקופתי לשנת 2020

Maytronics Ltd.

Periodic Report for 2020

Periodic Reports for 2020

Table of Contents

Part A - Description of the Corporation's Business Affairs

Part B - Board of Directors' Report Regarding the State of the Corporation's Affairs

Part C - Financial Statements as of December 31, 2020

Part D - Additional Details Regarding the Company

Part E - Report Regarding the Effectiveness of Internal Control over Financial Reporting and Disclosure

Table of Contents

Chapter A - Description of the General Development of the Corporation's Business Affairs 4

1.1 The corporation's activities and description of the development of its business affairs 4
1.2 Operating segments 7
1.3 Transactions with Company shares 8
1.4 Dividend distribution 8
1.5 Financial information regarding the corporation's operating segments 9
1.6 Economic environment and effect of external factors on the corporation's activities 9

Chapter B - Description of the Corporation's Business Affairs by Operating Segments 18

2.1 Segment of robotic cleaners for private pools 18
2.2 Segment of robotic cleaners for public pools 39
2.3 Safety products and related pool products segment 49

Chapter C - Issues Affecting the Corporation in its Entirety 61

3.1 Customers 62
3.2 Marketing and distribution 65
3.3 Seasonality 68
3.4 Production capacity and production control 78
3.5 Fixed assets and facilities 71
3.6 Research and development 74
3.7 Non-current assets 75
3.8 Human capital 80
3.9 Raw materials and suppliers 87
3.10 Working capital 89
3.11 Investments 90
3.12 Financing 91
3.13 Taxation 91
3.14 Restrictions and supervision of the corporation's business affairs 91
3.15 Material agreements 93
3.16 Legal proceedings 97
3.17 Objectives and business strategy 97
3.18 Expected developments in the coming year 99
3.19 Financial information regarding geographical segments 100
3.20 Information regarding extraordinary changes in the corporation's business affairs 100
3.21 Events which are outside of the corporation's ordinary business affairs 100
3.22 Discussion regarding risk factors 100

Chapter A - Description of the General Development of the Corporation's Business Affairs

1.1 The corporation's activities and description of the development of its business affairs

Maytronics Ltd. (hereinafter: the "**Company**") was incorporated as a limited liability company in December 1990, by Kibbutz Yizre'el - Workers Group for Shared Settlement Ltd. (hereinafter: the "**Kibbutz**") and by Yizre'el Industries - a limited partnership controlled by the Kibbutz. The Company's activities focus on the development, production, marketing, distribution and technical support of swimming pool equipment, including robotic cleaners for private and public pools, automatic swimming pool covers, alarms and systems to protect pool users from drowning in pools, and other supplementary products in the swimming pool water treatment segment. The Company has production facilities in Israel and in Europe, and markets its products all over the world. The Company's business operations are mostly based on exports, and around 98% of the Company's revenues are in respect of sales of products and services abroad. The Company is considered a global leader in the private swimming pool robots' segment, in which it estimates that it holds around 50% of the global market share. This segment constitutes around 16% of the total market for swimming pool cleaners, which also includes non-robotic devices and manual cleaning tools (as specified below in section 2.1.1C). The Company's sales are performed through distributors in each country. The Company has subsidiaries in several strategic countries which are engaged in marketing, distribution, service and sales for the Company's products in the different channels in each territory where the subsidiary operates (as specified in section 3.2.1 below). The subsidiary in France is also engaged in the production of supplementary pool products.

The Company's sales are characterized by a trend towards seasonality, whereby 64% of the sales, and most of the profit, are concentrated in the first half of the year. This seasonality is due to the fact that most of the Company's sales are targeted to the northern hemisphere, where most private pools open around the months March - May, and close around September. The Company's customers (mostly distributors) in Europe and in the United States order most of the products beginning in December / January, until July.

The Company is continuing to benefit from the growth of the private pool industry in all main territories, from its increased sales volume and increased market share in the robotic pool cleaner sales segment, and is preparing for continued accelerated growth in all of its operating segments, as a global company (as specified below in this report). This development, in combination with customer demands for the provision of products in short timeframes ("just on time"), requires the Company to prepare accordingly in various fields, including increasing the production capacity and operational areas, flattening production, improving production and operation processes, increasing its inventory, financial ability and monetary liquidity (for financing inventory and capital management), creating a process- and culture-oriented organizational infrastructure, appropriate information systems and marketing infrastructure, and more. Additionally,

concurrently with the continuation of its operating activities and the group's expansion, the Company is also performing the required re-organization processes, as stated above, in order to ensure its continued accelerated growth and the achievement of its defined targets.

The Company is currently active abroad through five subsidiaries, as follows:

(1) A subsidiary in the United States called Maytronics U.S. Inc.[1](hereinafter: "**MTUS**"), which is primarily engaged in marketing, distribution and service for private and robotic cleaners for public pools, and which is based in Atlanta, Georgia - a major logistics center in the United States. MTUS allows the Company to be close to the pool market in the United States, while controlling the marketing, distribution and service which are provided for its products (for additional details regarding the integration of MTUS into the Company's marketing and service departments, see section 3.2 below).

(2) A subsidiary in France called MG International S.A., with the commercial name of Maytronics France (hereinafter: "**MTFR**"). The subsidiary MTFR is traded on the Alternext stock exchange in France, and is engaged in the marketing, distribution and service of private and robotic cleaners for public pools and private pool alarms; in the development, production, marketing and service of automatic covers for private swimming pools; and in the development, marketing, production and support of systems to prevent drowning in public pools. Similarly to MTUS, MTFR also increases the Company's access to the pool market in France while controlling the method of marketing, distribution and service given for its products (For additional details regarding MTFR, its products, and its integration into the Company, see Chapters B and C below.)

(3) A subsidiary in Australia called Maytronics Australia Pty Ltd. (hereinafter: "**MTAU**"). The subsidiary MTAU was formed in 2011, in accordance with the Company's strategy of expanding its activities into the southern hemisphere in general, and Australia in particular. MTAU is engaged in the sale, marketing and service of the Company's products, and in a limited number of additional pool products. The Company holds 61.2% of MTAU shares, while the remainder of its shares (38.8%) are held by the Company's Australian managers, who have an in-depth knowledge and a great deal of experience with the swimming pool market in Australia and New Zealand in general, and with the Company's robotic pool cleaners in particular (for additional details regarding MTAU, its products and its integration into the Company, see Chapters B and C below).

(4) A wholly owned subsidiary in Germany called Bünger & Frese GmbH (hereinafter: "**BF GmbH**"). BF GmbH was acquired by the Company on June 16, 2020 from BWT Wassertechnik GmbH (a competitor of the Company) in consideration of EUR 13 million. From 2009 until its acquisition, BF GmbH served as the Company's distributor in the German market, specializing in sales to pool builders and in online sales. BF GmbH has been engaged for many years in wholesale operations in two main operating segments: sales of robotic pool cleaners (during the last 12 years those manufactured by the Company) and sales of a wide variety of related products for pools, including, inter alia,

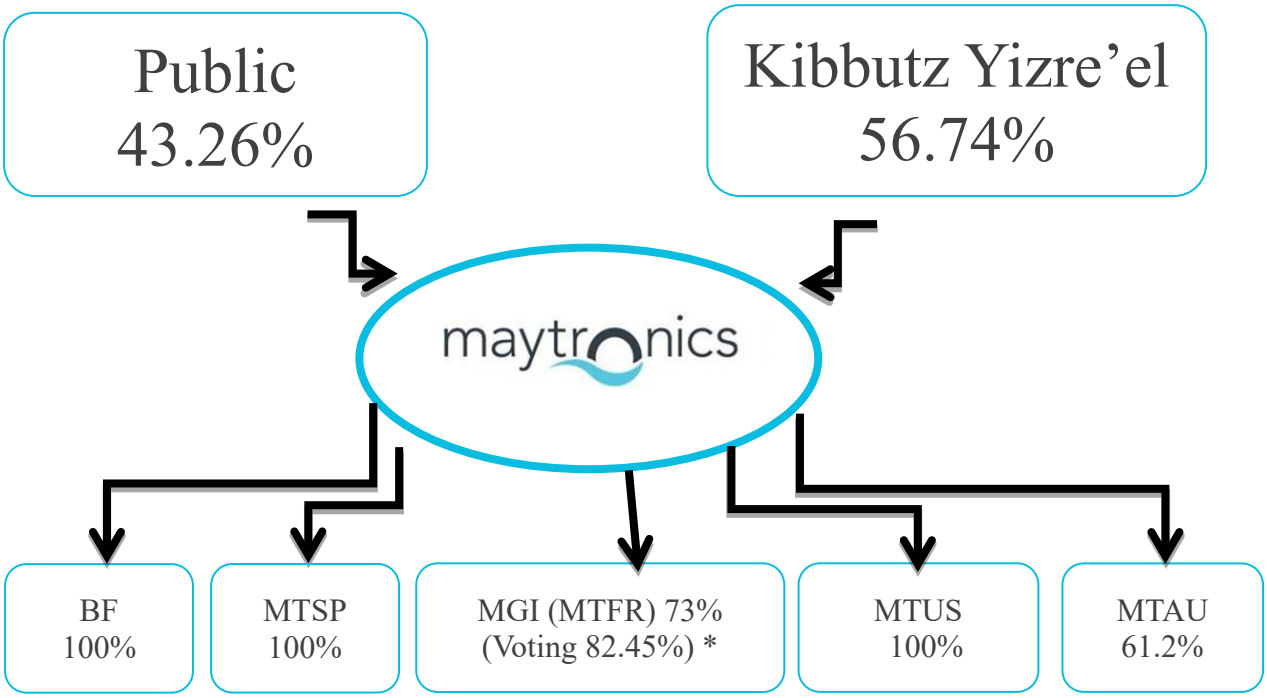
[1] A company incorporated in the state of Delaware.

pumps, filters, pool covers, manual pool cleaning tools, water heaters, water cleaning chemicals, etc. The Company hopes that BF GmbH will allow it to significantly advance the realization of its 2025 strategy, by maximizing the business opportunity of penetrating to hundreds of thousands of pools which currently operate without advanced methods of pool water cleaning and treatment, in the German speaking market and in Northern Europe, and will allow it to better support the Company's business partners and market needs, and maximize the value which the Company can offer to end users in those markets.

(5) A wholly owned subsidiary in Spain called Maytronics Spain and Portugal S.L. (hereinafter: "**MTSP**"). In November 2020, the Company completed the formation of MTSP. MTSP is intended to serve as a marketing arm focusing on sales promotion in Spain and Portugal, and on providing technical support services to the Company's distributors and dealers. The Company's activities are currently performed in practice through external service providers, such that the formation of the subsidiary essentially only constitutes a change in the structure of the Company's activity in those territories. The expansion of the Company's activity in this territory, which has over a million pools and significant growth potential, is expected to strengthen its position in the market vis-à-vis its partners (distributors and dealers), and from the perspective of end consumers.

The information provided above regarding the Company's expectations for its new subsidiaries in Germany and Spain constitutes **forward looking information**, and as such is uncertain, and may not materialize, in whole or in part, or may materialize differently from the forecast. This information is based on the Company's estimates regarding these markets and on their inherent potential, and on its current plans and intentions. The Company believes that these expectations may not materialize, or may materialize differently from the manner described above, inter alia, if the Company's estimates regarding these markets turn out to be incorrect, due to actions of the Company's customers which directly or indirectly differ from the forecast, a mismatch between the Company's products and the requirements of this market, the actions of its competitors, exogenous changes in the economic and macro-economic environment of these markets, or if the Company's aforementioned intentions and plans do not materialize, or materialize differently from the plan, or due to the materialization of any of the risk factors pertaining to the Company's activity, as specified in section 3.22 below.

Presented below is a diagram of the Company's holding structure as of December 31, 2020:



* In accordance with MTFR's articles of association, the MTFR shares which have been fully paid up, and which are registered under the names of their owners, confer upon their owners double voting rights, if the same registered owner has held them for over two years. Accordingly, the Company holds 82.45% of the voting rights in MTFR.

1.2 Operating segments

As of December 31, 2020, the Company is engaged in three main areas of activity, which are reported as operating segments in its financial statements:

(1) **The segment of robotic cleaners for private pools** - Development, production and marketing of robotic cleaners for private swimming pools; The development and production of the products in this segment, and in the public pools operating segment (see below), are all carried out by the Company, while the marketing and sale of the products are handled by the Company's headquarters in Israel and through the Company's distributors around the world, and by its subsidiaries in the United States, France, Australia, Germany and Spain (excluding sales).

(2) **Segment of robotic cleaners for public pools** - Development, production and marketing of robotic cleaners for public pools.

(3) **Safety products and auxiliary pool products segment** - This segment includes three sub-segments:

- The safety products sub-segment, which is operated by MTFR, and which includes the following products: alarms and other systems for the detection and prevention of drowning in private and public swimming pools.
- The automatic pool covers sub-segment, which is also operated by MTFR.
- The sub-segment of supplementary products for the monitoring, control and treatment of swimming pool water, pumps, filters, water heaters, water cleaning chemicals and more, which includes products which the Company distributes though its subsidiaries, as well as advanced research and development on systems for the monitoring, control and treatment of swimming pool water using new technologies.

1.3 Transactions with Company shares

1.3.1 On August 20, 2020, Kibbutz Yizre'el Holdings 2004 Agricultural Co-Operative Association Ltd., the Company's controlling shareholder, sold 3,246,040 of the Company's shares, which constitute around 3% of the Company's issued and paid-up capital as of December 31, 2020, and it holds around 56.74% of the Company's capital (before full dilution);

1.3.2 The shares were sold in over the counter transactions at a price of 4,558 agorot per share.

1.4 Dividend distribution

1.4.1 **Dividend distribution**

During the reporting year, and during last year, the Company distributed dividends as follows:

Date of distribution	Type of distribution	Amount per share (NIS)	Total amount (NIS)
April 18, 2019	In cash	0.2229	24 million
September 24, 2019	In cash	0.4458	48 million
March 25, 2020	In cash	0.2591	28 million *
August 19, 2020	In cash	0.5083	55 million

* In light of the Coronavirus crisis, the dividend, which was declared for distribution on March 25, 2020, was paid in two equal parts: on May 14, 2020, and on August 13, 2020.

1.4.2 Balance of distributable earnings as of the reporting date: **NIS 357,963 thousand**.

1.5 Financial information regarding the corporation's operating segments

1.5.1 Updated financial data by operating segments -

See Note 30 to the financial statements and section 4 of the board of directors' report for explanations regarding the operating results.

1.5.2 Explanations regarding developments in the above data -

A review of the aforementioned financial data indicates several prominent trends, as described below:

A. The private pool cleaner segment is the main segment, and the sales in this segment constituted around 83% of total sales in the years 2018-2020. The rate of gross profit in this segment between the years 2018-2020 was around 41.5%.

B. During the years 2018 to 2020, the public pool cleaners segment constituted around 8% of the Company's total mix of sales. The rate of gross profit in this segment between the years 2018-2020 was around 53.7%.

C. The segment of safety products and supplementary products for pools in the years 2018-2020 constituted around 9% of total sales, and the rate of gross profit in this segment in the years 2018-2020 was around 37.1%.

See Note 30 to the financial statements and the board of directors' report for explanations regarding the segmentation of costs, profitability, assets and liabilities attributed to each operating segment.

Explanations regarding the developments which occurred in each of segments are provided in sections 4.1 and 4.2 of the board of directors' report.

1.6 Economic environment and effect of external factors on the corporation's activities

Presented below are several factors in the Company's macro-economic environment which may affect its activities:

1.6.1 **Saving on resources and environmental considerations ("green" trends):**

Trends which may affect the pool segment include the industry's efforts to reduce the use of chemicals, and to save water and electricity. For example, in many countries pool pumps are now being replaced with pumps capable of operating at different speeds, in order to save electricity. In the United States, a federal law will enter into effect in July 2021 which requires the installation of variable speed pumps in all inground pools, in order to save energy (the law also prohibits the installation of fixed speed pumps in inground pools). Sand filters are being replaced with cartridge filters and filters with glass media, in order to reduce the loss of water due to filter back wash, thereby saving a great deal of water which would otherwise be wasted. The field of solar energy has also entered the industry, along with other indicators demonstrating the actual implementation of "green" trends. Both robots and automatic covers significantly contribute to the advancement of these trends, and these products are expected to grow beyond the segment's usual growth rate in

all territories. The Company is also investing efforts in order to add, to its array of offered products, supplementary products which are consistent with these "green" trends. The Company is developing products based on advanced technologies and applications supported by data and analytics, in order to allow pool owners to manage the water quality of their pools, and the supporting systems, in the best way possible. For additional details, see section 2.3.1 below.

The information presented above in this section, i.e., the information regarding future "green" trends and the Company's possibility of integrating them, constitutes **forward looking information**, and as such is uncertain, and may not materialize, or may materialize differently from the forecast. This information is based on the Company's estimates, and on the estimates of entities engaged in this sector. However, the forecasts presented above may not materialize, or may materialize only partially, if laws are enacted which require the closure and non-operation of pools, if the cost of implementing them is unprofitable for the Company, if changes occur to the aforementioned "green" trends, or insofar as the Company encounters difficulties in completing the development of its products in the water quality treatment segment, or due to the Company's other risk factors, as specified in section 3.22 below.

1.6.2 **Volatility of currency exchange rates:**

Around 98% of the Company's sales, and around 50% of the Company's inputs, are in foreign currency. The Company's main foreign currencies are the EUR, USD and AUD. Most of the Company's foreign currency exposure is due to the revaluation of the NIS vs. the EUR and the AUD. Volatility in exchange rates may affect the Company's financial results.

The EUR, which made up around 43% of sales in 2020, fell by an average rate of around 3.2% vs. the NIS. The USD, which made up around 43% of the Company's sales in 2020, fell by an effective average rate (in consideration of seasonality) of around 2.6% vs. the NIS, while the AUD, which made up around 13% of the Company's sales, also fell by an effective average rate (in consideration of seasonality) of around 1.5% vs. the NIS. The effect of changes in the exchange rates of the currencies in 2020 amounted to a decrease of around NIS 29.6 million in sales, and a decrease of around NIS 18.3 million in operating profit, relative to last year.

Due to the fact that the significant volatility of exchange rates may, as stated above, have adverse effects on the Company – the Company's policy is to hedge this exposure, from time to time, through financial hedge transactions. These transactions are intended to protect the Company, both against cash flow exposure and "balance sheet" protection in foreign currency, and come in addition to other actions taken by the Company (such as hedging by adjusting the structure of the Company's assets and liabilities in foreign currency, to reduce the aforementioned foreign currency exposure in the balance sheet, and to reduce foreign currency fluctuations in the Company's statement of income. The Company's policy

regarding foreign currency hedging may change from time to time, in accordance with the Company's business considerations, including the prices of hedging transactions, and the Company's estimates regarding those exposures in this field.

1.6.3 **Climate conditions:**

The volatility and instability of seasonal changes are factors which affect the seasonal market in which the Company is engaged.

Cold and long winters in Europe and/or in the United States may result in delays in the execution of orders by the Company's distributors and to its customers, and in decreased rates of orders which are received in the second quarter, and vice versa – long and hot summers may increase demand. This climate phenomenon may therefore affect the Company's sales and revenues (both positively and negatively) in a manner which is beyond the Company's control.

Additionally, extreme climate events, such as hurricanes, wildfires, typhoons and floods, may affect the demand for the Company's products in an unpredictable manner, and affect the supply of certain raw materials.

The Company aims to build an operational system which is as flexible as possible in order to respond quickly to sharp increases and/or decreases in demand and to deliver "just in time". For this purpose, inter alia, the Company built another production site in Dalton Industrial Park in the Northern Galilee, in addition to the production site in Kibbutz Yizre'el, and is working on expanding and upgrading both production sites, in order to be able to meet the demand. It is noted that the impact of weather on the demand for the Company's products is smaller than its impact on other products in the branch, since today most swimming pools remain filled with water all year long, and require cleaning in the winter as well.

This information presented above in this section, i.e., the information regarding the consequences of global climate change on the demand for the Company's products, constitutes **forward looking information**, and as such is uncertain, and may not materialize, or may materialize differently from the forecast. This information is based on the Company's experience with climate change climate in recent years in certain territories, and their effects on sales in the branch, and their observable effects on sales in the branch. These consequences may not materialize, or may materialize on a partial basis only, insofar as events and other occurrences take place which affect the demand for the Company's products in the opposite direction, such as changes in consumption habits or in behavior patterns of the Company's customers, and the actions of the Company's competitors, etc., and due to the other risk factors which apply to the Company, as specified in section 3.22 below.

1.6.4 **The Coronavirus (COVID-19) crisis and its effects on the Company**

In the first quarter of 2020 the novel Coronavirus (COVID-19) began spreading throughout the world, including in Israel. The pandemic began in the Hubei province of China, and was declared a worldwide pandemic by the World Health

Organization in March 2020. In 2020 the global economy and the Israeli economy were forced to deal with the pandemic, which created a health and economic crisis the likes of which the world had never seen before.

At first the pandemic threatened the sources supplying raw industrial materials originating from China, but it soon began affecting all of the world's countries, including Israel, leading the various authorities to establish legislation and regulations intended to create social distancing to contain the spread of the pandemic, such as lockdowns and restrictions on the movement of residents, both intra-national and international, and with time also creating rules for commerce and congregating which were intended to allow a gradual resumption of routine life.

As part of the above, in Israel the State of Emergency Regulations were enacted and published already in the beginning of the crisis, in accordance with the instructions issued by the Ministry of Health and the Israeli government, which were later prescribed in legislation. These included prohibitions or restrictions on the activity of businesses, significant restrictions on the presence of workforce at workplaces, and the imposition of special work rules. The education branch and tourism industry were also shut down, public transportation was restricted, and restrictions were imposed on leaving the home, including three different periods of total lockdown. Concurrently, in December 2020 a Coronavirus vaccination campaign began in Israel, which has been moving forward at a relatively rapid pace. However, including in light of the spread of various mutations of the Coronavirus, it is not possible to know whether the vaccines will lead to containment of the pandemic or to changes in employment and activity patterns in the short term. All over the world authorities have been taking similar action, albeit at a slower rate, of vaccinating the population, as well as a near-total shutdown of the tourism and aviation industries. Residents were required to self-isolate in their homes (inter alia, in accordance with instructions given by the governments in each country) and to focus on home activities.

Presented below is a review of the pandemic's main effects on the Company's various operating segments during the reporting period and in the short term, as well as the possible medium and long-term effects.

1. Market demand for the Company's products:

- In the private pools segment, the self-isolation of residents and their focus on home activities led to an increase in at-home activities, including increased operation of private pools, and the construction of new pools. As a result, and also due to the excellent weather, during the reporting period the demand for and sales of pool products increased significantly, including in respect of pool cleaning robots.
- In the public pool cleaners' segment, the prohibition against congregating in public and the shutdown of the tourism industry led to the temporary closure of public pools, decreased demand for public pool robots, and a decrease in sales

in this segment relative to 2019. Insofar as the crisis described above continues, and the closure of public pools continues, this segment is expected to continue suffering adverse effects, although the limited weight of this segment relative to the Company's overall business resulting in only a minor effect on the Company's overall success.

2. The Coronavirus pandemic has been affecting the Company's supply chain activity (and is partially continuing to affect its activity in 2021 as well) as described below:

- The ability of the Company's suppliers, in Israel and around the world, to supply the raw materials and components which are required to produce robots. As stated above, when the outbreak first began in China, some of the Company's suppliers temporarily encountered difficulties in supplying components and units which are required to produce robots.
- Significant changes in the availability and cost of raw materials and certain components which are used by the Company in the production of robots, as well as a significant increase in marine and air transportation prices. In these respects, the Company is doing its best to adjust its operating methods in order to cause the required raw materials and components to arrive on time, and to ensure the continuous production of robots, and the supply thereof in accordance with the increasing demand.
- The government's actions and decisions in dealing with the pandemic allowed employees to remain furloughed for extended periods (as of the reporting date, until June 30, 2021), a decision which impeded, and continues to impede, the Company's ability to recruit workers, mostly to support the production lines and the supporting departments.
- The obligatory 14-day self-isolation period after being in the presence of a person with a verified case of the Coronavirus led to the discontinuation of work of entire teams at the production sites for determined periods, which caused delays in robot production.

In accordance with the government's decisions, the Company has prepared, and continues to prepare guidelines, to comply with the government's instructions to protect the health of its employees (as updated from time to time), while also ensuring the continuity of its activities, including the activities of its production lines and headquarters. As part of the above, and beginning in May 2020, the Company has been working in accordance with the set of rules known as the "Purple Badge", in a manner which will allow it to continue operations at the Company's sites in order to serve its various activities, while protecting the health and safety of its employees in the best way possible.
The provisions of the State of Emergency Regulations regarding restrictions on the number of employees during the period of the Coronavirus pandemic (which were later replaced with an enacted law) defined the company as "essential" allowing the continuation of the Company's activities, including robot production, during the various lockdowns which were imposed throughout the reporting year.

3. Effects on the Company's marketing and sales infrastructure:

- The restrictions on movement and congregating on both the local and international levels (including restrictions on leaving Israel) prevented the possibility of international flights, physical visits to customers, holding technical workshops, and participation in conventions.
- The restrictions on commerce in street stores and the restrictions on movement of residents led to a significant increase in e-commerce activity. In this sense, the Company's efforts in recent years to strengthen the digital marketing and sales infrastructure, to strengthen the brand, and the strong online presence, all bore fruit, and the Company benefited from increased sales in this channel.

In the medium and long term, it is necessary to take into account the possibility that even if the pandemic is eliminated or contained, this extraordinary event could have long term economic implications, such as unemployment and a global recession, particularly in the Company's main markets in Europe and in the United States. These implications may result in negative effects on consumer security and in reduction of the growth rate of the Company's products; however, it is not yet possible to predict this outcome. The pandemic is also likely to have medium and long-term effects on the purchasing and consumption habits of customers and to further strengthen e-commerce and investment in the home area.

The Company maintains a high level of awareness of the aforementioned risks and possibilities, monitors the developments, publications and instructions of various government entities in Israel and outside of Israel, and is preparing for various scenarios. As part of the above, the Company is preparing for various scenarios involving the activation of its production lines, in order to ensure their continuous operation, and to increase their ability to respond to increased demand, and it maintains continuous contact with its subsidiaries and with its foreign distributors.

The Company is taking into account that the continued spread of the Coronavirus, and the implementation of additional actions and guidelines by the State of Israel and by other countries around the world, beyond those which have been implemented until now, could lead to a change for the worse in the Company's business and financial position, insofar as these developments cause significant harm to the Company's production capacity or supply chain and/or to the transportation of its products to its customers around the world, or insofar as an economic crisis develops in the Company's primary markets.

On the other hand, the Company's economic stability, risk management policy, the extensive geographical distribution, tight commercial ties with its distributors and their stability, brand strength, the capabilities which the Company has developed as part of its 2025 digital strategy, and the loyalty of its employees, will allow the Company to mitigate the effects of the continued spread of the Coronavirus on its business affairs..

The Company's estimate regarding the effects of the Coronavirus pandemic, including regarding the effects of decisions made by governments and authorities in Israel and in the relevant countries abroad on the actions of its suppliers, distributors and customers, as stated above, and on the Company's financial position and operating results, and on the continuation of Company benefiting from the positive effects of the crisis on the Company's operating results, as described above, constitute **forward looking information,** and as such is uncertain, and may not materialize, in whole or in part, or may materialize differently from the forecast. This information is based, inter alia, on the Company's information, assessments and estimates as of the date of this report, on publications in Israel and outside of Israel, and on directives issued by the relevant authorities on this matter until now, which may change from time to time, and which are uncertain to materialize, and are not under the Company's control. This assessment may not materialize, or may partially materialize, insofar as the spread of the pandemic, and actions taken by authorities around the world to contain it and/or insofar as the actions of the Company's customers, employees, distributors and suppliers deviate from the above, or from any currently foreseeable outline, and insofar as it collects additional or more accurate information regarding the development of its business affairs, or due to all of the Company's other risk factors, as stated in section 3.22 below.

1.6.5 **Purchasing of products online:**

There is currently a global trend of transitioning to the purchase of products online, as an alternative to traditional purchasing of products in stores. This trend exists in the pool products segment as well, including the Company's product (mainly robots and private pool alarms). In this sense, the Company's products are sold on Amazon, through retail chains which offer their products on specialized websites (Omnichannel), and at professional pool product chains which focus on online sales.

On the one hand, the purchasing of robots online indicates the awareness and security of customers in the field of robot technology, and makes the Company's products accessible to any pool owner in the world. On the other hand, this trend increases the concern of falling prices in the segment, in a situation where any buyer can, at the push of a button, compare products and prices among different retailers which sell the Company's products, and competing products, online. (For further details on this matter, see also section 2.1.1 below.)

During the period of the report and of the Coronavirus crisis, this sales channel grew due to the closure of street stores and the restrictions on movement, leading to a significant increase in online sales of the Company's products through its distributors in these channels, which allowed growth in the Company's sales (for details on this matter, see the description of the effects of the Coronavirus crisis in section 1.6.4 above).

1.6.6 **Smart home products and IoT products:**

There is currently increasing demand for smart home products, which offer a high level of automation and allow the consumer to use the product effectively and conveniently. The demand in this segment is expanding to the surrounding garden and pool area as well. As part of the above, a trend is developing of IoT products which allow cloud-based communication with the consumer from anywhere, and which make the smart environment possible. Additionally, big data cloud analytics (such as analysis of the product's usage patterns, and the patterns of systems and of pool water), allow tailoring the customer's needs, providing personal and directed service, and presenting optimal value offers.

The Company has developed a designated application for controlling its robots through IoT infrastructure, which allow cloud-based data processing and offering optimal service to any end customer that buys its products. IoT technology also allows distributors, store owners and the Company's partners higher quality communication with pool owners; Improvements to service and to the customer database; new value offers; thereby strengthening the brand in terms of the distribution chain and from the perspective of end customers.

In this way, robotic technology provides the pool owner with additional advantages over other, non-robotic cleaners. The adjustment of the Company's products to support a future smart pool infrastructure requires significant investment in suitable information systems and appropriate modules, as well as compliance with regulations and laws pertaining to the protection of privacy (on this matter, see also section 2.1.1 below). Nevertheless, the Company believes that these smart IoT products are inevitable in the ever-growing world of IoT, and offer important advantages for producers. The Company estimates that, in the coming years, the proportion of IoT robots out of total robots sold by it will gradually increase.

1.6.7 **Changes to regulations and standards:**

In general, there is currently an increasing trend of regulation in terms of savings on electricity and water - regulation which already applies in several states of the USA, and in South America. This trend appears to be global, with a positive impact on the Company's business.

Also prominent is the trend of privacy protection regulations, such as the European GDPR[2], which is obligatory for the Company in its activities in Europe, and vis-à-vis European customers. For details regarding the significance of these regulations, and the implementation thereof by the Company, see section 2.1.1B below.

In 2019 the Company began working on complying with ISO 14001, an international environmental management standard. The standard addresses energy savings, the use of dangerous materials, prevention of waste, and environmentally friendly manufacturing. As of the writing of this report, the Company is in the final stages of receiving certification for this standard.

2 General Data Protection Regulation

The Company is also working on complying with ISO 27001, Information Security Management in organizations. The standard includes requirements and guidelines regarding the adoption and implementation of information security processes in an organization, and ensures proper management of information security. In parallel with its compliance with ISO 27001, the Company is also preparing for the implementation of the Israeli Protection of Privacy Law.

The information presented above in this section - i.e., the information regarding possible change in legislation in the segment of electricity and water savings, legislative changes pertaining to the protection of privacy and the Company's preparations to implement such legislation and to comply with ISO 27001, as well as the information regarding online purchases, smart home products and IoT products, constitutes **forward looking information**, and as such, is uncertain, and may not materialize, in whole or in part, or may materialize differently from the forecast. This information is based on the Company's estimates and the estimates of entities engaged in this sector, regarding the initiation and progress of the aforementioned legislative procedures, and on the Company's estimates regarding the effect of such legislation on the Company's business, and is based on the Company's understanding of the new trends in the field of online purchasing and smart home products, as well as the Company's estimates regarding its ability to implement digital transformation, including a transition to IoT products. The forecasts presented above may not materialize, or may materialize on a partial basis only, insofar as the Company's estimates do not materialize regarding the enactment of the aforementioned legislation, or regarding its ability to adjust its activities according to legislation on the subject of privacy protection, or regarding online consumption habits and their effect on the prices of the Company's products, or regarding the possibility of integrating the Company's products, and the products of its competitors, into smart home products, or regarding its ability to implement the aforementioned digital transformation, and due to the other risk factors which apply to the Company, as specified in section 3.22 below.

1.6.8 **Changes in global economies which affect the Company:**

Purchases of the Company's products may be affected by economic conditions in the markets where the Company is active. Although most of the Company's cleaning devices are sold to customers who currently own pools (who did not have robotic cleaning devices, or who are replacing them with new ones), due to their nature as convenience products, economic crises in the target countries could adversely affect the sales of the Company's products in those countries.

For details regarding the extensive effects of the Coronavirus crisis on the Company's markets in Israel and around the world, see the descriptions given in section 1.6.4 above.

Chapter B - Description of the Corporation's Business Affairs by Operating Segments

2.1 Segment of robotic cleaners for private pools

2.1.1 General information regarding the private pool cleaners' segment

A. Structure of the operating segment and changes occurring therein

The market for robotic cleaners for private pools constitutes a part of an array of private swimming pool products (including, inter alia, pumps, filters, cleaners, water heaters, controllers, sanitation systems, disinfection systems, safety equipment, lighting, chemicals, and more), and is affected by the development thereof. As part of the above, the Company's products are targeted to all segments of the private pool market, including all types of inground pools, and all types of above ground pools.

Operations in Israel constitute a small proportion (around 2%) of all of the Company's business activities. However, the Company is considered a leader in its field in the Israeli market as well. This market segment is important in that it applies to the Company's ability to receive feedback about its products within a relatively short period of time, and before marketing to the principal market, thereby increasing the level of success when launching new products to the global market.

The superiority of the electronic cleaner over all other cleaning technologies is supported by professional blogs and opinion leaders, internet channels and various digital platforms, as well as presence in physical stores in which the products are displayed, which demonstrate the advantages of robots, in terms of keeping the pool clear and hygienic, due to its exclusive ability to systematically scan the entire area of the pool (including walls and water line), and scrub its veneer surface, thereby removing bacteria colonies which are protected from the chlorine by a layer of bio-film. Robots also prevent the development of algae, thereby allowing reduced use of chemicals for disinfection of the pool. Robots are equipped with an independent filtering system which is capable of filtering dirt, from the level of leaves, down to the filtering of microns which otherwise would have continued floating in the water, reduce the water's clarity and provide an opportunity for the growth of bacteria. Another clear advantage of robots over all other cleaning methods is savings on water and electricity. In ordinary pool operation - cleaning by robot saves significant quantities of water each year, by reducing the frequency at which the pool's main filter needs to be washed (in case of sand filters). Additionally, the robot draws current at 24 volts, and the cost of a single use is only around USD 0.15. At the beginning of the Coronavirus crisis, pool owners were exposed to additional advantages of the robot, by allowing them to continue independently providing solutions for their pools, without external assistance (for additional details regarding the effects of the Coronavirus crisis, see section 1.6.4 above). In ordinary periods, the

considerations guiding most customers when purchasing a private pool robotic cleaner is the need and necessity for an effective cleaning method, the desire to keep the pool clear and hygienic with minimum effort, the product's price to benefit ratio, its performance, reliability, contribution to savings on water, electricity and chemicals, its convenience and ease of use, and its external design.

B. Legislative restrictions, standards and special constraints which apply to the operating segment

Private pool cleaners around the world are subject to standardization processes which are characteristic of imported products in various countries (for details regarding the standard compliance certificates which the Company has received, see section 3.14.2. below). The greater the use of the Company's IoT products, the greater the requirement for the Company to comply with privacy protection laws. These laws address aspects of customer data storage, including reducing the amount of stored personal information down to the absolute minimum required for the Group's activity, restricting the use thereof for such purposes, honoring customers' wishes for privacy, the requirement to obtain their informed consent for information about them to be stored and used, their right to receive the information which is stored about them, their right to be forgotten (to be erased from the database), and implementing appropriate measures in order to ensure that the information about them is not exposed due to security flaws.

As part of the above, on May 25, 2018, the European GDPR (General Data Protection Regulations) entered into effect regulations, [3]which are obligatory for the Company in its activities in Europe and vis-à-vis European customers, on the series of subjects specified above. Additionally, in 2018, the Protection of Privacy Regulations (Information Security), 2017 entered into effect, which are also obligatory for the Company in its activity with databases which contain, inter alia, information regarding a person's assets and/or information regarding a person's consumption habits, which could indicate the foregoing, as specified in those regulations.

The Company is adopting these regulations by configuring appropriate information security systems, and by implementing workflows, controls and technological means for appropriate use of existing information, and to prevent information leaks.

C. Changes to the scope of activities and profitability in the segment

In general, the market of robotic cleaners for private pools is increasing beyond the growth rate in the branch. The number of pools which are cleaned by this technology around the world is still relatively small, but is growing consistently

[3] REGULATION (EU) 2016/679 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation)

from year to year, which is expected to allow the growth rate to continue above the branch rate for many years ahead.

The Company estimates the total number of private pools worldwide at around 27.4 million pools, of which only around 4.4 million (16%) are cleaned by pool cleaning robots.

The Company estimates the number of pools worldwide without a robot at around 23 million. The Company's market potential amounts to around 15 million pools which do not yet use robots, given that around 8 million pools are not within the scope of the Company's sales and marketing strategy in the short term. In this respect, it is noted that these estimates constitute updated estimates of the Company, which are based on broader data analysis work which the Company performed in 2020[4] in order to optimize the database and its understanding of the market potential, and to refine its marketing strategy.

In recent years, the market for robotic cleaners for private pools, similar to other automated home and garden products, has been in an uptrend. This trend is possible thanks to the improvement in the products' reliability, the real decrease in their prices, their exposure in all sales channels, and awareness of the advantages of robotic cleaners (mostly in terms of effectiveness, quality of cleaning and savings on time and hassle), over other pool cleaning products. Additionally, there is a longstanding trend of transition by consumers from the cheap cleaners which they initially purchased (suction cleaners), to more expensive robotic cleaners, which significantly improve the pool's cleanliness and hygiene. In recent years, growth has also occurred in the segment of consumers who purchased robots in the past and who, after around two to eight years (depending on the region, model and manufacturer), are interested in replacing their old robot with a new device. The Company estimates that around 40%-50% of the sold robots are replacements of current robots (which are replaced, on average, every 4-5 years). The robot replacement market also presents significant potential for the Company, which is investing focused marketing efforts on ensuring that whenever a robot is replaced in the market, the potential for replacing it with a Company robot is maximized. Furthermore, the Company's robots which are used in the market present potential for the continued sale of replacement parts and other products. The price level for consumers in this branch is different in various countries; however, the impact of the internet reduces, over time, the ability to differentiate in terms of price, mainly within Europe. Additionally, changes in the scope of activities are affected by technological innovations presented by the Company and its competitors on the market, as specified in section E below.

[4] It is hereby clarified, in any case, that both before and after this update the Company does not have official or verified figures, and the following details regarding the market share of each cleaning method constitutes an internal estimate of the Company, which is based on data received from the Company's distributors, and the assessments of various entities in the pool industry, and therefore does not constitute certified or precise information.

D. Developments in the markets of the operating segment or changes in the characteristics of its customers

As described in section 1.6 above, there is currently a global trend of gradual transition by end customers to purchase products online. This trend is evident in many segments in the consumer world, and has not passed over the Company's swimming pool products and robots, and increased significantly due to the Coronavirus crisis, social distancing restrictions and the closure of businesses (for additional details regarding the consequences of the Coronavirus crisis, see section 1.6.4 above).

However, the Company sees a continued trend of intensification in the distribution channels of physical stores (distributors and retailers), some of which are developing online sale capabilities, and are even developing an omnichannel strategy, whereby the end customer can purchase products from the same retailer in the physical store, through an app, or on a website, with a similar purchase experience in all channels, in terms of marketing communication, design, customer service and purchase security.

The trend of online purchases makes the Company's products accessible to any pool owner. The Company is strengthening the brand among its end customers in order to grow the market by increasing awareness of robotic technology in general, and of the Company's technology in particular, all while maintaining the current relationships with distributors and dealers, who remain the primary factor in the distribution of the Company's products. The Company is working in this direction through a number of channels, among them digital campaigns to increase awareness of the Company's products and robot technology and through digital campaigns which encourage pool owners to realize benefits at retail stores.

Additionally, and as described in section 1.6 above, there is a trend of transitioning to smart and/or automatic consumer products, which allow the operation of a "smart home" and constant connectivity. Smart-IoT products provide customers with added value, by allowing more convenient and effective use of the product, while also allowing product manufacturers to communicate directly with end customers, thereby providing optimal service and increasing the brand's value from their perspective. The Company is working continuously to upgrade its products in this sense. The adjustment of the Company's products to smart home products and IoT products requires investment in suitable information systems, as well as compliance with regulations and laws pertaining to the protection of privacy.

For additional details regarding the significance of this global change, see section 1.6 above. For additional details regarding the Company's preparations in respect of these trends, see section 3.17 below.

In the southern hemisphere, and in the Sun Belt in the southern region of the United States (states such as Florida, Texas, Arizona and California)

(hereinafter: the "**Sun Belt**"), demand for electronic cleaners has been increasing in recent years. In the southern hemisphere, growth is mostly based in Australia, and has been consistently growing at a double-digit rate (in the base currency). In some South American countries, such as Argentina, there is currently greater dependence on the state of the economy, a parameter which adversely affected sales in this territory during the reporting year as well.

In the Sun Belt in the United States, the Company continues to invest and to focus significant marketing efforts and business efforts which contribute to growth in this territory. The Company believes that this territory could become a significant growth engine for the Company in the medium term of 2-4 years. The Company estimates that a correlation is arising between the trend of online purchases and the increasing demand for robots in the Sun Belt of the USA, since many online sales of robots are targeted to that region. According to the Company's estimate, the greater the online sales to pool owners in the Sun Belt, the more traditional stores will also choose to offer robots, in order to avoid losing customers to e-commerce. The demand for the robot series manufactured by the Company which was launched in 2015 (the S line), and green trends of electricity and water savings, are also positively affecting the demand and sales in this region.

The number of inground private pools in these territories (the southern hemisphere and the Sun Belt) is estimated at around 10 million. These markets, in which most pools are still cleaned manually (by the pool owner or service companies), or by pressure and suction cleaners, are discovering the advantage of robots - which is increasing the pace of robot sales beyond the average growth rate in the branch. This trend, on all matters pertaining to the southern hemisphere, also helps to reduce fluctuations in the Company's sales between seasons (on this matter, see section 3.3 below).

The information presented above in this section - i.e., regarding changes in the robotic cleaner market in the southern hemisphere, and in the Sun Belt in the southern region of the United States, regarding the trend of online purchasing, regarding the use of the omni channel strategy by retail distributors, and its impact on the traditional distribution channels, and regarding the development of smart home products and IoT products, and the effect such trends will have on the Company's sales - constitutes **forward looking information,** and as such, is uncertain, and may not materialize, in whole or in part, or may materialize differently from the forecast. This information is based on the Company's estimates and on the estimates of entities engaged in this sector, regarding the sales potential in these markets and regarding the continued development of markets for robotic cleaners in the southern hemisphere and in the Sun Belt, the Company's estimate regarding its ability to continue leveraging these changes in general, and particularly regarding its ability to continue marketing appropriate products to these markets, according to the estimates as of the date

of this periodic report, and is based on the Company's understanding of the new trends in online purchases, the smart home products and IoT products segment, and its ability to provide solutions, through its products, for these new trends. The forecasts presented above may not materialize, or may materialize on a partial basis only, and insofar as the Company's estimate regarding the potential of these markets and regarding the continued development of these markets, and the intensity thereof, does not materialize, insofar as the Company's estimate does not materialize regarding online consumption habits and their impact on the prices for the Company's products, and on the ability to sell them in that channel, or regarding the ability of the Company's products, and of its competitors' products, to integrate into smart home products and into IoT products, or due to difficulties in preparing for these changes, or due to better and/or faster preparation by the Company's competitors, and due to the other risk factors which apply to the Company, as specified in section 3.22 below.

E. Critical success factors in the private pool cleaners' segment and changes occurring therein

As stated above, the Company's market share in the private pool cleaning robots' segment is significant. The Company's success in creating and defending its market share is based on the development and production of products which offer excellent performance, reliability and service, along with continuous innovation and maintaining competitive pricing. This activity, while maintaining strong relationships with its customers, establishing a clear product strategy, distribution infrastructure, digital marketing capabilities, global service and marketing, and a business culture which is based on building long term relationships and striving to provide an extraordinary experience to all of it partners, differentiates the Company from its competitors.

One of the most important elements implemented by the Company in all of its new product lines is DIY technology. This technology allows the distribution network's service centers and dealers (pool builders, service companies or store owners) to diagnose and repair the robot within minutes, and to return it to the owner that same day. This advantage provides significant added value to the entire distribution chain, and to the end customers. (for additional details regarding the uniqueness of the Company's products, see sections 2.1.2 and 2.1.6 below; For details regarding the loyalty of the Company's customers, see section 3.1.3 below).

In 2019, the Company launched an IoT technology in some of its robot lines, which allows pool owners to use an advanced application to control their robot from anywhere, and which allows the Company to improve its service to end customers, thereby creating an extraordinary service experience, and creating a future platform for offering value to the Company's customers.

The information presented in sections A, C and E above - i.e., the information regarding changes in the structure of the segment, in its scope of activities and in its profitability, and changes in the critical success factors in the private pool

cleaners' segment - constitutes **forward looking information**, and as such is uncertain, and may not materialize, in whole or in part, or may materialize differently from the forecast. This information is based on the Company's estimates and understanding of the behavior in the markets where it is engaged, including the aforementioned trend of transition to robotic cleaners, and the response of customers, of the Company and its competitors, to its unique products, as of the date of this report, and the results of its efforts are described above. The forecasts presented above may not materialize, or may materialize on a partial basis only, insofar as the market response in general, and to the Company's products in particular, are different - such a response may be possible due to changes in the preferences of customers; or due to difficulties in realizing and/or implementing technological innovations in this segment; or due to unexpected harm to the Company's service approach; or due to the impact of adverse changes in the Company's macro-economic and/or regulatory environment (as specified in section 1.6 above); or due to the intensification of market pressures to reduce prices and to prefer simple and cheap products; or due to the speed of the Company's competitors' response to its innovative product; or due to the other risk factors which apply to the Company, as specified in section 3.22 below.

F. Main barriers to entry and exit in the private pool cleaners' segment, and changes occurring therein

About two years ago, a change in the ownership of the manufacturers occurred, due to the merger of Fluidra S.A. and Zodiac Pool Systems LLC, and the sale of Aquatron Robotic Technology Ltd. (hereinafter: "**Aquatron**") from Fluidra S.A to BWT Aktiengesellschaft, a company based in Europe, and as a result, in the entry of a new competitor into the market. As stated above, the entry and exit of market players could be the result of merger and acquisition transactions between existing market players.

The Company believes that penetration by new manufacturers is still difficult, due to the fact that very specific expertise and know-how are required for the development of products of this kind, which include a high technological threshold for the development of an electronic and mechanical product which performs intelligent and high-quality cleaning operations underwater, and due to the seasonality and non-continuous nature of sales throughout the year, which impose difficulties on manufacturers from the Far East to enter the segment and to leverage their relative advantage, as reflected in the mass production of uniform series. In addition to these barriers, there is also the trend of expansion of demand for the private brand by large market players, which the Company is well prepared to provide. This trend also reduces the attractiveness of the market for electronic cleaners, from the perspective of manufacturers from the Far East. However, as specified in section 2.1.6, there are Chinese manufacturers of robotic pool cleaners which compete in the Company's markets, mostly based on their low prices, mainly on mass networks and online sales in the low-price

category. While a certain improvement has been apparent in the technical capabilities of some models, they still make up a relatively low market share. The Company continuously monitors all of its competitors, and takes into account the possibility of more massive entry of manufacturers from the Far East, and is preparing itself accordingly on the level of innovation, reduction of product costs, and in terms of marketing.

In addition to the above, distributors around the world (the Company's customers) already maintain service centers (replacement parts, diagnostic equipment, licensed technicians, and more) to support the existing customer base, such that the transition to a new manufacturer would involve, for the distributor, an expensive process which could take at least two years. Another barrier is the power of selling such a product as part of another basket of products in the segment. A new robot manufacturer would have difficult competing independently with companies which offer a variety of products to customers. In another sense, there is no certainty that this will prevent large entities in the pool segment, such as distributors / manufacturers of pool equipment, or manufacturers from the Far East, from entering the electronic cleaners' production segment, directly or through the acquisition and merger of existing manufacturers in the segment, which took place in practice (see section 2.1.6G below). All of these are possible scenarios - in consideration of the foregoing regarding the difficulties of penetration into the segment - which can affect the competition that will be created in the Company's area of activity. The distribution market, in general, is very decentralized all over the world. This fact reduces the risk of quick loss of market share due to the entry of new players. According to the Company's estimate, a player of this kind would have to work hard, for years, in order to take a significant market share.

As described in section 2.1.1D, a trend is taking place involving the transition of end customers to online purchasing of products. This trend theoretically allows a new manufacturer to make its products accessible to end customers through a global store such as Amazon, without having to use a global distribution network, such as the network which distributes the Company's products. However, such a manufacturer would still have to overcome two significant barriers: First - The provision of service for its products around the world, as the Company does through service stations in each country where its products are sold. Second - The product itself must be high-quality, otherwise demand for it will quickly disappear. Therefore, the online distribution channel, although it allows new competitors to quickly enter the market, is not a shortcut in terms of product quality, creation of a reliable and recognizable brand, and provision of global service.

The information presented above in this section F, i.e., the information regarding barriers to entering the segment in general, and regarding producers from the far east in particular, constitutes **forward looking information**, and as such is

uncertain, and may not materialize (in whole or in part), or may materialize differently from the forecast. This information is based on the Company's estimates and understanding of the characteristics of products in the segment, and on their methods of sale, distribution and maintenance, as of the date of this report. The forecasts presented above may not materialize, or may materialize on a partial basis only, insofar as the complexity of manufacturing and maintaining the products on a basic level becomes simpler, in a manner which would facilitate the serial manufacturing and easy maintenance thereof, and/or insofar as changes occur in the distribution methods of the Company's competing products, including through the cancellation and/or reduction of reliance on private branding, and the sale thereof as part of a mix of products, or insofar as the sensitivity of customers to product quality decreases (e.g., at the expense of reducing the product's cost), or due to the other risk factors which apply to the Company, as stated in section 3.22 below.

G. Alternatives to electronic cleaners intended for private pools, and changes occurring therein

Electronic robotic cleaners for private pools have several alternatives, including manual cleaning private pool methods (dirt collection nets, special pool cleaning brushes, etc.); automatic cleaners which operate on the power of the pool's pump, which suck the dirt from the pool into a central filter (suction); and cleaners based on water pressure. The aforementioned alternatives, mainly suction devices, make up the main share (in terms of units) of the private pool cleaners' segment, due to their low price relative to robot pool cleaners. However, their effectiveness and reliability in general, and in pools with complex forms in particular, is significantly lower than the Company's robots, which operate on a built-in pool scanning algorithm which guarantees full coverage of the entire pool area, in each operation for the full cycle time. Additionally, only the robot guarantees brushing of the pool's surface, combined cleaning of floors, walls and water line, including autonomous filtering on the micron level. In recent years there has been a trend wherein the place of water pressure-operated cleaners has been replaced in favor of robotic cleaners. This phenomenon is due to the robots' effectiveness and their increased reliability, and also due to the fact that they are "plug & play", meaning that the customer can operate them without any special preparation and/or installation, and to the reduction of the price gaps between the basic robotic cleaners, relative to the cleaners which are operated by water pressure.

Additionally, as stated above, in recent years, a trend of savings on water and electricity around the world has increased, as characterized also by a transition to pumps of variable speeds, which operate at a lower intensity and offer more savings, but greatly impede the performance of the suction device, as well as searching for ways to reduce the amount of chemicals in pools. Cleaning through robots, due to its fine filtering unit, and the fact that dirt collected in the device is not sent to the pool's filter, allow reducing the frequency of washing the pool's

main filter (sand filter) down to a third of the frequency in pools cleaned by pressure or suction devices. Additionally, the robot's brushing function prevents the development of algae and bacteria, thereby allowing the use of less chlorine, and keeping the pool clear and hygienic, all with minimum consumption of electricity, at a cost of USD 0.15 per work cycle. As opposed to robots, cleaning with water pressure technology requires an additional external pump, requiring the installation of appropriate infrastructure, which consumes a great deal of electricity upon operation. Savings for pool owners due to the use of robots can reach hundreds of USD per year. For details regarding the size of the cleaners' market in general, and regarding the Company's market share, see section 2.1.6.

H. Structure of competition in the private pool cleaners' segment and changes occurring therein

From the Company's perspective, given the broad market potential, the competition in the segment helps to promote the robot segment and to educate the market regarding the advantages of robotic technology, and on the other hand, challenges the Company to maintain marketing and technological leadership.

The Company faces competition in two forms: First, competition vs. the manufacturers of robot pool cleaners - a traditional market, in which the Company has been engaged since it was founded. The second involves manufacturers of non-robotic pool cleaners (see section 2.1.2 below), which are an alternative product to the robot products, and which constitute a significant part of the market for automatic private pool cleaners around the world.

To the best of the Company's knowledge, as of the date of the periodic report, in the world there are around 10 main manufacturers of automatic (robotic and non-robotic) private pool cleaners. There are also several small manufacturers which operate in local markets. For additional details regarding the Company's competitors, see section 2.1.6 below. The different manufacturers can be distinguished by the size of the Company and the array of products offered for the pool market. The large and most dominant companies in the industry are as follows:

- Pentair Ltd (hereinafter: "**Pentair**"). This company is a customer of the Company in the United States in the robots' segment, and a large manufacturer of other pool products (including non-robotic cleaners). It is considered a dominant player, inter alia, in the pool builders' channel and in the Sun Belt.
- Hayward Industries, Inc. (hereinafter: "**Hayward**")
- Fluidra S.A. - Also incorporates Zodiac Pool Systems LLC (hereinafter: "**Fluidra**").
- BWT Aktiengesellschaft (hereinafter: "**BWT**"), which acquired Aquatron in 2018, and recently acquired Kokidu, a Chinese robot manufacturer, and Procopi, a French manufacturer and distributor in the swimming pool

segment. BWT is engaged in water treatment and disinfection for various industries, including pharma and bio-tech, as well as home and swimming pool uses. BWT was formerly a relatively small customer of the Company, involved in the distribution of robots in Russia and Germany.

These companies are manufacturers offering a wide variety of pool products (mostly including pumps, filters, pool water balancing controllers, and automatic swimming pool cleaners).

Alongside the large companies in the industry, offering the widest array of products, there are also additional companies which produce automatic swimming pool cleaners. These manufacturers distribute their products both independently and through distributors.

In recent years, the trend has continued of mergers and acquisitions in the industry in general, and in the automatic cleaners' segment in particular. Examples of this include the following:

- Zodiac merged with Fluidra in late June 2018. Prior to the merger, they were the Company's two main competitors.
- Aqua Products remains owned by Fluidra, and recently transferred its manufacturing system from New Jersey to Mexico, and markets its products mostly in the United States.
- The company Hayward, which was family owned for over 50 years, was also sold to three investor funds in June 2017, and recently had an IPO in the American capital market.
- Additionally, significant players in the market map, distributors and retail chains, are also performing merger, acquisition and issuance processes.

In addition to the leading manufacturers of automatic cleaners, there is also an attempt by small manufacturers to penetrate this market, with limited success for now. However, a trend of increasing competition is being felt, including also Chinese manufacturers which produce robots mostly intended for sale through mass channels in the United States and France, but which still do not present a significant threat to the professional distribution channels, which make up most of the robot sales. In the past this segment was small, and therefore few companies showed interest in it. Currently and in the future, it is assumed that the segment will become more attractive, and therefore, competition therein is expected to increase. The Company closely and continuously monitors the development of competition in the market, and is preparing itself for many possible scenarios. The Company's products enjoy a longstanding reputation of technological leadership and quality over competing products. The Company's "Dolphin" brand is considered very high quality in the market, and is associated with quality, reliability, innovation and service - as indicated by many stores in many countries which sell the product.

2.1.2 Products and services

General characteristics of the Company's products

In general, robotic cleaners for private pools are devices intended for the cleaning of swimming pools using a computerized cleaning program, which is based on a smart algorithm which allows systematic scanning of the pool area and outline. The robot scans the pool floor, brushes and sucks the dirt off of it, climbs its walls (fully or partially) while cleaning them up to the water line (or up to the connection between the floor and the pool wall - depending on the device model), then goes back down to the pool floor.

The cleaning activity includes the following actions: sweeping the pool floor (collecting dirt); brushing the floor and the pool walls (active cleaning, which removes dirt and removes colonies of bacteria and algae which cannot be removed without brushing); suction of dirt while filtering the pool water on the micron level; and mixing of chemicals.

All robots produced by the Company include a plastic frame (made of materials resistant to moisture, chemicals, the saltiness of pool water, sun rays and more), a driving, suction and electronics unit (waterproof) including a suction motor and one or two drive motors), dirt filter unit, drive unit (brushes, caterpillar track, bearings), power supply and power cable (except for the Liberty model, which operates wirelessly, powered by a battery). Some of the models include a remote control, or can be controlled and steered using operational parameters through the smartphone, allowing control of the robot's movement and selection of designated cleaning programs.

A. Features of the various types of private pool cleaners

The Company produces robotic cleaners for private pools for surfaces of all types, and for all types of pool shapes which are currently on the market. The robots produced by the Company are used to clean medium to large private swimming pools (5 to 15 meters in length), including both inground pools and above ground pools.

The Company produces robots in a variety of performance, equipment and price levels, with different features, and in accordance with the customer's needs and preferences.

The Company has a variety of robotic cleaners for private pools which meet the needs of every type of pool and consumer (mostly surface type, pool size and usage level), and which are suitable for various distribution channels. The Company differentiates the robots through features such as the ability to climb the pool walls, active brushing of pool surfaces, filtering volume and quality, drive and suction motors, a swivel function to avoid cable twisting, navigation and orientation capabilities, IoT technology, a remote control and an internet app.

The robot's movement is optimized automatically when the pool is scanned by the robot software itself, and case-response logic is activated during the device's operation.

By developing high-quality products offering customers an extraordinary experience, differentiation among the various robot models, and developing advanced features, as described above, the Company applies in practice its vision of being the leading brand in the robots' market, a principle which guides the Company's development, operation and marketing efforts (on this matter, see the provisions of section 3.17 below).

B. Types of private pool cleaning robots

The Company has dozens of different robot models. The differences between the models apply in terms of the exterior form, on the level of features, performance, software, color and name.

C. Private brands

The aforementioned products are also sold through many dozens of private brands, characterized by unique names and colors. Sometimes, a private brand receives different features / software than the original model, in accordance with the customer's requirements. Most of the private brands are sold with the brand names Dolphin and Maytronics displayed on them, causing the continued reinforcement of the Company's brand around the world.

D. Replacement parts

In addition to the finished products, the Company also sells to its customers replacement parts, diagnostic equipment and designated work tools to perform repair and maintenance works on its products.

E. Product markets and service

In general, and in most countries, the products are sold by the Company to distributors who sell the Company's products in professional marketing channels such as stores, pool builders and service companies, as well as mass channels including DIY chains and online channels in the relevant countries. The distributors are responsible for providing service to the customers who have purchased the Company's products through them (for details, see section 3.2.1 below).

In four strategic territories, the Company distributes its products through its subsidiaries, which sell the Company's products both to distributors and to other sale channels:

- In the United States, the Company markets its products, and provides service for them, through a wholly owned subsidiary, Maytronics USA (MTUS).
- In France, the Company markets its products both through a subsidiary - Maytronics France (MTFR), and through several distributors.
- In Australia, the Company markets its products through a subsidiary - Maytronics Australia (MTAU).
- In Germany, the Company markets its products both through its subsidiary BF, and through several distributors.

In Israel, the Company mostly sells its products through distributors. The Company also itself provides all service and support for robots sold in Israel.

F. Trends and changes in supply and demand

The Company believes that the demand for robotic cleaners for private pools is in an ongoing uptrend, and the expected rate of increase in the number of devices sold in this segment in the coming years (on the worldwide level) is 12% to 15% per year. The ongoing increase is due to the number of pools around the world which are not yet equipped with robots (according to the Company's estimate, around 84% of pools are not equipped with robots), increasing the level of awareness, among potential consumers, of the robot's advantages over other cleaning methods, and replacing robots of pool owners who have purchased robots in the past. During the past year the Company has witnessed growth of 31% in sales of robots for private pools, which the Company believes was due, among other factors, to the Coronavirus crisis (for additional details on this matter, see also section 1.6.4 above).

G. Material expected changes in the Company's share in the main markets of private pool cleaners

The Company predicts that, over the long term, its activities in the robots segment will continue to increase along with the expansion and growth of the entire market, as a result of the continued decisive implementation of its strategy, as reflected in the development of new products featuring technological leadership; developing a hold in strategic markets, through its subsidiaries and distributors; promoting a digital strategy based on smart products and IoT products, and digital marketing; and expanding operations in different markets - in both the northern and southern hemisphere.

The Company predicts growth of over 20% in sales in the private pool robots' segment in 2021.

The information presented in sections F and G above, i.e., the information regarding the expected changes in supply and demand in the segment, and regarding the expected changes to the Company's share in the segment, constitutes **forward looking information**, and as such is uncertain, and may not materialize, or may materialize differently from the forecast.

This information is based on cross-referencing forecasts with those of other leading companies in the segment, the Company's estimates regarding the continued growth of the pool industry in general, the attractiveness of robotic cleaners, their market penetration rate, the Company's estimates regarding its expected share in this product market, the contribution of the innovativeness of its products, the ability to market them, and its working assumptions and intentions, as of the date of this periodic report.

The forecasts presented above may not materialize, or may materialize on a partial basis only, insofar as a downturn occurs in the western world or in certain parts thereof in the field of private consumption in general, or in the private pool construction segment and/or purchasing of private pool products segment in

particular, as well as unexpected moves by competitors, such as drastic price cuts; disappearance of competitors, or appearance of new competitors; implications of structural changes in the segment (including mergers and acquisitions); unexpected defects in the Company's products; unexpected difficulties in realizing the Company's overall strategic plan; and all of the other risk factors affecting the Company and its activities, as specified in section 3.22 below.

2.1.3 Segmentation of revenue and profitability of products and services - private pool cleaners

The segment of robotic cleaners for private pools constituted around 85% of the Company's sales in 2020.

Product name	2018		2019		2020	
	Proportion of total revenues in the segment (%)	Revenues (NIS thousands)	Proportion of total revenues in the segment (%)	Revenues (NIS thousands)	Proportion of total revenues in the segment (%)	Revenues (NIS thousands)
Robots	94.2%	570,276	93.9%	652,481	94.8%	863,509
Replacement parts	5.8%	34,922	6.1%	42,509	5.2%	47,740
Total		**605,198**		**694,990**		**911,249**

2.1.4 New products

In 2019 the Company launched the M600 robot series, which features innovative design, drive, advanced suction and filtering capabilities, and a high level of reliability and performance, together with a new application and several mechanical units which improve the robot's performance. Sales of the M600 model during the reporting year exceeded the Company's expectations, and pool owners expressed satisfaction with the robot's performance in their pools.

In the coming year the Company plans to launch the S400 robot series and the M700 robot series, which, similarly to the M600 series, are also intended for the market's premium segment.

The S400 series is based on the same platform as the S300 robot which was launched in 2015, but with upgraded filtering capabilities and a higher quality user interface, including a sensor that alerts the pool owner when the robot's filter is full.

The M700 series is based on the same platform as the M600, but offers upgraded capabilities in terms of the user interface, as well as additional sensors and components which contribute to the robot's performance. Among other features, the M700 includes a thermometer to measure the temperature of pool water, and an advanced sensor which alerts regarding the status of the robot's filter.

The Company is also continuing its efforts on the development of OPTEQ technology which allows identification of the robot's location through cameras and sensors, as well as precise mapping of the pool area, and navigating to create an optimal scan of the pool area.
Since 2019, certain robot models, including the M600, M700 and S400 series, are equipped with IoT cloud connectivity technology, and an advanced application for users allowing control of the robot via smartphones, which is intended to empower the user's robot operation interface, to strengthen the data infrastructure in order to provide added value to end customers, in terms of the robot's operation, monitoring and maintenance, and to allow the Company to provide higher quality service to its customers.
In addition to the new robot series and application, the Company is also developing a product called Pool Side Connect. This product connects to the pool's infrastructure (the pool wall or floor near the pool), and allows the provision of electricity and data to the robot in the pool, via a magnetic connection (see image below). This product allows the Company to engage the segment of pool builders who will effectively install the product when building or renovating the pool. It will allow pool builders to differentiate vs. other channels, and present the pool owner with a structured solution for operating the robot as part of the pool's infrastructure. Prior to the Coronavirus crisis, the Company estimated that an average of around 300 thousand new pools are built each year. This number appears to have increased significantly in 2020 due to the pandemic, and there are indicators showing that the trend will continue in 2021 as well. The Company aims to perform initial installations of this product in 2021, as part of an exclusive customer club. It is noted that there is another company in the field which alleges that this product constitutes a breach of patent that it owns. The Company is currently in discussions with that company in order to find a solution for this issue.

The information pertaining to the launch and sale of new products constitutes **forward looking information**, and as such is uncertain, and may not materialize, in whole or in part, or may materialize differently from the forecast. This information is based on the Company's knowledge of its products, and its ability to continue developing these products to successful production, marketing and sale, on its understanding of the market in its field, on information which is at its disposal as of the date of this report regarding the products and the market, and on its understanding of the technological significance of those products. The assessments presented above may not materialize, or may materialize differently, if and insofar as it is found that the Company's assessments regarding the ability of the new products to fulfill the expectations of them, and to be sold in significant quantities, or the assessment regarding the preferences of its customers and the actions of its competitors, have been incorrect or inaccurate, or due to the other risk factors which apply to the Company, as specified in section 3.22 below.

The S400 robot:

The M700 robot:

The Pool Side Connect device:

2.1.5 Order backlog

The order backlog of private pool cleaners as of December 31, 2020 amounted to a total of NIS 302,410 thousand, as compared with NIS 175,240 thousand as of December 31, 2019, reflecting an increase of around 73% in the order backlog for the Company's products in this segment relative to last year. It should be noted that the Company has seen a continuing trend of increasing demand, as part of the flourishing of the private pool segment in all main territories, as well as significant demand at the end of the year, as part of the early buy program for distributors.

The order backlog as of March 21, 2021, amounted to a total of NIS 345,552 thousand, as compared with a backlog of NIS 105,580 thousand as of March 14, 2020. As stated above, the Company is continuing to see significant growth in demand for products in this segment. The Company estimates that the increasing demand from pool owners and stores is leading to a high level of confidence among the Company's customers (the distributors in all countries) as they prepare for the pool season.

Distribution of the order backlog in NIS thousands:

Order backlog as of March 21, 2021	**Expected revenue recognition period**	**Order backlog as of 31.12.2019**	**Order backlog as of 31.12.2020**
54,095	First quarter	155,987	272,826
260,138	Second quarter	19,061	28,752
22,266	Third quarter	192	827
9,053	Fourth quarter	-	5
345,552	**Total**	**175,240**	**302,410**

2.1.6 Characteristics of competition

As stated above, the Company evaluates the competitive map vs. automatic cleaner manufacturers and manual cleaning methods which constitute an alternative to robots, as well as the robot manufacturers.

The competition in this market has in recent years included maneuvers by competing companies on all matters associated with collaborations and marketing campaigns of various kinds. Additionally, the trend of mergers and acquisitions in the segment is continuing (see section 2.1.1H above and this section below).

A. The following table summarizes, in terms of the number of pools, the market share of each automatic private swimming pool cleaning method[5].

[5] In 2020 the Company conducted a detailed data analysis in order to optimize the database regarding the pool market. The Company does not have official or verified figures, and the following details regarding the market share of each cleaning method constitutes an internal estimate of the Company, which is based on data received from the Company's distributors,

Distribution of private pool cleaning methods around the world (in %)	Cleaning method
16%	Robots
29%	Suction devices
9%	Pressure devices
35%	Manual cleaning by pool owner
11%	Manual cleaning by poolman

B. According to the Company's estimate, in the segment of robots, which are currently used, as stated above, in around 16% of private swimming pools around the world, its share of the global market was around 50% in 2020. However, with reference to the private pool market in its entirety (including non-robotic products and manual cleaning tools, which constitute around 84% of the pool market[6]), the Company has a share of around 8% of the swimming pool cleaners' market (in terms of number of cleaners).

C. As explained in section 2.1.1 above, the competitive conditions in this segment are based both on the Company's significant share in the global market for private pool cleaners, and on the attempts of the Company's competitors to cut into its market share. The increasing pressure on all players to maximize sales and to increase market share is expected to result in a certain trend of price cuts in the coming years. The Company expects this decrease to be moderated somewhat, thanks to the technological leadership of its products, and their differentiation from its competitors' products, and also thanks to the product and marketing strategy, which allows it to charge a higher premium than its competitors, as it has done in recent years.

D. There are Chinese manufacturers of robotic pool cleaners which compete in the Company's market, mostly based on their low prices, while the technological capabilities of some models have continued to improve. The Company continuously monitors all of its competitors, and takes into account the possibility of more massive entry of manufacturers from the Far East.

E. It can be assumed that the Company's competitors are also working on the development of more innovative products. In parallel with the development and innovation efforts, efforts are also evident on the part of the Company's competitors to improve their hold in the market, by improving service and product strategy.

F. The Company estimates that the alternative automatic products – pressure and suction devices – have passed their peak in terms of their technological lifetime,

and the assessments of various entities in the pool industry, and therefore does not constitute certified or precise information.

6 The estimates regarding the market share of each one of the automatic swimming pool cleaning methods is based on data which was received from the Company's distributors, and on the estimates of various entities in the pool industry, and is not authorized or exact information.

and market sales of such products continue to decline. Their advantages are price and reliability. However, the availability and increased reliability cheaper robots has stopped the development of those technologies. Pool cleaning methods which are based on robotic devices are the most efficiency and effective way to clean pools.

G. Other main manufacturers of robotic cleaners for private pools

To the best of the Company's knowledge, as of the date of the periodic report, Maytronics has three main competitors, as well as several smaller competitors which produce robotic cleaners for private pools, as follows:

1. Fluidra S.A. - Includes the following two companies:

- Zodiac Pool Solutions LLC is a global French company which operates also in the United States under the brand name Polaris, which produces both cheap cleaners (pressure and suction) and robots, and which merged with Fluidra in 2018. Zodiac is also active in the water heater, pump, filter and water treatment system segment. Zodiac launched a new line of midrange robots (average consumer price of around 1,000 USD/EUR), which includes similar features and design as the Company's S line.
- Aqua Products, Inc., which markets its products for both private swimming pools and public swimming pools, mostly to the American market, in which it has a significant presence. The products of Aqua Products are generally cheaper than the Company's products. Aqua Products transferred its manufacturing infrastructure during the last year from New Jersey to Mexico. As stated above, Fluidra Group is a direct competitor of the Company. It is noted that the mix of products offered by Fluidra Group is extensive, and includes an array of swimming pool equipment beyond robotic swimming pool cleaners, including water heaters, pumps, filters and water treatment systems.

2. Aquatron Robotic Technology Ltd. (hereinafter: "**Aquatron**") - A member of the Austrian group BWT. **Aquatron** produces robots in Israel for both private swimming pools and public swimming pools. It markets its products mostly to Europe, where it has a significant presence in France, Italy and Spain. During the last two years, in accordance with BWT's branding policy, Aquatron re-positioned its product lines, including the brand's colors, and the addition of various features.
3. Hayward Industries, Inc is one of the American super-manufacturers in the pool segment; however, in the robotic pool cleaners' segment, it offers the smallest variety of products among the Company's competitors. This company launched a new robot series in November 2018, which is targeted for the premium market. This robot series features an innovative filtering unit, powerful suction capabilities, and an innovative design, and went on the market in 2019. After the reporting date, in February 2021, Hayward announced a collaboration with BWT including a distribution agreement for

BWT's robots in the private and public segment, and a focus on the US territory.

In addition to the aforementioned competitors, there are also several other manufacturers in China, including Eightstream, Tianjin Wanguan (Winnie Industries), and Kokidu (which was recently acquired by BWT).

Presented below are details regarding the shares of the Company and its competitors in the segment of robotic swimming pool cleaners for private swimming pools in the global market[7]:

Estimated market share in the robots' segment	Company
50%	Maytronics
27%	Fluidra (Aqua Products+Zodiac) *
10%	BWT - Aquatron
4%	Hayward
9%	Other manufacturers

**After the merger of Fluidra and Zodiac, and the split of Aquatron from Fluidra, as stated in section 2.1.6G(2) above.*

H. The Company's methods for dealing with competition

The Company is positioned as a market leader in performance, product quality, innovation and quality the technical support provided to its customers. Its products are generally sold at a higher price level than its competitors. The Company is also characterized by close and longstanding relationships with its customers (distributors in various countries), as reflected in visits to customer sites, conducting of professional seminars (marketing and technical, up to the dealer level), and close support within the framework of the regional service centers. On this matter, see also section 3.2 below. In strategic markets (USA, France, Australia, Germany, Spain, Argentina and Singapore), the Company operates subsidiaries and representations with the aim of approaching end customers and obtaining better control of the distribution and service network for its products.[8]

In order to deal with competition, as described above, the Company continues to develop and manufacture products offering technological advantages, a high level of quality and reliability, uniqueness and differentiation - from the perspective of the end customer, dealer and distributor. The uniqueness of the

[7] The Company does not have official or verified data, and the data presented below, regarding the distribution of market share, represents the Company's internal estimates, based on quantity figures which are received from the Company's distributors, and on discussions with professional entities in the market and in international exhibitions, and therefore does not constitute authorized or exact information.

Company's products is reflected in the variety of products, the segmentation to product levels, the superior scanning capabilities of its devices (which is enabled thanks to engineering planning and software intelligence), device performance (filtering and brushing), and the reliability and innovation of the products. The technical support and service which are guaranteed to end customers differentiate the Company from its competitors. The vast majority of the Company's robots are sold under the brand "Dolphin by Maytronics", a brand identified with the Company and considered strong in the market, due to its primary status, quality and performance. The Company is promoting a unique and clear method of distribution through various channels, in a manner whereby each arm in the distribution chain applies the strategy, in full collaboration with the Company. This strategy has proven itself well. The Company also works with the best distributors in the market (in all territories) over many years, with a very high level of loyalty. The relationship is strengthened by a unique relationship and business culture, as well as a technologically advanced customer service and support network, including in terms of IT infrastructure.

The Company also recently upgraded its work capabilities vis-à-vis online sale channels, in terms of the visibility of sales pages, analytical tools to identity consumer trends, and commercial ties, which together constitute a competitive advantage in that sales channel.

The information presented above constitutes **forward looking information**, and as such is uncertain, and may not materialize, in whole or in part, or may materialize differently from the forecast. This information is based on the Company's assessment regarding the aforementioned target markets, the advantage of its alternative products, its relationships with distributors, the presence of the subsidiaries in important regions, the ability of all of these components to constitute solutions for the increasing competition and other changes which may take place in its operating segments, and its assessment regarding the intensity of competition in the markets in which it is engaged in general, and the significance of the merger between Fluidra and Zodiac in particular, as well as the significance of the acquisition of Aquatron by the Austrian company BWT. The estimates presented above may not materialize, or may materialize differently, insofar as the Company's estimates regarding its competitive advantages, the capabilities of its products, its relationships with distributors, the capabilities of its subsidiaries, and the capabilities of its competitors, including the merged entity Fluidra-Zodiac (Fluidra) and Aquatron, which constitutes a part of BWT, turn out to be incorrect, and due to all of the other risk factors which apply to the Company and its activities, as specified in section 3.22 below.

2.2 Segment of robotic cleaners for public pools

2.2.1 General information regarding the public pool cleaners' segment

A. **Structure of the operating segment and changes occurring therein**

The market for robotic cleaners for public pools constitutes a part of the global market of supplementary products for public swimming pools, and is affected by the developments therein. The market for robotic cleaners for public pools is also in continuous expansion; however, the growth rate in the market is lower than that of the private pool segment and is estimated at around 2% per year. The types of pool in this market can be divided into two different groups:

First - the institutional market, i.e., schools, universities, hospitals, sports centers, etc. This segment is characterized by limited budgets on the one hand, while on the other hand, around 40%-50% of the pools are cleaned by robots.

Second - the "lodging" segment, i.e., hotels, holiday sites, etc. This segment is much larger than the other one, in terms of the number of pools; however, the rate of robotic cleaners in the segment is lower, and it still includes a great deal of pools which are cleaned manually. Currently there is a trend of change and penetration of more robotic cleaners into this sub-segment as well, inter alia, due to the increase in work cost and the increasing awareness of the robot's superiority in pool cleaning quality.

There are only two cleaning alternatives for public pools: electronic robots or manual cleaning, usually by service companies or the pool staff. Additionally, in part, this market is active most days of the year, and part of the robot sales take place also in the second half of the year (i.e., not only in the months December to June - which are the primary sales months of private pool cleaners), thereby helping the decrease in seasonality of the Company's sales.

As opposed to the market for private pool cleaners, in which the guiding considerations of most customers are product price, brand and exterior design - the market for products designated for public swimming pools is characterized by greater sensitivity among customers to the device's reliability, performance and the service which is provided for it. In many cases, devices are bought for public swimming pools based on budgetary considerations and constraints, through a pricing and tender process.

Public pools have standards and continuous oversight by authorities in respect of water quality and pool cleanliness. The strict criteria force pool operators to clean them daily. Additionally, a large quantity of pools are open for many hours, which leaves little time at night for cleaning and maintenance. Manual work takes several hours, and is becoming very expensive, thus encouraging many public pool owners to seek out other, automated alternatives.

B. **Legislative restrictions, standards and special constraints which apply to the operating segment**

Public pool cleaners are also subject to standard specifications in various countries around the world (for details regarding the standards held by the Company, see section 3.14.2. below).

C. **Changes in the scope of activities and profitability of the segment**

The market of robotic cleaners for public pools is a market featuring slower growth rates than those of the market for private pool cleaners, but is characterized by a higher profitability rate. According to the Company's estimate, in recent years, growth in this market was at a rate of 1% to 3% per year, and based on past experience, it was more sensitive to economic crises than the private pool segment.

The Coronavirus crisis which took place during the reporting period had a directly adverse effect (and is continuing to have adverse effects after the reporting date) on this operating segment. The restrictions on social distancing and the closure of businesses resulted in the temporary closure of public pools, and the damage to the tourism industry also led to temporary closure of pools in the hotel market, as described above. As a result, the economy contracted by around 9% during the reporting year, relative to 2019. At this stage it is not yet possible to predict when this market will resume a growth pattern, nor how this global crisis will affect the continuity of these businesses, and their continued purchase of these products in the short and long term (for additional details regarding the consequences of the Coronavirus crisis, see section 1.6.4 above).

The public market can be divided into three categories, characterized primarily by pool size: olympic pools and water parks (50-60 square meters); Semi-olympic and school pools (25 square meters); Hotel and condominium pools, camping sites, etc. (10-20 square meters). Accordingly, the various robot models are developed according to the specific features for each category.

D. Critical success factors in the public pool cleaners' segment and changes occurring therein

As described below, the Company's market share in the segment of robotic cleaners for public pools is around 37%. As stated above, the device's reliability, the ability to collect dirt, and service, are the key to success in the sale of robots to this market. In recent years, a market trend has been apparent, according to which customers evaluate the products also in terms of cost / benefit.

Another component is the distribution network. In certain cases, the distributors of private pool products are not knowledgeable about the public pool market. Therefore, it is highly important to create connections with designated distributors which are engaged in this segment in each country, or with distributors that allocate the required resources to advance in this segment.

The Company works accordingly, in an orderly fashion, in all territories, to arrange appropriate distribution for this segment.

in the United States for example, the subsidiary MTUS significantly expanded its dedicated staff in this segment, opened distribution to new players in the field, and also, a major customer of the Company, SCP, which acquired a distributor for the public market - Lincoln, received the possibility to sell a designated robot family to that market.

The Company is also continuously improving the performance and reliability of its robots for this market, in order to allow pool scanning with maximum efficiency, minimum time, and minimum malfunctions. Thus, for example, the new robots in this segment are planned for the simplest operation, in order to allow the user - usually the pool's local lifeguard - minimum hassle, and simplicity of use. Additionally, most types of robotic cleaners are equipped with an advanced navigation system which allows the robot to move straight and with great precision at turns, to ensure optimal scanning, both in terms of coverage of the pool area, and in terms of cleaning speed.

In the service provision segment, this market sometimes requires rapid repair of robots at the pool site. Maytronics ensures, in respect of all new developments for the public pool segment, to enable solutions for this requirement.

E. Main barriers to entry and exit in the public pool cleaners' segment, and changes occurring therein

The barriers to entry in this segment are, for the most part, as follows:

- Requirement of knowledge and specialization in the product development field, including the monetary investment which is required for this purpose, and the ability to market it through the appropriate channels. The Olympic and semi-Olympic pool category requires a heavy-duty level of product, which has been well planned in order to withstand particularly difficult and intensive work conditions.
- The organizational ability to establish a distribution and support network, including demonstrations and pre- and post-sale service.
- The significant importance of the reputation of the brand and company in this segment, since customers hesitate to risk going with an unfamiliar manufacturer, in an investment which is of significant scope for them.

F. Alternatives to public pool cleaners and changes occurring therein

The only alternative to robots in this segment is manual cleaning. Manual cleaning is only possible in pools no wider than 20 meters. The wider the pool, the more likely that a robot will be purchased to perform this task. The quality of manual cleaning also depends on the activities of the cleaner, who often leave pools in unsatisfactory levels of cleanliness. According to the Company's estimate, there is a positive but slow trend of growth in the rate of public pools of all sizes which are cleaned by robots.

G. Structure of competition in the public pool cleaners' segment and changes occurring therein

To the best of the Company's knowledge, as of the date of the periodic report, Maytronics has four other main competitors which produce robotic cleaners for public pools (all of which have been active for many years), as follows:

- The Swiss company Mariner 3s AG (hereinafter: "**Mariner**")
- The French company Hexagone Manufacture SAS (hereinafter: "**Hexagon**")

- Aquatron owned by BWT in the medium to low range, and is concentrated mostly in the European market.
- Aqua Products, owned by Fluidra, focused on the medium and low range of the market and concentrated in the American market.

In the past, Aqua Products and Aquatron were subsidiaries of Fluidra, and therefore constituted a single competitor. After the sale of Aquatron to the Austrian company BWT, the companies split, and 2 competitors remained.

As stated above, and as specified below, the Company has various models which are adapted to each segment of the public pools market.

2.2.2 Products and services

A. General characteristics of the products

The Company produces robotic cleaners for public swimming pools in hotels, schools, sports centers, water parks and olympic facilities. The robots which are produced by the Company are suitable for the entire array of swimming pool surfaces and shapes. They feature special cleaning programs, and are equipped with heavy duty units which are intended to upgrade and improve the performance of the device, as well as its reliability throughout its period of use. For additional details regarding the robots' general characteristics, and the adjustment of features of specific robots to the cleaner's use, see section 2.1.2A above.

B. Types of public pool cleaners and their characteristics

The Company has a variety of robots which are suitable for the cleaning of public pools. The robots which are intended for public pools of medium length, up to 20 meters, feature a cable which includes a swivel function to prevent cable twisting, a designated scanning program, engines suited for the required work load in such pools, and a longer work cycle (which is intended to allow efficient cleaning of pools of such sizes), and a scanning control system which allows optimal coverage of the pool area, in minimal time. These robots have the ability to climb walls and to clean the water line.

For the market of large and olympic sized pools (pools 20 to 60 meters long), the Company produces a series of robots, including the Wave (150, 200, 300) and 2X2 lines. These models are double the size of private pool robots, include a heavy-duty carrying basket, massive drive and pumping units planned to withstand high loads, and designated cleaning parameters. The Wave line includes an advanced navigation system, active brushing, upper access to filter bags, and an advanced user interface.

The technologies used in each type of device (except for the Wave line) are similar to those which are included in robotic cleaners for private pools. However, public pool products are differentiated from products intended for private pools in several parameters: the operating program, features, increased

pumping capability, type of drive and pump engines (brushless, heavy duty), cable length, reinforced drive system and warranty period.

Main models of robotic cleaners for public pools:

- W20 robot: A robot intended for shallow children's pools up to 15 meters long, which are included in most public pool complexes. This robot is the only one of its kind on the market that offers solutions for these pools.
- Wave 50: Robots for small hotel pools up to 15 meters long.
- Wave 100, Pro-x: Robots intended for medium size hotel pools up to 20 meters long. These include a longer cable, larger filter volume and stronger engines.
- Wave 200, Wave 150: Robots intended for municipal pools - usually around 25 meters long, water park pools and large pools of holiday villages. These robots include a more efficient and faster pool scanning system, an advanced and large filtering system, active brushing and an advanced user interface which allows adjustment to non-standard pools.
- Wave 300: A robot intended for olympic-sized pools up to 60 meters long, with more powerful engines and suction power, and greater filtering volume.

C. Replacement parts and testing equipment

In addition to the finished products, the Company also sells to its customers replacement parts, and designated testing and repair equipment. The Wave device has specific equipment which allows the performance of a complete analysis and repair of the device at the poolside.

D. Product markets and service

The markets for public pool cleaners, and the service provided for them, differ in several respects vs. private pool cleaners (see section 2.1.2E above). The sensitivity to the availability of service, and even to the ability to provide it poolside, is more significant in this segment than the in private pool cleaners' segment. It should be noted that, due to the wear and tear to which these devices are subjected, the replacement parts component has greater weight in total sales than for private pool robots.

E. Trends and changes in supply and demand

According to the Company's estimate, the demand for robotic cleaners for public pools is also in an ongoing uptrend, and is mostly affected by ensuring cleanliness in public areas, the increased workforce cost, and the increasing transition to automatic pool cleaning solutions. The Company has built a reputation in this market segment, through investment in development and marketing. It should be noted that this is still a challenging market, characterized by usually moderate growth. (For details regarding the effect of the Coronavirus crisis on this segment, see section 2.2.1C).

F. Material expected changes in the Company's share in the main markets of public pool cleaners

The Company expects its activities in this segment to continue developing, along with the expansion and growth of the entire market. The Company works continuously to improve its distribution network in all markets, to sharpen its marketing strategy and to develop innovative products in order to deal with the market challenges. In the ordinary course of business, the Company expects high single digit growth in this segment in the coming years, and views this segment as offering continued business potential in the coming years, due to its broad variety of products, which offer solutions for all types of public pools, as well as the brand's strength and ties with leading players in the market. However, it is unable to estimate how the Coronavirus crisis could affect this projection, and when this market will resume the growth trend it was in prior to the crisis (for details regarding the effect of the Coronavirus crisis on this segment, see section 2.2.1C).

The information presented in sections E and F above - i.e., the information regarding the expected changes in supply and demand in the segment, including the Company's efforts to improve the distribution channels, and the development of additional models, and regarding the other expected changes to the Company's share in the segment - constitutes **forward looking information**, and as such is uncertain, and may not materialize, in whole or in part, or may materialize differently from the forecast.

This information is based on the collection of information from the market (discussions, meetings, exhibitions) and professional material which is published from time to time, the Company's estimates regarding the uniqueness and variety of its products in the segment, its expected market share, and its working assumptions and intentions, as of the date of this periodic report.

The forecasts presented above may not materialize, or may materialize on a partial basis only, due to a failure by the Company to present models which are perceived as preferable, difficulties in penetrating its new products in the segment, or due to malfunctions, or for any other reason, competing entities in the segment, the continuation of the Coronavirus crisis and/or the effects of the crisis on the public pools segment, and due to all of the other risk factors which apply to the Company and its activities, as specified in section 3.22 below.

2.2.3 Segmentation of revenue and profitability of products and

The segment of robotic cleaners for public pools constituted around 8% of the Company's sales during the years 2018-2020.

Revenues from each product group - public pool cleaners:

Product name	2018		2019		2020	
	Proportion of total revenues in the segment (%)	Revenues (NIS thousands)	Proportion of total revenues in the segment (%)	Revenues (NIS thousands)	Proportion of total revenues in the segment (%)	Revenues (NIS thousands)
Robots	82%	57,931	79%	55,910	76%	48,888
Replacement parts	18%	12,874	21%	14,994	24%	15,723
Total		**70,805**		**70,904**		**64,611**

2.2.4 New products

The Company launched, towards the end of 2017, a new robot called the Wave 150, which is primarily intended for pools 20-25 meters long, which constitute the main market share in the public-municipal segment. The Wave 150 was launched in the United States in 2018, with significant success, and the Company launched the robot in the rest of the world in 2019. The Company is also working on significant quality improvements to existing products for institutional / municipal pools (WAVE200, WAVE300), including software improvements and engineering improvements.

The Company is continuing to invest resources and is working on implementing a product development map for the coming years in this segment as well.

2.2.5 Order backlog

A. The order backlog of public pool cleaners as of December 31, 2020 amounted to a total of NIS 11,774 thousand, as compared with NIS 7,326 thousand as of December 31, 2019, representing an increase of around 61%. The Company believes that the increase in the order backlog is due to a certain particular in the public market. As of March 21, 2021, the order backlog amounted to a total of NIS 9,095 thousand, as compared with an order backlog of NIS 4,572 thousand as of March 14, 2020.

B. Most of the sales in this segment are done in a range of a few weeks after the date of receipt of the customer's order.

Distribution of the order backlog for public pool cleaners in NIS thousands:

Order backlog as of 21.3.2021	Expected revenue recognition period	Order backlog as of 31.12.2019	Order backlog as of 31.12.2020
2,998	First quarter	6,638	10,632
5,919	Second quarter	688	1,142
122	Third quarter	0	0
56	Fourth quarter	0	0
9,095	**Total**	**7,326**	**11,774**

2.2.6 Competition

A. According to the Company's estimate, its share in the global market in 2020 amounted to around 37% of sales of robotic cleaners for public pools[9].

B. The number of robot manufacturers in this segment is generally stable, and during the aforementioned period, no significant new manufacturer entered the market. This stability is due, inter alia, to a high technological threshold, a relatively small market requiring specialization, knowledge and investment in product development, post-sale service, and reliance on designated and local distribution and/or direct sale channels.

C. Other major manufacturers:

To the best of the Company's knowledge, as of the date of the periodic report, Maytronics has four other main competitors which produce robotic cleaners for public pools (all of which have been active for many years):

1. Aqua Products - Owned by Fluidra, which is active in the robots' segment, for both the private and public markets. This company has a wide variety of robots which are mostly intended for the lodging market, and is engaged in the North American market. The prices of this company's products are generally low relative to the Company's products.
2. Aquatron - Owned by BWT, which is active in the robots' segment, for both the private and public markets. In the public segment, this company has a wide variety of robots which are mostly intended for the lodging market, and is active in the European and Australian markets. The prices of this company's products are generally low relative to the Company's products.
3. Mariner 3s AG - A Swiss company which is the most veteran company in the segment of robotic cleaners for public pools. The robots produced by this company are generally more expensive, larger and heavier that the Company's products. Additionally, the base used in its devices is made of

[9] The above estimates constitute internal estimates of the Company, which are based on quantity figures which are received from the Company's distributors, and from discussions with professional entities in the market and in international exhibitions, and therefore do not constitute authorized or exact information.

metal, which over time gets corroded by the salt which is present more and more in pools as an alternative to chlorine. Their advantage is in their advanced navigation system, which allows direct and strong control of movement, resulting in precise scanning of the pool floor. On the other hand, the robots' heavy weight is their disadvantage - since it makes it difficult to put them in or take them out from the pool, and its operating system is less user friendly than the one used in Company's products. Mariner is a strong brand in this segment. Most of its sales are in Europe - in the institutional market, where most of its activities take place. The Company has three main models of robots which are suitable for public pools of various sizes. In 2018, Mariner renewed its Navigator model for 50-meter pools.

4. Hexagone - A veteran French company, specializing primarily in the municipal public pool cleaners' segment. Hexagone sells several public pool cleaner models, and is dominant mostly in the French market. Hexagone has also developed distribution channels, inter alia, in the United States, Italy, Germany and Australia, in order to sell and support the product directly in those territories.
5. In addition to the aforementioned companies, there are also several other companies, although their market shares are still insignificant.

Presented below are details regarding the shares of the Company and its competitors (the Company does not have official or verified figures, and the foregoing constitutes the Company's internal estimate regarding market share) in the public pool cleaners' segment:

Market share in the segment	**The Company**
37%	Maytronics
22%	Mariner
15%	Hexagone
10%	BWT - Aquatron
6%	Fluidra (Aqua Products)
10%	Others

2.2.7 The Company's methods for dealing with competition

In the public pool cleaners' segment, the Company deals with competition by focusing on the production of a wide variety of unique products, both from the perspective of customers and from the perspective of distributors, which allow it to differentiate itself from its competition.

The Company's strategy in this segment is to develop and market a variety of robots which are suitable for each public market segment. It thereby differentiates itself from its competitors, who focus only on a certain segment of this market. The Company positions its products as high-quality products, featuring advanced

technologies, offering a high cost/benefit ratio to customers, along with a global, high quality, accessible infrastructure.

The following table presents the main models of public robots, and the market segments which they serve:

Olympic institutional pools Wave 300 XL	**25-meter institutional pools Wave 200 XL**	**25-meter institutional pools Wave 150 2x2**	**Hotel pools Wave 100 Pro X**	**Shallow children's pools W20**
בריכות מוסדיות אולימפיות Wave 300 XL	בריכות מוסדיות 25 מ' Wave 200 XL	בריכות מוסדיות 25 מ' Wave 150 2x2	בריכות בית מלון Wave 100 PRO X	בריכות ילדים רדודות W20
 wave300XL	 wave200XL	 wave150  2x2	 wave100  PRO X	 W20

2.3 Safety products and related pool products segment

2.3.1 General information regarding the safety products and auxiliary pool products segment:

A. Structure of the operating segment and changes occurring therein

This operating segment includes three sub-segments:

(1) **Private pool alarms and systems to detect drowning in public pools**

(2) **Automatic covers** for private swimming pools, which offer safety, protection from dirt, and deceleration of water evaporation and chemical loss.

(3) **Supplementary products for the monitoring, control and treatment of swimming pool water** - including products which are marketed by the

Company's subsidiaries, which were not developed and are not manufactured by Maytronics.

As part of the Company's strategy, as specified in section 3.17, the Company has been working, in recent years, to develop advanced systems and solutions for the monitoring, control and treatment of pool water. At this stage, the above includes only expenses and investments in research and development.

Presented below are details regarding each of the sub-segments:

(1) Private pool alarms and systems to detect drowning in public pools

This sub-segment is divided into the following two departments:

- **Private pool alarm products;** In other words, the products are intended to alert unmonitored entry by children and babies into the pool (for additional details, see section 2.3.2A below), and as such, they are subject to governmental regulation. In the coming years, the Company does not plan to invest in the development of new products for this segment, and will focus on sales of the existing products, mostly in France.
- **Systems to detect drowning in public pools;** These systems, which are sold under the brand name Poseidon (hereinafter: "**Poseidon**"), are systems combining a series of cameras and computer systems, which are adapted to each specific pool, and are used by the lifeguard staff of public pools (for additional details, see section 2.3.2B below). As such, they were mostly sold to municipal entities, in a long sale process requiring a designated sales team. The Company (through its subsidiary MTFR) was the first in the world to develop and sell a product of this kind, which is rich in software-integrated technologies and digital vision, and is protected by several patents. The Company currently has a global market share of around 80% in this segment. The cost of these systems is high, and are sold at an average price of around USD/EUR 120,000, due to their designated installation, complexity and variability between pools.

  Similar to the segment of public pool cleaners, this sub-segment also suffered adverse effects, and is continuing to suffer adverse effects due to the Coronavirus crisis, as a result of social distancing restrictions, which led to the closure of most public pools, and a deceleration in the construction of new public pools. The sales in this sub-segment decreased as a result at a rate of around 11% during the reporting year, relative to 2019. At this stage it is not yet possible to predict when this market will resume a growth trend, and how this global crisis will affect the continuity of these businesses, their economic situation, and their continued purchasing of these products in the short and long term (for additional details regarding the consequences of the Coronavirus crisis, see section 1.6.4 above).

It is further noted that, in addition to the revenues from the system's sales, the Company also has regular revenues from maintenance and calibration services for existing systems – an element which moderated the decline in sales to a certain degree. Additionally, in December 2020 the Company won the third stage of a project involving the installation of the Poseidon system in 16 additional pools in Singapore (for additional details, see section 2.3.1D below).

(2) Automatic covers

These products are manufactured and marketed by the subsidiary in France, MTFR. This segment is growing around Europe, mostly in France. These products combine preventive safety, maintenance of water temperature, prevention of dirt entering the pool, savings on chemical use, and convenience thanks to the installation of a cover on top of the pool. Competition in France is relatively intense, and is characterized by 4-5 large players, and another 8-9 small players. The level of innovation for this product is relatively low. This product requires installation by a professional installer on the pool itself, and the purchase price for European customers ranges from EUR 7,500 to EUR 15,000. This activity benefits from association with Maytronics' Dolphin brand, and the ability to sell several products, including robots, in a single package, to the same customer.

In this segment, the Company has in recent years invested in advanced automation and in a new production site, in a manner which improves its status in the market, and positions it as one of the leading companies in the segment, which invests and strives for continuous improvement. It is noted that the automatic covers sub-segment has grown consistently in recent years, and the Coronavirus pandemic appears to have increased demand in this market as well, similar to the increased demand for private pool robots.

(3) Supplementary products for the monitoring, control and treatment of swimming pool water

The supplementary products are products for the swimming pool segment which the Company does not develop and produce, but rather only distributes, through its subsidiaries.

These products currently include:

- An active glass mix for filters.
- A pool water disinfection solution, combining dead sea minerals with an ozone technology, which MTAU distributed during 2019. In 2020 MTAU completed the acquisition of this activity, which focuses on the production and development of pool water disinfection systems using ozone technology, combined with a chlorinator, for private pools.

- The German company BF GmbH is engaged in the sale of a wide variety of pool-related products, including, inter alia, pumps, filters, pool covers, manual pool cleaning tools, water heaters, and water cleaning chemicals.

The Company is also working on developing a product line called Insight for the segment for the monitoring, control and treatment of swimming pool water, and created an internal startup operation for this purpose. At this stage, the above includes only expenses and investments in research and development. Market studies conducted by the Company, along with an analysis of trends and future market requirements, support the profitability of developing these products.

These developments, insofar as the development process matures and is successful, will include several main components:

- **Software- and application-based system for managing and monitoring pools:**
  This system will allow optimal pool management by users - pool owners and maintenance companies, and later also pool equipment stores.
  Several dozen systems of this kind have been installed for testing purposes, and in order to add functions based on feedback and cooperation with customers in 2018-2019, as part of an exclusive customer club which includes service companies and dealers. The system allows these companies to optimally manage their resources, and to provide optimal service to pool owners.
  In the second stage, the system will be integrated into the Insight system (specified below), together with a module to support stores, in order to offer an integrated solution.
- **Insight In-Line: Sensing and monitoring system:**
  This system is based on a unique technology which does not currently exist among the currently available products for the pool industry. The system will be capable of collecting, though sensors, a very wide array of parameters regarding the entire pool and water unit (including chemical, biological and physical data regarding the pool water, as well as data regarding the pool's operational systems), and transmitting them accurately in real time. The system will be installed alongside the current pool systems (external pump and filter), and will transmit data to the smartphone of the pool owner and/or professional responsible for the pool's maintenance, together with operational recommendations for the pool's proper maintenance. The system will use cloud data processing technology to create a continuous improvement in output. The system will also be capable of operating and controlling existing systems such as chlorinators and dosing pumps which introduce chemicals into the pool (such as the Brauer devices which were acquired by the Company).
  The system is currently in advanced stages of development, which included the Company's installation, in 2018, of several systems in

different territories, in which the feasibility of pool water monitoring technologies is being evaluated. During 2019, additional significant progress began on the system's development, and additional systems were installed in various markets for learning and development purposes. The Company is preparing for preliminary installations of the system in 2021 and 2022, in preparation for a soft launch of the product in 2023. This product is expected to be sold to private pool owners and to the HMAC market (the public lodging market), as well as to pool maintenance companies and dealers. It should be noted that this is an innovative system with a high technological threshold. In accordance with the Company's status as a market leader, the Company is working responsibly in its approach to launching a revolutionary product of this kind to the market.

- **Insight Drop In - Another sensing and monitoring system:**
  This system will collect data regarding the pool water using sensors, and will recommend actions to the pool owner in order to keep the pool water balanced. This solution will be offered at a lower price level, and accordingly, it will be capable of collecting less data/parameters than the full Insight In-Line system. This product constitutes a supplementary product as part of the comprehensive plan for this segment, and will be launched in the coming years as part of the Company's vision and strategy of making pools smart and safe. At this stage, the Company is prioritizing directing the most resources towards the development of the In-Line system, and will later focus its efforts on the continued development and launch of Drop-In.

  The information presented above regarding the Company's plans and activities for the development of products in the monitoring, control and treatment of pool water segment, and its forecasted materialization, constitutes **forward looking information**, and as such is uncertain, and may not materialize, in whole or in part, or may materialize differently from the forecast. This information is based on the Company's current plans, on its understanding of the road map towards completion of development and making the products applicable, on its assessment of their inherent potential, and the resources which are required to achieve the goals in this field. The assessments presented above may not materialize, or may materialize differently, insofar as the Company's assessment regarding the potential of developments, or the road map to their completion, are found incorrect, including due to unexpected difficulties in completing the developments, or in the ability of the final products to meet the expectations of them, changes in the Company's intentions or plans regarding their continued development, including due to various managerial or budgetary considerations, and due to all of the

other risk factors which apply to the Company and its activities, as specified in section 3.22 below.

The Company carefully chooses the products in the sub-segment of supplementary products which it is considering to distribute, in such a way that corresponds with its marketing strategy, synergy and strengthening the Company's brand in the market. Additionally, an emphasis is placed on keeping the Company's focus in general, and of the salespeople in particular, on its core business operations (swimming pools only).

B. Legislative restrictions, standards and special constraints which apply to the operating segment

The activities of MTFR in the private pool alarms segment is currently subject to safety standards in France and in the United States - with which the Company is required to comply. The automatic covers segment is also subject to similar safety standards in France.

As of the end of 2020, MTFR meets the requirements and standards in France, in respect of all of its alarm and cover models.

In respect of the Poseidon system, the ISO 20380 standard was recently published, which defines the requirements and quality tests required for software and hardware based computerized systems to detect drowning in public pools. The standard quotes and refers to several of the Company's patents.

C. Changes in the scope of activities and profitability in the segment

The Company is working to expand its scope of activities in this segment, by penetrating supplementary products into the pool market, and by distributing pool safety products (mostly the Poseidon system) to new markets.

Additionally, and in accordance with a decision which was reached in 2015, the Company focuses its development activities in this segment on the development of water technologies (in the monitoring, control and treatment of pool water segment), as specified above. The development costs in this segment amounted in 2020 to around NIS 10.4 million net R&D expenses, and around NIS 14.3 million investments and costs which have been amortized. In 2021, the Company expects the costs in this segment to amount to a total of around NIS 15 million R&D expenses, net, and around NIS 16 million investments and costs which have been amortized (not including acquisitions and mergers), while continuing to make significant progress.

D. Developments in the operating segment's markets, or changes in the characteristics of customers in the operating segment

Customers for the alarm, automatic cover and supplementary products are owners of private swimming pools.

Customers who buy the Poseidon system are owners of public pools, mostly municipal entities. In the United States, public pools are also operated by private organizations. The Company is working to expand the market by various means,

including penetrating into new territories, such as countries in Asia; adding direct sale force in territories such as Germany and Scandinavia; financing arrangements; offering products on two levels of featurization; evaluation of business models, and more. In the past, the Company focused its marketing efforts on the segment of new pools under construction; however, it is currently also directing efforts towards the market of existing pools, which offer most of the potential in this sub-segment.

The Company won a tender for the installation of Poseidon systems in a large project in Singapore. After the pilot process, which was completed successfully, the Company installed three additional systems as the first stage, and seven additional systems as the second stage, during 2019-2020. The third stage, which the Company recently won, will include the installation of 16 additional systems during the years 2021-2023. Singapore will thereby become the first territory to install the Poseidon system in all municipal swimming pools under its supervision.

While the demand for private pool alarms, despite its relatively cheap price, is a direct result of legislation, the demand for automatic covers is due both to legislation and the many additional benefits for the pool owner, including maintaining water temperature and energy savings, maintaining pool cleanliness, and decelerating the rate of chemical evaporation. Since the automatic covers are unique to each pool (as opposed to robots and alarms for private pools, which are a plug & play product), it is more convenient to market them within a limited radius from their manufacturing location. For this reason, growth of this product is expected to take place mostly in France.

The products in the segment of monitoring, control and treatment of pool water, and which are in the development stage, are intended for pool owners, private pool maintenance companies, and pool equipment dealers.

The software- and application-based pool management and monitoring system is intended for purchase by pool maintenance companies, and at a later stage, once the Insight system has been integrated, by dealers as well.

The Insight system will be sold to owners of private inground pools and for HMAC pools in the public segment, and also to pool maintenance companies and dealers, in combination with the management and control system.

The Drop In product will be sold to private pool owners, including owners of above ground pools.

E. **Technological changes which have the potential to significantly affect the operating segment**

As specified in section 2.3.1A(3) above, the Company is currently working to develop new systems and technologies in the segment of monitoring, control and treatment of swimming pool water. According to the Company's estimate, there is huge potential in this segment, and it is expected to become a significant growth engine in the future.

During 2020 the Company developed additional capabilities for the Poseidon system, including counting the number of bathers who are in the pool at any given moment, and determining the social distancing inside the pool. These functions were offered to pool owners who are using the Poseidon system in order to help them comply with local regulations which allow pools to open subject to certain restrictions.

The information presented above in this section, i.e., the information regarding the potential of the pool water monitoring, control and treatment segment, constitutes **forward looking information**, and as such is uncertain, and may not materialize, or may materialize differently from the forecast.
This information is based on the collection of data from the market (market studies, discussions and meetings with players in the relevant segment, exhibitions, etc.), the Company's estimates regarding the uniqueness of the system which it is developing, and its working assumptions and intentions as of the date of this periodic report.
The forecasts presented above may not materialize, or may materialize on a partial basis only, due to a failure by the Company to develop a system which provides an adequate solution for the needs in the aforementioned segment. Birth pains and unexpected malfunctions in the system, unexpected gaps between the projected needs of the market and the market's response to the actual system, the appearance of competitors in the segment, changes in the Company's goals and in the methods used to achieve them, and due to all of the other risk factors which apply to the Company and its activities, as specified in section 3.22 below.

F. Critical success factors in the segment and changes occurring therein:

Ability to comply with regulatory requirements and safety standards - As stated above, the activities of MTFR in the segment of alarms and covers for private pools is subject to regulations which apply in respect of the oversight of pool safety products, and is affected by changes therein, in terms of the need for MTFR to respond to those requirements, which change from time to time, in order to ensure that the product's compliance with the standard is maintained.

Innovation in new product development -

As stated above, the Company is working on the development of innovative and unique products for the pool water monitoring and handling segment. According to the Company's estimate, the critical success factors include the successful development of products featuring a groundbreaking level of technological innovation, with high reliability and quality, which provide significant functional and business value to customers, at a competitive price for end consumers.

As described above, the Company worked on the development of additional capabilities for the Poseidon system in order to make the system more attractive, including during the Coronavirus period.

This information presented above in this section - i.e., the information regarding the adoption and development of unique products which will be distributed by the Company, and turning them into a significant growth engine for the Company - constitutes **forward looking information**, and as such is uncertain, and may not materialize, or may materialize differently from the forecast. This information is based on the collection and analysis of information from the market, communication with manufacturers of supplementary products (discussions, meetings, exhibitions) and professional material which is published from time to time, the Company's estimates regarding the ability to develop the new products in the field, and the ability to distribute the supplementary products both separately and together with its products, and its working assumptions and intentions, as of the date of this periodic report.

The forecasts presented above may not materialize, or may materialize on a partial basis only, due to changes in the direction of the Company's mix of products, as decided by the Company. Unexpected difficulties in the development of the aforementioned products, or limited availability of supplementary products which are attractive or which correspond, in terms of their characteristics and features, to the supplementary products which the Company can or wants to distribute, difficulties in penetrating its supplementary products separately or together with the Company's products, due to malfunctions associated with the supplementary products, or for any other reason, difficulties in completing the development of new technological products, the activities of competing entities in this market, and due to all of the other risk factors which apply to the Company and its activities, as specified in section 3.22 below.

G. Main barriers to entry and exit in the segment, and changes occurring therein

The private pool alarms sub-segment, is based on patents of MTFR, although the main barrier is compliance with laws and standards, together with critical cumulative knowledge. Effectively, at present only 2 manufacturers comply with the French standard, including the Company, which holds an estimated 70% of the market share in this sub-segment. The Company expects the possible entry of new competitors into the segment.

In all matters pertaining to systems to detect drowning in public pools, these products are unique to the Company, which require a significant technological investment (tens of human years were invested in the development of the Poseidon system) on all matters associated with digital vision, vision systems, and algorithms, as well as a significant investment in understanding and penetrating the market, as well as the service and support systems. Therefore, the barrier to entry in the sub-segment of systems to detect drowning is relatively high. Nevertheless, there are competitors with less accurate and cheaper systems

which compete with Poseidon, although the Poseidon system still holds around 80% of the market in this sub-segment.

In respect of the covers sub-segment - in total, the barriers to entry and exit are low, although this segment is also subject to safety standards, which in practice results in many competitors in territories with high demand. However, the product's large volume, and the fact that it must be specifically tailored to each pool, constitute barriers to manufacturing it in countries such as China for example, for marketing in Europe.

Regarding the pool water monitoring and treatment sub-segment – this is an innovative segment at Maytronics, and the technology is groundbreaking for the pool industry, with the required investments, in terms of development, time and financing, in themselves constitute a significant barrier to quick entry of competitors into the segment.

H. Alternatives to products in the segment and changes occurring therein

In respect of private pool alarms - there are prevention safety products, such as fences and automatic covers, which are more expensive and effective than the alarm, which is a relatively cheap alert-based safety product. Therefore, use of the alarm depends on the customer's purchasing power (since it represents the cheapest solution in the field).

In respect of systems to detect drowning in public pools - the alternatives in public pools include adding lifeguards, whose cost (investment cost) may be low, although with higher operating costs over time, and certainly also their limited effectiveness, in light of the difficulty of monitoring pool users continuously throughout the pool's hours of operation. There are also technologies based on watch-like devices which are worn by swimmers, and which send an alert in case the swimmer goes to a certain depth and stays there for a certain period of time. Their disadvantage is due to the fact that they are only effective for swimmers who are wearing the watch. This technology was launched in the market in recent years, but in practice it is not gaining steam due to the operating costs and complex logistical management of renting out the devices to swimmers.

I. Structure of competition in the segment and changes occurring therein

While there are few competitors in the alarms segment, as well as in the segment for detection of drowning in public pools, the covers segment includes many competitors. The covers segment is characterized by a relatively large number of players in France, leading to the erosion of profitability in the product. In France, the competition is based on physical proximity to the market, along with quality and service. The Company has set for itself the goal of moving forward based on production quality, innovation and excellent service, and has been able to successfully and consistently grow its market share in recent years.

The segment of monitoring, control and treatment of pool water and pool systems includes several competitors, including the three dominant companies in the pool market (see section 2.1.1H above), and other manufacturers. Despite

the above, the vast majority of private swimming pools around the world are treated without automatic monitoring systems, mostly manually. The Company therefore estimates that this sub-segment's potential is significant. Therefore, the Company is working on the development of unique technologies and solutions which will allow it to offer significant added value, in light of the inherent market potential.

In respect of sections H and I above, the market for supplementary products (products which are not produced or developed by the Company, and which are marketed by the subsidiaries) is a heterogeneous market, which is comprised of several supplementary products with entirely different characteristics, which are marketed by a large number of players, which do not overlap in all territories. In light of the foregoing, and in consideration of the Company's insignificant sales volume in this market, the Company is unable, at this stage, to estimate and survey, in qualitative terms, the structure of competition and the alternatives to each of the supplementary products in this sub-segment.

2.3.2 Products and services

A. Characteristics of safety products for various types of private swimming pools

Private pool alarm products: These products are installed near the water surface and/or poolside, and sound an alarm anytime an object (of a certain weight) falls into the water at a time when the water is supposed to free of bathers. The device operates through a sophisticated analysis, which takes place by sensing over- and under-water waves in the pool water. The alarms are manufactured in the Company's plant in Israel, and the MTFR brand for alarms is a leader in the market in France and Europe, with a market share of around 70%.

B. Characteristics of safety products for various types of public swimming pools

Systems to detect drowning in public pools: These systems, which are sold under the brand name Poseidon, are developed and manufactured by MTFR. The Poseidon system integrates computer systems which include advanced picture analysis software with sophisticated camera systems, both above and below the water, located at certain points in the pool, in a manner which surrounds and creates an overlap in the coverage of the entire volume of pool water. The system can detect when a person has sunk to the bottom of the pool, and who has not moved for over 10 seconds, sounding an alarm, and directing the lifeguard to the drowning person's location. The product is unique and the market leader. Commercial installations of the product began in 2002, and it is currently installed in over 300 pools around the world. The system has detected, to date, dozens of drowning events in which lives were saved / drowned persons were found, thanks to alerts which were activated in the pool area.

C. Features of swimming pool covers

Automatic covers for private swimming pools are divided into two types: those which are powered by an underwater motor, and others which are powered by an out of the water motor, both of which are developed, manufactured and marketed by MTFR. The cover keeps the pool clean, maintains its temperature, saves on the use of chemicals by reducing evaporation, and prevent the possibility of drowning in the pool, thereby offering owners significant value. Currently, MTFR is the leading producer of covers in France. It should be noted that a safety standard applies in France for covers of this kind, and the Company's products meet this standard.

D. Supplementary products

1. Glass media to filter pool water: This product contains recycled glass which is crushed to the size of sand granules, subject to a unique activation process, and serves as a filtering agent inside the filter. Glass media has clear advantages over traditional sand, in that it significantly reduces the creation of bio-film (chlorine-resistant bacteria colonies) inside the filter. The glass media which is distributed by the Company is manufactured in Scotland by Dryden-Aqua, and is unique in that it offers a far higher filtering capability than any other glass media on the market. The Company also independently manufactures glass media in Australia for the local market, through MTAU.
2. Pool water disinfection solution: This product incorporates dead sea minerals together with ozone technology, and is currently sold in the Australian market.
3. Product line in the monitoring, control and treatment of swimming pool water (Insight) segment: For details regarding the features of these products (which are, as stated above, in development stages), see section 2.3.1A. (3) above.

E. Product markets (main markets)

Alarms for private swimming pools are sold mainly in France, where private pool safety legislation has been enacted.

Systems to detect drowning are sold mainly in Europe, although the Company is working on the development of new markets, and is already being sold in the Far East as well.

Pool covers are sold in France and in Israel.

The supplementary products are marketed in Australia, Germany, France and the United States - countries where the Company has subsidiaries.

F. Trends and changes in supply and demand

There is sensitivity in this segment mainly to private pool alarms, which are exposed to regulatory changes in each country. Additionally, the growth capability in the public pool alarms segment (Poseidon) is limited due to the price barrier.

Due to the fact that the products in this sub-segment constitute a part of the general products for swimming pools, demand for them is also affected by

climate changes, as discussed above. Products in the segment are also exposed to the risks to which the Company is exposed, as specified in section 3.22 below.

This information regarding the development of the Company's sales in the safety products and supplementary products segment constitutes **forward looking information**, and as such is uncertain, and may not materialize, in whole or in part, or may materialize differently from the forecast. This information is based on the Company's estimates and understanding regarding the behavior in its operating markets, its efforts to develop new products and to improve current products, including the response of MTFR's customers and competitors to its unique products, to marketing efforts of the entire group, and the effect of the applicable regulation in the segment. The forecasts presented above may not materialize, or may materialize on a partial basis only, insofar as the market response to the Company's products is different, insofar as the Company is unable to present improved products, as described above, due to changes in the preferences of customers, or due to the impact of a global crisis, or due to the speed of response by the Company's competitors to its innovative products and to its marketing activities, or due to other implications in the segment, and due to the other risk factors which apply to the Company, as specified in section 3.22 below.

2.3.3 Order backlog:

The order backlog of safety products and supplementary products for pools as of December 31, 2020 amounted to a total of NIS 15,328 thousand, as compared with a total of NIS 13,369 thousand as of December 31, 2019. An increase of around 15% relative to the corresponding period last year. Received orders are in respect of the operating season, and are received in real time.

As of March 21, 2021, proximate to the publication date of this report, the order backlog of safety products and supplementary products amounted to a total of NIS 19,386 thousand, as compared with a backlog of NIS 13,968 thousand as of March 14, 2020.

Presented below are data regarding the sales of safety products and supplementary products for pools (NIS thousands), distributed by quarters:

Year	Q1	Q2	Q3	Q4	Total
2019	16,161	27,918	21,102	15,431	80,612
2020	19,338	24,456	34,455	22,771	101,020

Chapter C – Issues Affecting the Corporation in its Entirety

Further to the information provided in chapter B above, regarding each of the Company's separate operating segments (robotic cleaners for private pools, robotic cleaners for public pools, and the segment of safety products and supplementary products for pools), presented

below in this chapter is a description of the Company's business operations in their entirety, including information regarding customers, marketing and distribution, etc., which are not described separately in respect of the separate operating segments, in light of the systems which are shared by all of the Company's operating segments together.

3.1 Customers

3.1.1 Customer characteristics and description of customer engagements

A. All over the world (see section 3.2.1 below), the Company does not sell products to end users, but rather, the majority of sales are performed to distributors which are engaged in the following channels:
   - Professional sale channels, such as stores for pool products, pool builders and service companies;
   - Mass distribution channels to the general public, chains engaged in the sale of end user products for pools, homes and gardens, including online sales (for certain robot models).

   According to the Company's *modus operandi* around the world, as stated above, it engages with customers on an annual basis, renewable each year, based on negotiations between the Company and the customer, after which the agreement includes, inter alia, the following details: the models which will be built for the customer, product prices, the Company's warranty, incentive for the sale of the Company's products, delivery terms, and payment terms. Most of the Company's longstanding customers (customers who have worked with the Company for over ten years) are bound by agreements of this kind.

   In general, in most countries (except for North America), distributors operate through a very large number of decentralized players, none of whom has a significant impact on the Company's business.

B. In North America, as specified in section 3.2.1 below, the Company markets and sells its products through a wholly owned subsidiary – MTUS. This company operates in the United States in the same way as the Company's distributors in other countries around the world, i.e., it operates vis-à-vis the same entities and through the same channels as those specified in section 3.1.1A above. This method of action includes work vis-à-vis distributors, catalog companies, internet companies, purchasing groups and pool builders. From 2012 onwards, the market share of the Company's products has increased significantly at the largest distributor in the United States – SCP Distributors LLC (hereinafter: "**SCP**"), which belongs to PoolCorp Group. The reason for this is due to both the increase of robot sales in general by that distributor, and to the larger share of the Company's sales out of its total sales, at the expense of competitors.

C. Additionally, a policy of allocating different product lines to the professional distribution channels and mass distribution channels is implemented, thereby allowing maximum growth in both channels.

D. In the public pool robots' segment, the Company works in most cases vis-à-vis the same customers who buy robots for private pools, i.e., distributors which operate in various territories, and subsidiaries. Nevertheless, in this segment, the Company enjoys more significant growth in territories where the distributor / subsidiary allocated designated resources to focus on the sale of robots to the public market (for details regarding the unique nature of sales in this segment, see section 2.2.1 above).

E. Customers in the segment of safety products and supplementary products for pools are varied, and include distribution companies, pool builders, chains, purchasing groups and independent dealers (agents).

F. Customers who buy the Poseidon system are owners of public pools, such as municipalities, community centers and sports centers.

3.1.2 Substantial customers

Over the years, the Company has had several substantial customers, the revenue from which constituted 10% or more of the Company's total revenues, and the loss of which could have materially affected, in the short term, the Company's activity. From the date of MTUS's founding in the United States in 2007, through the acquisition of MTFR in France in 2009, to the formation of MTAU in Australia in 2011, and the acquisition of BF in 2020, the Company has established anchors in the market.

During the reporting year, the Company had one substantial customer - SCP Distributors LLC, the total sales to which during the reporting year amounted to around NIS 308 million, constituting around 29% of the Company's total sales. SCP is a member of the global PoolCorp Group - a wholesale distributor with over 350 sites of swimming pool equipment all over the world. The headquarters of the customer's group is located in the United States, and the sales from Maytronics Israel (MTIL) are performed directly vis-à-vis eight branches all over Europe: France, Germany, Italy, Spain, Portugal, England, Croatia and Benelux. MTUS also sells directly to SCP USA. Maytronics Group is engaged in several distribution agreements with SCP group. Maytronics Israel has one contractual agreement which includes all of the European branches mentioned above, and MTUS has an additional contractual agreement vis-à-vis SCP USA. The engagement with SCP Group began in 2012, and is renewed each year under a standard distribution agreement, which applies to all branches mentioned above.

The distribution agreement is similar to the Company's other contracts with its customers, including, inter alia, details regarding: product prices, ordering methods, warranty, shipment terms and payment terms.

The Company began its engagement with the customer in 2012, as stated above, and expects to continue the engagement with it in the coming years as a strategic partner of the Company. The Company estimates that loss of this customer would have a significant impact on its business affairs. However, it estimates that the damage will be limited to the short term, and that the effect can be mitigated over the long term. The Company bases this estimate on the assumption that, in light of

the quality and presence of its products in the global market, the engagement between the parties is a shared interest, in light of the Company's past experience after the separation from another material customer (Astral) in 2011, and in light of its activities to manage this risk, including, inter alia, by maintaining additional distribution channels in each territory. In this context, it is noted that the Company won the SCP outstanding supplier award in 2013, 2015 and 2017. The Company considers this customer an important strategic partner, and is therefore working in many areas to provide optimal service to the customer, and to strengthen the link between the companies. The customer's payment ethic, and the business relationship with it, are very strong, and a continued increase in sales to the customer is expected in 2021 as well.

This information regarding the Company's sales to SCP, and dependence on the customer, constitutes **forward looking information**, and as such is uncertain, and may not materialize, in whole or in part, or may materialize differently from the forecast. This information is based on the Company's estimates and its understanding of SCP's behavior, its ability to provide SCP with the products it wants to purchase from the Company, within the expected timetable and quality level. This forecast may not materialize, or may materialize only partially, insofar as SCP's response to the Company's products is different, insofar as the Company is unable to meet its expectations, insofar as changes occur to the preferences of its customers, or due to the impact of a global crisis, or due to the speed of response by the Company's competitors to its products which are sold to SCP, and due to the other risk factors which apply to the Company, as specified in section 3.22 below.

3.1.3 Customer loyalty

The Company has longstanding relationships over many years with many of its customers. The stable relationships between the Company and its customers are due, inter alia, to the high level of trust, based on a clean and fair business culture, which are at the foundation of the Company's values. Additionally, each distributor has a base of customers which use the Company's products, which require maintenance and protection, as well as a stock of replacement parts which allows the provision of service to end customers.

As of the date of this report, the Company has primary customers including distributors and large swimming pool equipment chains (the table does not include small customers, such as private stores which buy the Company's products from distributors and subsidiaries) in the segments of robotic cleaners for private and public pools, distributed as follows:

Customer's geographical location [10]	Number of Customers	2020	
		Proportion of total revenue (%)	Sales (NIS thousands)
North America	42	46%	449,241
Europe	71	37%	360,466
Israel	12	2%	14,694
Oceania	36	12%	125,533
Rest of the world	14	3%	25,926
Total	**175**	**100%**	**975,860**

Presented below are data regarding the seniority of main customers in the segments of robotic cleaners for private and public pools:

Customer seniority	Number of Customers	2020	
		Proportion of total revenue (%)	Sales (NIS thousands)
10 years or more	70	41%	402,213
5-10 years	63	53%	517,187
1-5 years	42	6%	56,460
Total	**175**	**100%**	**975,860**

Around 91% of customers who purchase safety products (private pool alarms, systems to detect drowning in public pools, and pool covers) are in France, and around 9% are in Asia. Total sales of safety products in 2020 amounted to around NIS 69,034 thousand.

The supplementary products, which constitute around 32% of sales in the safety products and supplementary products segment (and less than 3% of the Company's total sales), are sold by the subsidiaries to all distribution channels which exist in countries where they are engaged. Total sales of supplementary products amounted to around NIS 31.9 million in 2020.

3.2 Marketing and distribution

3.2.1 Methods of marketing and distribution

The Company markets and distributes its products through distributors, and, in certain territories, through subsidiaries. These entities, for their part, work in the various distribution channels, including stores / pool builders / service companies / internet companies. The *modus operandi* in countries where the Company has no distributing subsidiary involves engagement with the leading players in the segment

[10] It is noted that while most the Company's customers around the world are distributors, in Israel, the United States, France, Australia and Germany, the Company also has smaller end customers, and those which use the service centers (the number presented in the table represents the number of customers who are distributors, as well as swimming pool equipment chains).

(i.e., distribution of pool building products and/or maintenance and supply of supplementary products for pools, spas and jacuzzis) in each market where the Company is active, or intends to be active, and who have the ability to provide technical support to their customers, and are financially sound.
The distributors assist in terms of both marketing and logistics. In some regions, several different distributors work in parallel. In such cases, the distributors' products are differentiated in terms of their form, features, colors and names. The Company's engagement with its customers / distributors is usually based on long term trade relationships, but with annual contracts.

In addition to marketing through distributors, the Company regularly participates in international exhibitions in the swimming pool products segment, in order to advertise and promote its products. The Company also advertises its products in swimming pool care magazines, and in lifestyle and home and garden magazines. The Company promotes its products online by promoting awareness of the brand through digital means, including marketing campaigns, targeted product promotion sites, activities on social networks, and more, and works to strategically implement a digital transformation of its marketing systems, in a manner which leverages the digital world (including its various advertising and marketing channels, sale sites, etc.) to promote the sale of its products. The Company is also investing efforts in ways to promote sales inside stores, through the placement of high-quality points of sale. The Company also supports distributors through seminars and training sessions in each territory. Selling and marketing expenses in 2020 amounted to around NIS 121,367 thousand, and constituted around 11.3% of total sales turnover. In 2019, selling and marketing expenses amounted to around NIS 104,526 thousand, and constituted around 12.3% of total sales turnover. In other words, selling and marketing expenses decreased by around 1% relative to the level of revenue. The effective increase in selling and marketing expenses in 2020 was primarily due to the increase of variable expenses due to the increase of revenue, as well as digital marketing expenses, the increased the number of salespeople and sales promoters to support the Company's growth, and marketing campaigns to strengthen the brand. On the other hand, it is noted that due to the Coronavirus crisis, international conventions were canceled which had been planned for 2020, and the movement of sales and marketing staff was restricted, both within the regions themselves and in terms of international flights, which led to savings on these selling and marketing expenses during 2020.

As stated above, on all matters associated with the United States, the Company has been active, since 2007, through the subsidiary MTUS, which has a distribution and marketing network, including direct salespeople. MTUS has a customer service center in Atlanta, as well as a telephone support and service center. The Company also maintains a safety stock which is intended to provide solutions for unexpected demand. In addition to the service station at the Company's site in Atlanta, another around four service centers are spread throughout the United States, which are contractually bound to MTUS, and which assist in providing service.

In France, the Company markets its products mostly through MTFR, which also constitutes a sales, service, marketing and distribution arm for robots, in addition to the Company's other distributors which operate in that market.

In Australia, the Company markets its products through its subsidiary, MTAU. Most of the Company's customers in Australia are private dealers and chains.

BF GmbH, which the Company acquired in 2020, markets and distributes the Company's products in Germany, along with several other distributors.

As stated in section 1.1, beginning in 2021 MTSP is expected to support the Company's distributors in Spain and Portugal, and to assist in marketing activities, sales promotion, technical support and digital campaigns.

The subsidiaries in the United States, France and Australia have grown in the double digits in each of the last four years, in the source currency.

As stated above, in accordance with its long-term strategy, the Company established anchors in strategic territories such as USA, France, Germany, Spain and Australia, as well as representations in Argentina and Singapore. These anchors allow the Company to operate in territories where, in the past, it operated only through distributors, and in this way to reduce risks and to strengthen its ability to deal with unexpected changes in the activities of distributors in those territories.

This information regarding the continued marketing and distribution of the Company's products through its subsidiaries, as an alternative to its distributors, constitutes **forward looking information,** and as such is based on the Company's past experience in the market for its products, on its assessment regarding the abilities of its alternative marketing systems, and its assessment regarding its position and activities in the markets for the relevant products. As such, these estimates are uncertain, and may not materialize, in whole or in part, or may materialize differently than the forecast, inter alia, if the Company's estimates regarding the market of products turn out to be wrong and/or if its alternative marketing systems do not give the expected performance and/or due to the activities of its competitors in those markets, and due to the other risk factors which apply to the Company, as specified in section 3.22 below.

In Israel, the activity constitutes a small proportion of the Company's total activities; however, it is very important to the Company, in that it allows close contact with the end customer, and receiving feedback in real time. As part of this activity, private and robotic cleaners for public pools are sold though local distributors, pool builders and service companies. The Company also provides service for all robots sold in Israel.

The Company also sells automatic covers manufactured by MTFR to the Israeli market, and is engaged in the installation of such covers, and in the provision of maintenance services for them in Israel. Maytronics is very proud to be the leader of the swimming pool market in Israel.

3.2.2 Dependence on marketing pipelines

As stated above, the Company's main distributors make up its customers; however, in recent years the Company has established direct marketing pipelines through the subsidiaries in the United States, France and Australia. The Company estimates that the loss of a material customer would have a significant impact on its business affairs. However, it estimates that the damage will be limited to the short term, and that the effect can be mitigated over the long term.

This information regarding the forecasted impact of the loss of a material customer on the Company's business affairs constitutes **forward looking information**, and as such is uncertain, and may not materialize, in whole or in part, or may materialize differently from the forecast. This information is based on the Company's estimates and understanding of its customers' business affairs and their strong connection to the Company's business, the needs of its end customers, the way in which its products are perceived as high-quality, and their strong presence in the global market, the Company's experience in the past after separation from another substantial customer (Astral) in 2011, and in light of its activities to manage this risk. This forecast may not materialize, or may materialize only partially, insofar as changes occur to the preferences of the Company's customers, or due to the speed of response of the Company's competitors to the departure of a customer, and their provision of suitable alternatives to it and its customers, and due to the other risk factors which apply to the Company, as specified in section 3.22 below.

3.2.3 Exclusivity agreements

For details regarding exclusivity agreements in respect of the marketing of the Company's products, see sections 3.1.1 and 3.2.1 above.

3.3 Seasonality

The Company's sales, in all products, excluding the system to detect drowning in public pools (Poseidon), are seasonal, with most of the Company's sales taking place in the first two quarters of each year. This seasonality is due to the fact that these products constitute supplementary equipment to swimming pools - equipment which is usually purchased by end customers before and during the summer months in their respective countries. Since most of the supplementary equipment for swimming pools is sold to Europe and North America, where the summer months are the same as in Israel, the suppliers which produce for that market, including the Company, sell most of their products in the pre-summer months, January to June. This applies to private pools. In relation to Public pools - most pools operate all year round, and indeed, most of the products which are sold to this market are generally sold by the Company and by similar suppliers throughout the entire year, with less seasonal effects than in the private pools segment.

The Company is working to expand its business operations in the southern hemisphere and in the Sun Belt in the United States, which could allow it to reduce the aspect of seasonality in its sales, and its operational unit. Effectively, there has been double digit growth in each quarter of 2020, such that the seasonality aspect is being maintained,

although it lessened by a few percent. The Company balances out the operational seasonality through increased production (flattening) in the second half of the year, which is intended primarily for North America, and in order to satisfy the demand in that territory on time. The Company invests significant resources in expanding and upgrading its production infrastructure in Dalton and Yizre'el, in order to provide a solution for dealing with the phenomenon of seasonality in particular, and the accelerated growth of the Company's activity in general, and to allow rapid provision of products in case of immediate demand during the spring and summer seasons (for details, see sections 3.4.1 and 3.5 below).

This information presented above, i.e., the information regarding the possibility of expanding the Company's business operations in the southern hemisphere and in the "Sun Belt" region of the USA, and thereby reducing the seasonality of its sales, constitutes **forward looking information**, and as such is uncertain, and may not materialize, or may materialize differently from the forecast.

This information is based on the Company's familiarity with the marketing entities in those territories, and with the relevant markets, the Company's experience with activities in those markets, the Company's estimates regarding its expected share in those markets, and its working assumptions and intentions as of the present date.

The forecasts presented above may not materialize, or may materialize on a partial basis only, due to the non-materialization of the Company's estimates regarding its marketing capabilities, and those of other parties working on its behalf in those regions, the structure of competition which will develop in those markets, and its impact of price levels and the profitability of marketing therein, other external factors (such as regulation, climate changes, economic crises, etc.), and all other risks which apply to the Company, as specified in section 3.21 below.

Presented below are data regarding the Company's sales (NIS thousands), segmented by quarters:

	Q1	Q2	Q3	Q4	Total
2020	313,737	377,872	252,882	132,389	1,076,880
2019	280,293	308,142	164,909	93,162	846,506
2018	241,704	279,567	144,512	82,543	748,326

3.4 Production capacity and production control

3.4.1 Segments of robotic cleaners for private and public pools

The Company currently operates in two production sites: in Kibbutz Yizre'el and in Dalton Industrial Park in Northern Israel (development region A) (hereinafter: the "**Dalton Plant**"). The maximum production capacity of the two sites producing robotic private pool cleaners (measured in terms of extended work shifts (in other words, around 12 work hours) and periodic reinforcement of day or night shifts, as needed and according to the Company's standard practice) is around 800,000 robots

per year (according to the current mix of products), and is expected to increase in the coming years, upon the completion of the expansion of the production site at Dalton Industrial Park, and the expansion of the site at Kibbutz Yizre'el. In general, the number of production employees varies, and is adjusted according to demand throughout the year. The robot production lines in the Company's plants are process-based lines, which operated during the reporting year in one or two shifts, 5-6 days a week (depending on the production line and the season).

The Company invests significant resources in the development of automatic lines for the production of various units for robots, in order to facilitate a higher quality and faster production process.

3.4.2 Safety products and related pool products segment

Private pool alarms are produced in the production site at Kibbutz Yizre'el. In the safety products segment (excluding the covers sub-segment), there is no effective restriction on production capacity, and the bottleneck is in the rate of sales.

In the sub-segment of pool covers, the cover production capacity is around 6,000 per year, combining work in two shifts, as needed. The Company made an additional investment in a second automatic cover producing machine, in order to double its production capacity to 12,000 covers. This machine is expected to begin production in April 2021. The cost of the investment in the automatic machine is around EUR 600 thousand, with EUR 200 thousand already paid during the reporting year, and the remainder in 2021.

3.4.3 Quality control

For several years, the Company has invested ongoing efforts to improve the quality of its products, inter alia, in order to differentiate it from its competitors, and maintain its status as market leader. As part of the above, the Company has worked, and continues to work, to reduce defects in its products, on several levels, inter alia, as follows: upgrading and adding quality controls to the development process, adding improvements to products following feedback which was received from the market, significant investment in continued engineering for product improvement, conducting quality inspections at suppliers, including those which are not located in Israel, installation of sophisticated inspection equipment upon receipt of the products, continuous implementation and improvement of controlled processes in the assembly process, automation of replacement parts ordering vis-à-vis customers in order to prevent catalog number errors, implementation and improvement of employee intake and authorization processes, etc. The production process also includes advanced production methods such as Kanban, 5S, lean production methodology, sample quality tests, MOS (in-process quality control), employee empowerment, automatic quality tests, and more. The Company adopts LEAN methodology by implementing a widescale project at the production sites, after which it implemented several improvements to operational processes. The purpose of the project is to implement a culture of continuous improvement in the Company's processes. The Company considers the quality of its products as a central and important component, as well as a significant risk factor for its

continued growth, and therefore the VP Quality, who reports directly to the Company's CEO, works together with the quality staff to achieve the Company's objectives in the area of quality assurance for the Company's products, including outlining quality strategies and a multi-year plan to reduce the failure rate, and to reduce non-quality costs. In this regard, an automatic malfunction reporting process is in place in respect of products which arrive at the service stations around the world for repair. The analysis of malfunctions drives the process of improving components, in order to prevent the same malfunctions from recurring in the future, and to decrease the failure rate of the Company's products.

The Company has been implementing and managing a quality risks management process, and is working on reducing the risks which arise in this process. During 2019 and 2020 the Company invested significant resources in advanced monitoring means in the electronic card production department, in order to improve product quality, and to reduce the risk level. In 2021, the Company will continue investing in additional means.

3.5 Fixed assets and facilities

3.5.1 The Company's facilities are located in the Company's site at Kibbutz Yizre'el, which serves as headquarters and as the central production site, and at the production site at Dalton Industrial Park.

(A) **Yizre'el site**- The Company's facilities in the Kibbutz are operated on land which was leased from the Kibbutz. Details of the lease agreement between the Company and the Kibbutz are provided in section 3.15.3. below. The Company owns properties which are defined as leasehold improvements, which are located in the aforementioned area.

Over the years the Company has expanded its production facilities, warehouses and offices in Kibbutz Yizre'el, in order to provide an appropriate solution for the accelerated growth rate of its business operations, and today as well the Company is continuing on the same growth trend, with the aim of providing a comprehensive and modern solution for its various needs.

As part of the above, in recent years, the Company has expanded the operational areas of the Kibbutz production site, including expanding the main production hall, building 3 large sheds and expanding the logistics center in order to improve the flow of raw materials and components, from the moment they reach the logistics center, until they enter the production hall. The Company also expanded and upgraded the pool farm which serves the development, water technologies and quality departments.

In addition to the buildings described above, the following construction projects are in various stages of execution as of the reporting date:

Construction project	Designation	Area (square meters)	Investment cost (NIS thousands)	Status
Two-story production building	Production of electronic cards and various units	1,840 square meters	Around NIS 5.2 million	Occupancy in April 2021
Office building for the supply chain division	Two-story office building for the supply chain division	960 square meters	Around NIS 5.7 million	occupancy in August 2021

(B) **Dalton site** - In light of the accelerated growth of the Company's activity in recent years, and also in light of the forecasted growth in the coming years, and after many years during which the Company operated with a single production site in Kibbutz Yizre'el, since 2016 the Company has operated a second production site in Dalton Industrial Park. This site supports, and is expected to continue to support, the Company's continued growth in the coming years, and to significantly increase the capacity to produce robots for private pools.

The plant at the Dalton site operates in rented buildings, in accordance with a lease agreement from 2015, which was expanded in 2020. By virtue of the lease agreements, the Company leases 3 buildings which cover an area of around 7,000 built square meters, including a production hall of around 2,650 square meters, as well as around 4,000 square meters of warehouses, and around 350 square meters of office space. Additionally, since early 2021 the Company rents another building (adjacent to the current buildings) with an area of 3,000 square meters, which will serve as the main production hall. During the first half of 2021 the Company plans to execute leasehold improvement works in the building and its surroundings, for the purpose of adjusting it to its needs, and occupancy is expected during the summer months of 2021.

The Company has invested in the Dalton Plant, since the date of its establishment, around NIS 25.4 million, including leasehold improvements; Production and molding facilities; Logistical equipment; IT equipment; Furniture and office equipment. During the coming year the Company will continue investing in the Dalton plant, with the aim of increasing its production capacity and upgrading the production infrastructure by adding automatic systems for the production of various robot sub-assemblies, and will also consider additional expansion in the area of the site, subject to the growth forecasts.

The Company worked within the framework of an approved investment plan for the receipt of investment grants from the Investment Authority at the Ministry of Economy and Industry, to the extent of 20% of the approved investment. This plan began in 2016, and was completed in 2020. The investments which were made in the Dalton Plant during the years 2016-2019 were submitted to the Investment Authority, and the benefit in respect of them

was approved and accepted in accordance with the policy and agreement vis-à-vis the Investment Authority.
The Company is currently evaluating and implementing investment in automation in various units at the two aforementioned production sites, in order to improve quality, capacity and operational effectiveness.

This information pertaining to the realization of the Company's construction plans in its two sites during the coming years, and the cost of implementing them, constitutes **forward looking information**, which is based on the Company's current plans and assessments, and on its experience with other expansions of its production facilities which it has performed in the past. The Company believes that this information may not materialize, or may materialize differently from the manner described above, inter alia, in case the Company's needs or plans change in the foreseeable future, or due to unexpected difficulties in implementing the aforementioned construction plans, or due to the materialization of any of the risk factors pertaining to the Company's activity, as stated in the description of the Company's business in this periodic report.

3.5.2 The Company's production facilities include an electronic cards production line and sophisticated tests for cable production lines, and semi-automatic lines for the production of robots and drive units. For details regarding the use of the facilities' production capacity, see section 3.4 above. The Company also owns, in Israel, molding moulds for the production of robot parts through plastic injection, equipment and machinery for operation and development, furniture and equipment and vehicles / trucks and forklifts.

3.5.3 The Company's plant in Israel also includes a production line for all types of MTFR's private pool alarms.

3.5.4 For details regarding the Company's investments in fixed assets during the reporting year, see also Note 12 to the financial statements.

3.5.5 The subsidiary MTFR leases two buildings which are located in an industrial park in the French town La Ciotat, near Marseilles. One building serves the Company's headquarters, marketing and sales department, service station, finance department and management. The other building is located adjacent to the first building, and is used to manufacture and store the covers. The Company also leases an operational site in Paris, which serves the Poseidon product.
MTUS leases a building in Atlanta, Georgia, which the Company uses as an office area, service station and warehouse. The area of the building is around 4,000 square meters, and investments have been made in it in respect of leasehold improvements, furniture, infrastructure, and facilities, in the amount of around NIS 1 million.
MTAU leases areas for its activities, and except for leasehold improvements, forklifts and vehicles, it does not own any significant fixed assets.
BF GmbH leases areas for its operations, including offices, a warehouse and a service station. The Company's fixed assets are immaterial, and include leasehold

improvements, forklifts, a truck and an operational vehicle, as well as operational equipment for the service station.

3.6 Research and development

The Company is continuously engaged in the development of new products and in the development of improvements to existing products. The Company is also developing dedicated applications for smartphones and mobile devices to improve the robot's operating interface for pool owners, an element which currently constitutes an integral part of the product itself. The development is initiated by the Company, in accordance with a multi-year development plan. The development process includes taking into account, inter alia, remarks and suggestions which are received from the Company's employees and customers, as well as the Company's strategic considerations. The development activities are performed by the Company only. However, insofar as a unique specialization is required for the development of a sub-system or unique application, the development work is performed by a subcontractor, and closely managed by the Company.

During the reporting year, the Company invested in development activities in Israel around NIS 58 million, including around NIS 30 million in current research and development expenses, and around NIS 28 million was capitalized to intangible asset. The Company is continuing the development plan, which is focused on translating the Company's vision of being the industry leader, while continuing to develop new generations of robots and developing new products in water technologies. The development efforts reflect the importance placed by the Company on the continued development of innovative new products as a lever to promote its business affairs and differentiate itself from its competitors, both in the private and public pool segments, and in the segment of supplementary products for pools.

In 2020, the Company invested in development activities, in consolidated (Global) terms, a total of around NIS 60 million, of which around NIS 32 million was recognized in the financial statements as an expense, and around NIS 28 million was recognized as an intangible asset. It is noted that the research and development costs in the water technologies sub-segment constitute around NIS 25 million of the total costs presented above (before discounting). See also section 2.3.1C above.

In 2020, MTFR invested in continued engineering activities to improve the quality of products in the alarms, covers and Poseidon segment, a total of around NIS 2.7 million, which were recognized as an expense in the financial statements.

In 2021, the Company expects that it will continue to invest in development costs in Israel in the estimated scope of around NIS 81 million (amounts which, in part, will be carried to the statement of income, and in the other part, will be recorded as an intangible asset).

This information pertaining to the Company's plans to invest in development costs in the coming year constitutes **forward looking information**, which is based on the Company's current plans and assessments, and on its experience with other development projects it

has executed in the past. The Company believes that this information may not materialize, or may materialize differently from the manner described above, inter alia, in case the Company's needs or plans change in the foreseeable future, or due to unexpected difficulties in implementing the aforementioned development plans, or due to the materialization of any of the risk factors pertaining to the Company's activity, as stated in the description of the Company's business in this periodic report.

3.7 Non-current assets

A. The Company has various patent applications and patents in various fields of technology which are associated with pool cleaning, pool cleaning methods, and pool water monitoring. These patent applications and patents give the Company a competitive advantage, and reflect the Company's innovative approach.

B. The Company has an Israeli patent and a French patent involving a swivel cable connector, which is intended to allow the robot's feed cable to move freely, without twisting due to the robot's maneuvers, and also without applying unwanted forces on the robot, which could affect the efficiency of its scanning. This unique mechanism provides a significant advantage in long cycle times, in large pools, and in general. The patents are due to expire in 2022.

C. The Company has patents in the United States, Israel and France, which pertain to the active brushing mechanism which is contained in the body of the robot, between the robot's wheels / brushes, and near its suction openings. This patent gives the robot an advantage over its competitors, in terms of its efficiency in the removal of dirt and algae which are stuck to the pool's surfaces, while at the same time giving the robot an exceptional ability to pass over obstacles. The development costs amounted to around NIS 200 thousand. The Company estimates the lifetime of this patent as around 8 years, as of the reporting date.

D. Additionally, in 2013, the Company acquired a family of patents, of which two are currently registered in Italy and in the United States, which pertain to features for active cleaning of pools and surfaces, including active brushing. The patent acquisition costs amounted to around NIS 128 thousand. The lifetime of the patents and applications is expected to be 3 years, as of the reporting date.

E. The Company has registered patents in Israel and the United States pertaining to a filtering unit with a unique suction opening. The development costs amounted to around NIS 300 thousand as of the reporting date. The Company estimates that the patent's lifetime is expected to be around 8 years as of the reporting date.

F. The Company has registered patents in Israel, in the USA and in Europe, pertaining to robots for biological pools, under the brand Bio. The patent mostly involves cleaning the dirt which gets collected by the robot into an optional pipe which is connected to an external filter. The development costs in respect of this patent are estimated at around NIS 200 thousand. The patent's lifetime is expected to be 8 years as of the reporting date.

G. The Company has 4 registered patents in Israel, the United States, and France, which pertain to several "Dolphin Hybrid" systems, including a patent pertaining to an innovative robot monitoring mechanism of the suction type, which converts the pool's water suction energy into electrical energy, which monitors the robot's movement, as well as the cleaner's "self learning" mechanism. This mechanism allows, for the first time, systematic and controlled scanning of the pool in pool cleaners of the suction type (using suction-based technology). The development costs amounted to around NIS 4 million. The Company estimates its economic lifetime at around 7 years as of the reporting date.

H. The Company has registered patent families in the United States and in France pertaining to automatic swimming pool covers. The first family involves a motor to roll and spread out the pool cover, driven by water power (as an alternative to electrical power). The second family deals with an improvement to the safety element of the pool cover, though automatic locking of the pool cover to the pool wall, while the cover is spread over the pool water. The third family which is registered in the United States and in several European countries involves a built-in leaf raking mechanism, and solar-powered drive. Their economic lifetime is expected to be 10 to 12 years as of the reporting date.

I. The Company has registered patents in the United States, Europe and Israel for a robotic pool cleaner with the ability to self-clean the filter, and three registered patents in Israel, the United States and Europe, which feature a spiral filtering mechanism which accelerates the movement of the sucked water, thereby increasing the efficiency of the filtering activity. Their economic lifetime is around 14 years on average, as of the reporting date.

J. The Company has registered patent families in the United States and in Europe pertaining to internal filter brushing mechanisms or mechanisms for spraying pressurized water over the filters, in order to extend the time required to clean the filters. Their economic lifetime is expected to be around 13-15 years.

K. The Company has three patents registered in Israel, in the United States and in Europe, pertaining to robot brushes which collect the dirt on the pool floor towards the center of the cleaner. Their economic lifetime is expected to be around 11 years.

L. The Company has patent applications in Israel, the United States and Europe, and has registered patent families in the United States and Europe, pertaining to a wide variety of technologies involving robotic pool cleaners, including patents registered in the United States and/or in Europe regarding the asymmetric structure of robotic pool cleaners, water flow-based drive and navigation at the water level, dual filter systems, sophisticated back door drain, a mechanism to bypass the robot's filtering unit, and future capabilities allowing the robot to float between the floor and the water surface, and on the water. The applications were submitted over several years. Their economic lifetimes are expected to average around 13 years.

M. The Company has a patent family which includes a registered European patent and patent applications in the United States and Australia, pertaining to a pool cleaner

equipped with a camera and underwater lighting system to facilitate navigation and object identification. Their economic lifetime is expected to be around 16 years.

N. The Company has patent applications which were published and patents which are registered in Israel, in the United States and in Europe which constitute a part of several patent families, regarding the automation and autonomous robot-related actions while the robots are underwater, outside of the water, and exiting the pool, as well as autonomous and automatic actions involving the treatment of various filtering mechanisms while the robots are located in or outside of the pool water, in consideration of increasing convenience for end users, and extending the times when the user is required is treat the robot's filtering system, when it is full or blocked. An emphasis was placed on battery-driven pool cleaners, but not exclusively. Their economic lifetime is expected to be between 11-16 years.

O. The Company has registered patents in the United States and in Europe in respect of future robots, pertaining to the movement of robots along the pool walls, balanced cleaning of pool walls (wall to wall), and balanced transition from one pool wall to the other, including advanced navigation systems and a sensor indicator. Their economic lifetimes are expected to average around 13 years.

P. The Company has several design patents in the United States pertaining to the design of certain devices which are already registered in the United States and in Europe for these designs. Their economic lifetimes are expected to average around 14 years.

Q. The Company has a registered European patent and an application for an American patent involving inductive charging of the pool cleaner's batteries underwater, upon connection to the charging buoy on the pool's surface, and outside the pool. Their economic lifetime is expected to be around 18 years.

R. The Company has several patent applications involving the use of pool cleaners or products including a sophisticated mobile buoy containing a sensor to measure chemical qualities and levels, at a variable number of locations throughout the pool. Their economic lifetime is expected to be around 18 years.

S. The Company has several pending patent requests in the United States and in Europe which involve the autonomous management of pool cleaners as part of a group of pool cleaners which include at least two cleaners ("swarm" technology), which connect to one another and coordinate between them the cleaning of certain pool areas, according to a dynamic distribution of work. Their economic lifetime is expected to be around 16 years.

T. MTFR has unique technologies which are protected by patents in the segment of private pool alarms and Poseidon systems to alert lifeguards of drowning in public pools. The latter system uses the results of underwater video, over water video, and an advanced software program to detect movements and gestures of swimmers. The patents are registered in Europe, and some also in the United States. The economic lifetime of the patents expired.

U. The Company has a registered American patent and several patent applications involving technology for the monitoring, control and treatment of swimming pool

water, and for monitoring related equipment for pools, such as pumps. Their economic lifetime is expected to be around 15 years, on average.

V. The Company has a registered European patent and an application for an American patent regarding a pool cleaner including a universal inductive plug-socket which allows connecting an optical sensor or chemical measuring sensor, or for underwater navigation, etc. The magnetically connected sensor is removable or replaceable with another sensor, with all being powered by low inductive voltage which is also capable transmitting and receiving data to/from the computerized controller inside the body of the cleaner. Their economic lifetime is expected to be around 16 years.

W. The Company has registered European and American patents involving a pool cleaner including adjustable vents over openings for expulsion of water jets in the body of the cleaner, to ensure the cleaner remains closely attached while moving over the pool floor and walls, as well as activation of a side jet to remove accumulated dirt from hard-to-reach areas such as stairs or corners of the pool. Their economic lifetime is expected to be around 17 years.

X. The Company has registered European and American patents involving a pool cleaner which is interactive for end users, allowing them to control the cleaning program, the robot's navigation and to mark areas which the cleaner should visit or avoid visiting (since they have already been cleaned). Their economic lifetime is expected to be around 16 years.

3.7.1 Trademarks

The Company owns registered trademarks for its brand names:

Dolphin, Eco Clear, Platinum Hybrid, My Dolphin, Clever Clean (In Australia, the USA, Canada, China, Japan, Korea, Argentina, Brazil, Israel, various countries in Europe, and others).

Additionally, the logo of the Company's name "Maytronics" is registered as a trademark in several countries.

Trademark registration applications were also submitted in respect of the logo of the Company's flagship product, the Dolphin.

Additionally, registrations and registration processes of new trademarks such as 3 trademarks in respect of variations of Opteq, to mark the cleaner's optical tools, a logo for Poolside Connect, to mark the means of inductive feeding or charging in the pool, the Company's logo shape, the emblem or O-Mark for various products or activities of the Company, Always Connected for the interactive end user department, subjects associated with the transfer and saving of data online regarding the Company's products, including cloud-based technologies, and Wave, for a variety of public pool cleaners.

Additionally, in order to support the activity of the Australian subsidiary in the segment of chemicals and salts for swimming pools, trademarks such as Maytronics Eco Swim and theirlogos were registered.

The Company also owns trademarks to support an application to manage pool cleaners and for use by the end users of pool cleaners, called My Dolphin. The application serves as the jumping board for internet and could connectivity.

MTFR has several trademarks registered under its name, including Espio, Aqualarm and Premium.

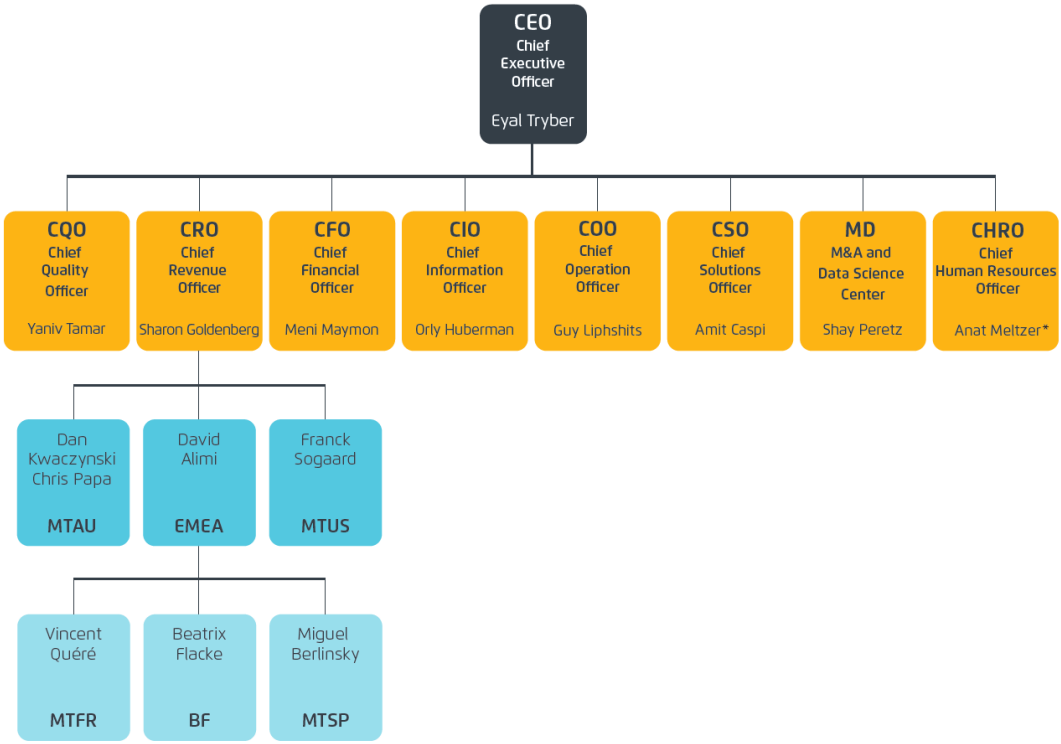
3.7.2 Defense and claims

The Company's intellectual property, as described in this chapter (mostly the patents) have significant importance in the differentiation of its products and in its ability to compete in the market. From time to time, the Company is required to initiate processes to protect this property, while at times, proceedings are initiated against it by its competitors, involving allegations of breach of patents of competing products.

The Company monitors the renewal and expiration dates of its intellectual property.

3.8 Human capital

3.8.1 Organizational structure diagram



The Company's headquarters management includes The Company's CEO, who is superior to the members of Maytronics Israel's management board - the VP's. Following the process of organizational structure change which the Company began implementing in 2019, the regional managers began reporting to Sharon Goldenberg, VP Business Division (see section 3.8.9 below). David Alimi also joined the Company in 2020 as the EMEA (Europe, Middle East and Africa) Territory Manager, reporting to Sharon Goldenberg.

After the reporting date, in March 2021, as part of the Company's patterns of strategic development, Shai Peretz concluded his tenure as VP Water Technologies Development Division, and will lead the M&A Department as VP, and will also coordinate and lead the creation of the Company's data science (big data) center. As part of the change in organizational structure, the Water Technologies Development Division was transferred under the management of Amit Caspi, the CSO, in the Technologies and Solutions Division, based on a comprehensive and professional perspective, such that all of the Company's development entities, the robots' segment and the water technologies segment, will each be managed as a unique technological unit, although under a unified and focused development approach.

* After the reporting date, Ms. Anat Meltzer concluded her position as VP Human Resources. As of the closing date of the report, the Company's CEO, Eyal Tryber, also serves as the Acting VP Human Resources.

3.8.2 Workforce

As of December 31, 2020, 650 permanent employees were employed in the Company (including 606 salaried employees, 2 manpower company employees, and 42 Kibbutz members [some in part time positions], whose employment is regulated under the human resources provision agreement between the Company and the Kibbutz, described below), 144 temporary salaried employees, 149 manpower company employees, and one temporary Kibbutz member. In respect of 750 employees (salaried employees, both permanent and temporary), employer - employee relationships exist vis-à-vis the Company.

The Company subsidiary MTUS has 77 employees; the subsidiary MTAU has 67 employees; the subsidiary MTFR has 98 employees; the subsidiary BF has 15 employees; and the subsidiary MTSP has 6 employees.

Presented below are details regarding the workforce of permanent employees, in accordance with the Company's organizational structure as of December 31, 2020:

Operating segment	Salaried employees						Kibbutz employees (Maytronics Israel) *
	Maytronics Israel	MTUS	MTAU	MTSP	BF	MTFR	
Management (including human resources and information systems)	52	8	3	2	3	9	7
Purchasing, funds and bookkeeping	20	5	9		2	7	4
Production and operation	375	18	18		3	32	12
Quality assurance	19					2	1
Development (including water technologies)	83	-	1			8	8
Marketing, sales and technical support	59	46	36	4	7	40	5
Total	608	77	67	6	15	98	37*

* Presented as the number of full-time positions (in practice, 43 Kibbutz members work in the Company (including 1 temporary employee)).

The employment of Kibbutz members, as stated above, is done in accordance with the workforce provision agreement between the Company and the Kibbutz, dated January 1, 2004, which was renewed at the start of 2017, for an additional five-year period (hereinafter: the "**Renewed Agreement**").

Under the agreement, the Kibbutz provides employees at a scope of 39 positions (186 monthly work hours per position), at a fixed tariff in the amount of NIS 117 per work hour, linked to the salary of the Company's employees who are not Kibbutz members. If the Kibbutz employees are effectively employed additional hours beyond the scope of 39 positions, the Company pays to the Kibbutz an additional consideration, according to the same fixed tariff per work hour, up to a maximum of 10% of the payment in respect of 39 positions. The Company is also entitled to increase, from time to time, the number of Kibbutz employees who are employed by it at the

same tariff, in accordance with its requirements and the Kibbutz's ability to provide additional suitable workforce.

The Company also provided, under the renewed agreement, additional Kibbutz employees in accordance with the Company's needs, as temporary employees, at a scope of up to 15% of the temporary employees who are employed in the Company at any time, according to the same fixed tariff. In respect of this undertaking to provide workforce, the Company pays a fixed payment to the Kibbutz in the amount of NIS 150,000 per year, in accordance with the provisions of the management services and knowledge transfer agreement, which was updated in 2018 (see section 3.15.2 below).

The Kibbutz provides the workforce services to the Company as an independent contractor, and is not subject to an employer - employee relationship between the Company and the Kibbutz employees (whereby the Kibbutz undertook to indemnify the Company, immediately upon its first demand, for any loss, damage, liability or expense, including any legal expenses, which the Company may incur in respect of claims regarding the existence of an employer - employee relationship of this kind). The Kibbutz has also undertaken to be exclusively responsible towards its employees, and to purchase, at its own expense, an employer's liability insurance policy to cover all Kibbutz employees.

3.8.3 Substantial changes in the workforce

As of December 31, 2020, an increase of 119 permanent salaried employees of the Company in Israel has been recorded, relative to December 2019. Most of the increase in the production and operation departments was a direct result of the increased scope of production activities at the Dalton and Yizre'el sites. There was also growth in all of the Company's departments, due to the increase in the scope of activities, and the strengthening of the organizational infrastructure to support the Company's digital strategy, the development efforts on launching the new robotic technologies and water technologies (as specified below in section 3.17), and to support its accelerated growth processes.

3.8.4 Dependence on employees

According to the Company's estimate, in all of its operating segments, it is not materially dependent on any particular employee.

3.8.5 Training and practice

The Company conducts periodic training programs and practice sessions for employees and managers, which are intended to give them appropriate training, and to deepen and maintain the professional and managerial knowledge in The Company. The Company conducts comprehensive training general, combined with training on specific issues, in accordance with the employee's job description and the training program.

3.8.6 Employee compensation plan

From time to time the Company raises salaries on a comprehensive basis, which is approved by the Company's Board of Directors and implemented by management, in accordance with the achievements of each individual employee. These raises are intended to retain the Company's workforce, and to share the Company's success with them. Additionally, all employees, including the officers (who are compensated in accordance with the Company's compensation policy), participate in a success bonus, which amounts to a total of around 10% of the Company's net profit. Part of this bonus is granted equally to all Company employees as a way

of sharing the Company's success with them, while the remainder of the bonus is granted in accordance with the specific employee's performance (and in the case of officers, in accordance with the Company's compensation policy).

3.8.7 Employment contracts

All of the Company's employees are employed in accordance with personal employment contracts (except for the Kibbutz members, as specified above), and are accepted to work after their suitability has been evaluated. The Company's employees are subject to some of the provisions of the collective agreement in the metalworks, electric and electronics branch, by virtue of an extension order issued by the Minister of Welfare. The labor relations in the Company are in order. In recent years, there were no labor disputes or strikes in the Company.

The production employees mostly work for an hourly wage, which includes eligibility for additional overtime pay, as well as additional shift pay, in accordance with the law. In contrast, the employment terms of most headquarter employees and managers are fixed through special effort compensation contracts.

The employees of the subsidiary MTUS are employed through personal employment contracts in accordance with the law in the United States. The determination of salary and salary raises (for employees who are not officers) is presented for approval to the management of the subsidiary, before implementation.

The employees of the subsidiary MTFR are employed through personal contracts, subject to the applicable law in their place of employment. The relevant collective agreements apply to the employees in France, in accordance with the applicable laws.

The employees of the subsidiaries MTAU, MTSP and BF are employed through personal contracts.

3.8.8 Promotion tracks

The Company develops, in accordance with its needs, personal promotion tracks, which include, in respect of the Company's employees in Israel, also funding of education, including a commitment to work for the Company for a minimum period of time.

3.8.9 Changes to the organizational structure

In light of the Company's rapid growth in recent years, and its development into a global company, the Company has successfully implemented several changes to its organizational structure. These changes involve the adjustment of the Company's organizational infrastructure for continued growth and fulfillment of the goals which it has set for itself as a company; creation of an organizational, process and cultural infrastructure as a global company, including substantiating Maytronics Israel as the Company's headquarters, and building global management capability, empowerment of managers, creating global production and supply capabilities, improving organizational efficiency, and supporting the Company's strategy. All of these while maintaining the Company's unique values, as part of a growing organization. As part of the above, and as part of the implementation of the Company's strategic plan until 2025, in the second quarter of 2019 the Company began formulating a plan for changing the organizational structure, which was implemented in 2020.

Upon the implementation of this change, existing units were integrated under two new divisions: business and technology, in order to allow focusing, strengthening and adjusting the

organization's capabilities for the Company's continued growth, in accordance with its strategic plan, while maintaining technological leadership and innovation.

The Business Division manages the various territories - North America, EMEA, APAC (including Australia, New Zealand and Asia) and South America, and globally manages the entire infrastructure supporting distribution, product management, brand management, marketing management (including digital marketing), customer service and the go to market strategy – which includes the launch and market positioning of products.

The technologies and solutions division is responsible for all aspects of development and improvement of the Company's products, including continued engineering, new robot development, software and application development, water technologies product development, development and protection of intellectual property and compliance with product standards, development of innovations and new technologies, and development of solutions for adopting the long term vision of a smart pool solution based on IoT technologies, cloud technologies and various applications.

3.8.10 Officers and senior management employees

A. Presented below is the composition of senior management as of December 31, 2020:

	Salaried employees					
	MTAU	**MTFR**	**MTUS**	**BF**	**MTSP**	**Israel**
CEO	2*	1	1	1	1	1
Officers and senior management employees	6	4	7			8
Total	8	5	8	1	1	9

* Two Joint CEO's serve in MTAU.

3.8.11 Compensation of the Company's managers

B. The employee contracts of the Company's managers include the right to receive annual bonuses which are conditional upon the Company's performance and the fulfillment of personal targets, in accordance with the Company's compensation policy. For additional information regarding the salary and benefits of the five highest salary recipients in the Company, see section 6 in Part D of the periodic report for this year.

On December 27, 2017, the Company adopted an options plan for employees, consultants, managers, directors and service providers, at a scope of up to 4,000,000 options. For additional details regarding the adoption of the options plan, see the report dated December 28, 2017 (reference number 2017-01-118420), the provisions of which are provided herein by way of reference. Further to the above, and further to the implementation of the plan, the Company's Board of Directors resolved (after receiving approval from the Compensation Committee) to announce the outline, and to announce private offers and the allocation of options, as follows:

Resolution dated / announcement dated	**Description**	**Number of allocated options**	**Additional comments / details**
13.2.2018	Publication of an outline for the granting of options in accordance with the plan, and an effective grant of options by virtue thereof to Company managers and employees	2,756,000	Including 313,000 options for the Company's CEO, and 2,443,000 options for employees and managers*.
20.3.2018	Private offer for managers	239,000	Private offer for managers who are not subject to an employer - employee relationship **
20.3.2019	Allocation as part of outline for employees and managers (hereinafter: the "**2019 Allocation**")	523,000	Due to employee attrition, only 478,000 were allocated in practice. Allocation as specified in the private offering report dated March 24, 2020 (as amended on May 7, 2019).
25.5.2020	Allocation as part of outline for employees and managers (hereinafter, jointly with the private offer bearing the same	793,000	As specified in the private offering reports dated May 26, 2020.

Resolution dated / announcement dated	Description	Number of allocated options	Additional comments / details
	date: the "**2020 Allocation**").		
25.5.2020	Private offer to a manager	40,000	Private offer to a manager who is not subject to an employer - employee relationship.

* Employees and managers who are subject to an employer - employee relationship, and where the grants given to them are subject to the provisions of section 102 of the Income Tax Ordinance (New Version), 5721-1961 (hereinafter: the "**Ordinance**"), and the provisions of the outline which was published on February 26, 2018 (including the amendment thereto dated March 15, 2018) (hereinafter: the "**Outline**").

** Managers with whom the engagements are made in accordance with the provisions of section 5 of the Company's compensation policy, in other words, through a corporation under their control (against a tax invoice), instead of engaging in an employment agreement like the other managers, whereby the allocation of options to them will be subject to the provisions of section 3(i) of the Ordinance.

For additional details regarding the outline, the private offering reports, the 2019 grant and the 2020 grant, see the outline dated February 26, 2018 (reference number 2018-01-019252), the amendment to the outline dated March 15, 2018 (reference number 2018-01-025342), the private offering report dated March 20, 2018 (reference number 2018-01-026608), the private offering report dated March 24, 2019 (reference number 2019-01-025375), the amendment to the private offering report dated May 7, 2019 (reference number 2019-01-039498), the private offering report dated May 26, 2020 (reference number 2020-01-046417), and the additional private offering report dated May 26, 2020 (reference number 2020-01-046411), the provisions of which are included herein by way of reference. For details regarding the convention of a general meeting to approve the granting of options to the CEO (including an amendment to that convention report), and the meeting's approval of the aforementioned grant, see the general meeting convention report dated February 14, 2018 (reference number 2018-01-015151) (and the amendment thereto dated March 19, 2018 (reference number 2018-01-026077)), and the report regarding the results of the general meeting on March 21, 2018 (reference number 2018-01-027334) the provisions of which are included herein by way of reference.

C. The officers and senior management employees are employed through personal contracts. The employment cost of the five highest salary recipients in the Group in 2020 amounted to NIS

8.2 million, and this amount includes the employment cost of the CEO's of the subsidiaries MTUS and MTFR (as specified in Regulation 21 of Part D).

On December 26, 2013, the Company adopted a compensation policy for the Company's officers (hereinafter: the "**Compensation Policy**"), which was reevaluated at the beginning of 2017, updated in accordance with the results of that evaluation, and re-approved by the general meeting of the Company's shareholders, for an additional three-year period. In 2018, the general meeting approved additional updates to the compensation policy, which are intended to allow the implementation of the aforementioned options program. On March 9, 2020, and as required in accordance with the provisions of the law, the compensation policy was renewed for the third time. For additional details regarding the last updates to the compensation policy, and regarding the results of the meeting in which they were approved, see the meeting convention report dated December 25, 2019 (reference number 2019-01-123487), the amendment thereto dated February 26, 2020 (reference number 2020-01-016561), and the meeting results report dated March 11, 2020 (reference number 2020-01-019987), the provisions of which are included herein by way of reference.

The rules and framework for the compensation of the Company's officers, including fixed salary, annual bonuses, equity compensation and additional payments, in light of their roles as tenured officers, within the framework of the Company's compensation policy. On September 30, 2020, the Company's general meeting approved a raise for the Company's CEO - Mr. Eyal Tryber. For additional details regarding this decision, see the meeting convention report dated August 23, 2020 (reference number 2020-01-092265) and the immediate report regarding the results of the general meeting on May 30, 2020 (reference number 2020-01-106803), the provisions of which are included herein by way of reference.

3.9 Raw materials and suppliers

3.9.1 Main raw materials

The raw materials which are used by the Company in the robot and alarm production process primarily include motors (drive motors and suction motors), various electronic units (printed circuits, components, power suppliers, electrical connectors, and other components), plastic components (parts of the electronic cleaner body, bearings and filters), and designated power cables.

The raw materials for the Company's products are purchased by the Company based on actual customer orders, and according to the Company's estimates and the sales forecast, in consideration of the expected consumption and the supply time per item. The usual supply time for all raw materials is 20-90 days. For items with longer supply times, the suppliers maintain a safety stock, at the Company's request. Certain electronic components with exceptionally long supply times, are purchased by the Company for longer periods.

The Company buys the raw materials which are required to produce its products mostly from suppliers in Israel and in Southeast Asia.

During the reporting period the Company successfully dealt with the outbreak of the Coronavirus in China, by successfully coordinating the continuous provision of raw materials and units during the peak of the crisis, and/or maintain the workflow on the production lines (for details on this matter, see the description provided in section 1.6.4 above). For additional details regarding this

event, see the immediate reports dated February 6, 2020 (reference number 2020-01-011830), and February 25, 2020 (reference number 2020-01-016078), which are included herein by way of reference.

3.9.2 Suppliers and engagements with suppliers

Presented below are data regarding the rate of raw material purchased from primary suppliers, out of the Company's total purchases during the reporting year:

Rate of purchases out of the total raw material purchases for the entire company	Type of raw material	Supplier
6.12%	Motors	Supplier A
7.78%	Cables	Supplier B
7.42%	Plastics	Supplier C
9.80%	Power supplies	Supplier D

According to the Company's policy, for each type of raw material for the segments of robotic cleaners for private and public pools, and for alarms, the Company will have one primary supplier and one secondary supplier, which can serve as a substitute in case the primary supplier stops providing the raw materials, for any reason whatsoever. If dependence is created for the Company on the receipt of a certain raw material from a specific supplier, it works to authorize another supplier, in accordance with ISO 9001 (2008), in order to ensure reserves of raw material. The Coronavirus crisis caused a global shortage in plastics, and difficulties in the provision of raw materials. For details regarding the Company's efforts to deal with the Coronavirus crisis, see section 1.6.4 above.

The Company strives to work with a minimum of two suppliers for most of its primary raw materials in the private and public pools robots, alarms and covers segments, and it is continuing its efforts to authorize additional suppliers, in order to reduce the risk involved with relying on a single supplier, and to reduce costs. According to the estimate of the Company's management, there are a few cases in which it is dependent, in the short term, on a single supplier, and it is working on minimizing the risk. In a few cases, the alternative supplier is more expensive, and in case it becomes necessary to refer the orders to them, the product will become more expensive, and its profitability will necessarily be reduced. However, no individual component has the ability to significantly affect profitability.

The Company and MTFR have agreements with their suppliers for periods ranging from one to two years. The Company enters into short-term agreements with its suppliers, including details regarding the number and price of ordered products, delivery times and maintenance of a safety stock.

In respect of the power supplies and motors, the Company enters into agreements for periods of around one year. Commercial relationships of several years exist with all of the main suppliers of raw materials.

3.10 Working capital

3.10.1 Policy regarding the holding of raw material inventory

The process of equipping the Company with raw materials for the private and public robotic pool cleaner and alarms segments begins in the months June - September of each year, and the level of raw materials reaches a peak in the months October - February: the Company's peak production season. Most of the Company's customers submit an equipment forecast for the private and public pool robots and alarm segments throughout the months November and December, and the Company orders raw materials insofar as the need arises, according to the expected orders.

The Company continuously maintains an inventory of complex units, in order to meet any unexpected market demand. This inventory is required during the first months of the year, in order to meet unplanned orders, and it is particularly important in the summer months, when the required order response time can reach only a few days.

The Company's policy is to maintain raw materials which allow the production of products for a three-month period, while maintaining a safety stock for unexpected orders. The Company is obligated towards its customers to meet a supply time of around three weeks after approval of the order.

3.10.2 Policy regarding maintenance of finished goods inventory

In the past, production was based on orders only. The Company did not maintain a stock of finished goods, except for the minimum period of time required to adjust the production times with the expected delivery dates.

Due to the increase in the activities of subsidiaries, the Company's working capital increased due to the finished goods inventory in those companies. Additionally, a significant part of the production for the United States was moved up to the 4th quarter of each year, in order to allow shipment by sea, and arrival at warehouses in the United States before and during the first quarter of the subsequent year. The increase in MTAU's sales, and due to the long distance from that continent, resulted in a significant increase in finished goods inventory there.

The Company operates in accordance with the JIT (just in time) method, which allows the Company's customers to reduce inventory levels. This trend requires appropriate organization by the Company, and ensures maximum flexibility at the customer on the one hand, while minimizing inventory risks on the other hand.

For this purpose, the Company adopts a policy of flattening production, i.e., distributing production over the entire year, in a manner which allows it to apply the JIT method.

On December 31, 2020, the Company held a finished goods inventory at the production sites in Israel, in the subsidiary MTUS, in the subsidiary MTAU, and in the subsidiary MTFR, and in BF a total of around NIS 215.7 million, which are mainly intended for sale in Q1 2021. The Company has around 178 inventory days (including the aforementioned finished goods inventory, in-process inventory and raw materials), on average. It should be noted that raw material inventory days amounted to around 53 days.

3.10.3 Product returns policy

The Company has no product returns policy for customers, and in practice, the Company has not accepted returns from customers in the past, except for a few cases involving returns from

large chains in the United States, in accordance with the general practice in that country. See below for details regarding the Company's policy in respect of the provision of warranty for its products.

3.10.4 Product warranty policy

The Company offers a warranty for the quality of its products, and for any defects therein, by virtue of the law, and is also responsible, towards its customers, to fulfill the product definitions and specifications which were specifically agreed upon vis-à-vis customers, in accordance with the provisions of its agreements with those customers. The Company offers its customers a warranty of one to four years, or for a certain number of operating hours - for the drive units and the non-disposable parts of private pool cleaners. The Company's distributors offer, to end customer who buy electronic cleaners, generally those intended for private pools, a warranty of two to four years, for all of the robot's parts. End customers who buy products for public pools receive from the distributor, and from the Company, a warranty for two years or for a certain number of operating hours. The supplementary products sold by the Company are backed by a warranty which is provided by their manufacturers.

3.10.5 Credit policy

A. Customer credit

The Company offers its customers credit for a period of 1 to 120 days, in accordance with the customer and the engagement type. In 2020, the average credit period, in consolidated terms, was around 71 days. The average scope of credit to the Company's customers, in consolidated terms, in 2020, amounted to NIS 208,011 thousand.

In general, it is the Company's practice not to sell in significant amounts to customers in Israel and around the world without credit insurance or other collateral, such as a letter of credit from a bank, or payment in advance.

The Group's member companies generally have a credit insurance policy which corresponds to the Company's policy. Additionally, all of the Group's member companies conduct various evaluations regarding the financial soundness of customers, and closely monitor collection. In practice, most of the Company's customers operate within the limits of the credit insurance.

The customer credit for private pool products is similar to the customer credit for public pool products.

B. Supplier credit

The Company receives from its suppliers' credit for periods of 1 to 105 days. In 2020, the average credit period offered to the Company by its suppliers was 72 days. The average amount of the Company's trade payables in 2020 amounted to around NIS 111,240 thousand.

3.11 Investments

During the reporting year, the Company did not provide short term loans to its subsidiaries.

3.12 Financing

3.12.1 For details regarding financing for the acquisition of the subsidiary MTFR, see section 3.15.5 below.

3.12.2 For details regarding the financing of the acquisition of BF GmbH, see section 3.15.7 below.

3.12.3 Credit facilities

The Company has credit facilities which amounted, as of December 31, 2020, to around NIS 422 million. Over the year, the Company used around NIS 210 million during the first half, and around NIS 120 million during the second half.

The provided credit facilities are in NIS and foreign currencies, and bear interest at the range between Prime minus 0.4% to Prime plus 0.92%, and LIBOR plus 1.2% to LIBOR plus 1.9%.

3.12.4 Long term loans

At the beginning of the Coronavirus crisis, the Company prepared for various scenarios of the crisis affecting its cash flow. As part of this process, the Company assigned a total of NIS 80 million out of its credit facilities towards long-term loans. The average lifetime of the loans is 5 years, and they bear interest of Prime + 0.9%.

Against the provision of the loans, the Company undertook not to create any general floating charge and/or any charge on share capital, and not to create any such charge, in favor of any third party whatsoever, without receiving the bank's advance written consent for the matter, and so long as the credit amounts have not been repaid in full.

Additionally, in 2018, the Company provided to MTFR a comfort letter in respect of a loan in the amount of EUR 2 million, which that company took out for a period of five years, at fixed interest of 1.50%, in which the Company undertook to continue holding more than half of the share capital and voting rights in MTFR, so long as the loan has not been repaid, and to work to the best of its ability to ensure that MTFR fulfills all of its undertakings under the loan agreement.

3.12.5 Raising of additional sources

The currently existing loans and credit facilities, as described above, are expected to suffice for the Company to finance its continued operations, as presented in this report.

3.13 Taxation

For details regarding the taxation of the Company and the subsidiaries, see Note 21 to the financial statements.

3.14 Restrictions and supervision of the corporation's business affairs

3.14.1 Business license

The Company has a business license for the production and headquarters site, located in Kibbutz Yizre'el.

3.14.2 Standardization

A. The Company's quality management system was certified by the Standards Institution of Israel as complying with the requirements of Israeli Standards and the international standard ISO 9001: 2015. The certificate is in effect until January 11, 2022.

B. The Company is working on obtaining certification for the ISO 14001 standard - an international environmental management standard. The standard addresses energy savings, the use of dangerous materials, prevention of waste, and environmentally friendly manufacturing. As of the date of this writing, the Company is currently in the final stages of obtaining certification for this standard.

C. The Company's products which are marketed to Europe were evaluated in authorized laboratories, in order to verify their compliance with the relevant requirements of the CE directives. Based on the evaluation reports, certificates of compliance with CE were issued for the products. The approvals will remain in effect so long as the product, or the law by virtue of which it was authorized, have not been changed. Renewal of the product standards is done on an ongoing basis, insofar as updates to them are required.

D. Products marketed to the United States, which are required to bear a safety standard, were evaluated in the Intertek laboratory, and the Company was authorized to mark the products with ETL Listed Mark. They were also tested for compliance with FCC standards, and were certified as FCC-compliant. The products were evaluated for compliance with the relevant UL standards. These standards apply to the robot and to the electronic cleaner's power supply, which can also be moved by a service cart. The evaluation of the products' compliance with these standards ensures that the products were evaluated and meet the required conditions in respect of production processes and product safety. The approvals will remain in effect so long as the product, or the law by virtue of which it was authorized, have not been changed. Renewal of the product standards is done on an ongoing basis, insofar as updates to them are required.

E. The American standard UL1081 applies to robotic swimming pool cleaners (not only the power supply). The Company decided to comply with this standard (although it is not obligated to do so), in order to differentiate its products from its competitors in this important territory. Some of the Company's products already meet the standard, and other products of the Company are currently in the certification stage.

F. The Company's products which are marketed in Australia were evaluated to ensure their compliance with the relevant standards in Australia and New Zealand, and were found compliant with the requirements. The approvals will remain in effect so long as the product, or the law by virtue of which it was authorized, have not been changed. Renewal of the product standards is done on an ongoing basis, insofar as updates to them are required.

G. As specified in section 2.3.1 above, the alarm products of MTFR comply with the French standards for alarms, and additionally, the automatic covers comply with the required safety standards in France.

H. The Company's products which are marketed to Japan were evaluated in accordance with the relevant requirements of the certifying body PSE, and were found compliant with the requirements. The approvals will remain in effect so long as the product, or the law by virtue

of which it was authorized, have not been changed. Renewal of the product standards is done on an ongoing basis, insofar as updates to them are required.

3.15 Material agreements

3.15.1 Service provision agreement between the Company and the Kibbutz

The Company is engaged with the Kibbutz in an agreement regarding the provision of services by the Kibbutz to the Company, dated June 12, 2004, which concluded on December 31, 2020 (and which was classified by the Audit Committee, on September 29, 2016, as an insignificant transaction).

Under the agreement, the Kibbutz undertook to provide to the Company a variety of services, as specified below, in consideration of NIS 39,166 per month. A linkage mechanism to the consumer price index was determined for this amount. As of December 2020, the Company pays around NIS 48.5 thousand per month for these services.

The services include maintenance and cleaning services, security services, telecommunication, emergency services, first aid, sanitation and provision of food in the Kibbutz cafeteria, for the workforce which is provided to the Company by the Kibbutz.

3.15.2 Agreement regarding management and use of information between the Company and the Kibbutz

On June 12, 2004, the Company and the Kibbutz signed an agreement regarding the provision of management services and the use of information by the Kibbutz to the Company, which, in recent years, was presented to re-approval in accordance with the provisions of Amendment 16 to the Companies Law. As part of the aforementioned approvals, amendments and updates were made (inter alia, by significantly reducing the consideration which is paid to the Kibbutz in respect of this agreement). This agreement was recently renewed in the general meeting which was held after the reporting date on January 4, 2021, and it is in effect, following the aforementioned recent approval, until December 31, 2023 (hereinafter: the "**Management Agreement**"). For additional details, see the immediate report dated November 29, 2020 (reference number 2020-01-128424) and dated January 5, 2021 (reference number 2021-01-00148).

In accordance with the management agreement which was in effect during the reporting year, the Kibbutz provides to the Company management and consulting services in fields which the Company will require, and which are within the areas of expertise, knowledge and experience of its serving directors, in consideration of the payment of management fees, as follows:

(1) <u>In respect of five (5) directors on behalf of the Kibbutz, for their activities on the Board of Directors</u> - Compensation in the amount of NIS 665,833 per year, with one quarter of this fixed amount being paid at the beginning of each quarter. Upon the renewal of the management agreement, as stated above, after the reporting date, this compensation was set as a total of NIS 637,595.

(2) <u>In respect of the activity of the Chairman of the Board, and the special activities of another director outside of the Board meetings</u> - Annual compensation in the amount of NIS 900,000 and NIS 450,000 per year, respectively. Out of these payments, a payment in the amount of

NIS 618,000 is conditional upon the fulfillment of targets which will be determined for the Company's CEO each year, in the part pertaining to the Company's objectives only (hereinafter: the "**Conditional Compensation**"). Unconditional management fees, as stated above, will be paid at the beginning of each quarter. The conditional compensation will be paid on the date when the annual bonus is paid to the CEO. Upon the renewal of the management agreement, as stated above, after the reporting date, the compensation in respect of the additional director was set as a total of NIS 300,000 (instead of NIS 450,000), and the compensation component in respect of the Chairman of the Board, and the conditional compensation in respect of these two directors remained unchanged (in other words, a total of NIS 900,000 and NIS 618,000, respectively).

(3) In respect of the availability of means of production - Annual compensation in the amount of NIS 502,800, in respect of an option to lease additional areas from the Kibbutz (and the Kibbutz's waiver of building rights which are available to it in other areas, in favor of construction for the Company, without payment of additional consideration by the Company, beyond the compensation component referenced herein), and in respect of the Kibbutz's undertaking to provide workforce services, as stated in the workforce provision agreement between the Company and the Kibbutz (see section 3.8.2 above). This payment is due at the beginning of each quarter. Upon the renewal of the management agreement, as stated above, after the reporting date, the total payment in respect of the availability of production facilities was reduced to a total of NIS 465,000.

The services provided by the Kibbutz to the Company under the agreement also include the provision of the information which has accumulated in the Kibbutz and in its owned corporations in connection with the Company's activity in the segment of swimming pool electronic cleaners, to the Company, by directors on their behalf. For additional details regarding the transaction report which was published by the Company on July 30, 2018 (reference number 2018-01-071004) and the transaction report which was published by the Company on November 29, 2020 (reference number: 2020-01-128424), the provisions of which are included herein by way of reference.

3.15.3 Agreement with the Kibbutz regarding the rental of the buildings and areas which are used by the Company

As of December 2020, the Company leases from the Kibbutz a total area of 42,868 square meters, of which around 8,681 square meters are office buildings and a production building, 13,024 square meters are warehouses and sheds, and 21,163 square meters are yards. The aforementioned areas are leased in accordance with a lease agreement dated June 12, 2004, which was expanded several times, and which is in effect for twenty-four years, until December 31, 2027 (after this period was approved in accordance with the provisions of section 16 of the Companies Law [(hereinafter: the "**Lease Agreement**"]). The Company is entitled to terminate this agreement by giving notice twelve months in advance.

In the extension to the lease agreement from 2014 (hereinafter: the "**Second Addendum**"), which pertained to the addition of a new warehouse, the Company was given an option to extend, during the lease period, the area of the new warehouse, by another 1,800 square meters (contiguous with the new warehouse), subject to the approval of the Company's Audit

Committee (this option was exercised in 2014, to increase the area of the new warehouse by an additional 236 square meters).

The second addendum also included a framework transaction for the lease of additional areas and the construction of additional buildings for the Company's use near the plant building, under the same terms as those specified in the lease agreement (including the rent, as specified below), during a period which ended on April 29, 2019. For additional details regarding the second addendum, see the amended transaction report dated April 29, 2014 (reference number 2014-01-052419), and the immediate report regarding the results of the general meeting on May 8, 2014 (reference number 2014-01-059664), the provisions of which are included herein by way of reference.

In 2017, the Company exercised the aforementioned framework transaction, while engaging with the Kibbutz in another addendum to the lease agreement, in which an agreement was reached regarding the lease of an additional area to the Company, of 1,400 square meters, in order to extend the logistical warehouse and convert 1,217 square meters of shed area to production area, and 2,111 square meters of yard area to operational shed area. It was also agreed that the Company will have the option to build a two-story building on an area of around 2,000 square meters in the area of the production site in Yizre'el, which will be used for production and office purposes. As of the signing date of this report, the construction of the production building is approaching completion, and the Company is expected to occupy the building in April 2021.

Additionally, in 2019, the Company exercised the option again, and engaged with the Kibbutz in the addendum to the lease agreement, in which it was agreed that the area of the operational warehouse will be extended by an additional around 400 square meters (including around 100 square meters as an acceptance testing office), and an additional around 2,200 square meters of operational area will be added to it, as well as around 500 square meters of shed area. It was further agreed under this addendum that the Company will have the option to expand the area of the office building by building a two-story structure with a total area of around 960 square meters. For details on this matter, see the Company's immediate report dated April 10, 2019 (reference number: 2019-01-035122), the provisions of which are included herein by way of reference.

Further to the above, the expansion of the logistical warehouse was completed in 2020, and it was delivered to the Company on August 1, 2020. The project involving the construction of the two-story office building is underway, and is expected to conclude in August 2021.

During the reporting year the Company leased, for a period of 36 months, an additional building with an area of 240 square meters, to serve as a maintenance workshop. The Company is currently working on planning a new office campus which will include three buildings that will serve the technologies division and the company headquarters.

In accordance with the lease agreement, and as of December 2020, the Company pays to the Kibbutz monthly rent as follows: NIS 26.63 per square meter of built area, NIS 4.23 per square meter of yard area, and NIS 15.43 per square meter of warehouse and shed areas, in addition to a fixed amount of around NIS 31 thousand per month. The rent is linked to the consumer price index as of the end of 2020, and is paid on the first day of each quarter, in consideration of the

subsequent quarter (for details regarding the additional payment in respect of the reservation of rental areas, see section 3.15.2. above).

The total monthly rent which is paid to the Kibbutz amounts to a total of around NIS 603 thousand.

The entire area which is leased to the Company is used by it in practice. The built area is used by the Company for offices and production halls. The warehouse area is used for storage, and the yard area is used for parking and as general operational area.

3.15.4 Lease agreement in respect of the production site in Dalton Industrial Park

As stated in section 3.5.1 above, the Company has been operating at the Dalton production site since late 2016, in accordance with a lease agreement dated December 6, 2015 vis-à-vis Tefen Entrepreneurship Ltd. The lease period is fifteen years, and the lease can be terminated at the end of 2025, subject to advance notice.

On June 14, 2020, the Company also engaged in an agreement, with that same company, for the lease of two additional buildings in Dalton Industrial Park, with a total area of 6,000 square meters, located nearby the buildings where the current plant is located. The first building, with an area of 3,000 square meters, serves as a warehouse for raw materials and components, and was occupied on October 1, 2020. The second building, with an area of 3,000 square meters, will serve as a production hall. This building was delivered to the Company on January 1, 2021, and as of the date of this writing, the Company is currently executing works in the building in order to adapt it to its needs. The Company expects to occupy this building in July-August 2021. The lease period in respect of the two additional buildings is five - ten years, and it can be terminated after ten years, subject to advance notice.

The total rent (including service fees) paid by the Company in respect of this site during the reporting year amounted to NIS 2,094 thousand.

3.15.5 Agreement with the founders of MTFR and with the former creditor banks of MTFR

As part of the acquisition of MTFR, the Company acquired MTFR's debts to banks, which amounted, at that time, to a total of EUR 6,150,000, in consideration of cash payment of EUR 2,200,000. Upon the acquisition of the debt, the Company became a guaranteed creditor of MTFR in respect of MTFR's debt to the banks, and replaced them for the purpose of that debt, while redistributing the repayment of the loan (into quarterly payments of EUR 300 thousand), and deferring the principal payment by two years. Out of those debts, a total of around EUR 2.2 million has been converted into MTFR shares. In 2019, MTFR began repaying the debt principal in quarterly payments of around EUR 200 thousand, in addition to the interest payments, which continue as usual. During 2020 MTFR concluded the payment of the debt principal to the Company.

3.15.6 Agreement with founders of MTAU

As part of the establishment of MTAU in 2011, the Company entered into a detailed shareholders agreement with MTAU's executives (hereinafter: "**MTAU Executives**") in September 2011. In accordance with this agreement, the Company holds 60% of MTAU's share capital, and has the right to appoint three out of MTAU's five directors, while the remaining 40%, and the right to appoint the other directors in the Company, belong to the MTAU executives. The agreement also sets forth various arrangements which pertain to the distribution of the Company's products in Australia and New Zealand by MTAU; arrangements pertaining

to MTAU's right to buy back the shares of MTAU's executives (reverse vesting), in certain circumstances; certain protection rights to the MTAU executives; a conditional dividend policy, and other shareholder arrangements. As of the reporting date, the MTAU executives hold 38.8% of MTAU shares, and the Company holds 61.2%.

3.15.7 Agreement for the acquisition of BF GmbH

On June 10, 2020, the Company entered into an agreement with BWT regarding the acquisition of its entire stake in BF. The acquisition was completed on June 16, 2020. The Company paid a total of EUR 13 million (hereinafter: the "**Consideration**") in consideration of 100% of BF's shares. Out of the consideration, a total of EUR 1 million was paid on the transaction closing date, and the Company undertook to pay the consideration remainder in three payments in the amount of EUR 3 million, EUR 4.5 million and EUR 4.5 million, on December 31 of each of the years 2020 to 2022, respectively (using its available sources). The shares of BF were pledged as collateral for the payment of the consideration remainder, and the Company undertook that so long as the pledge remains in effect, it will not withdraw dividends at a rate exceeding 60% of BF GmbH's distributable profits. The charge does not apply to the Company's other rights in the shares (beyond the right to receive dividends, as stated above), including voting rights, which will belong entirely to the Company. Additionally, and as part of the transaction, BF GmbH took a loan from BWT in the amount of EUR 1.5 million (hereinafter: the "**Loan**"), which is intended to be used by BF GmbH as working capital. The Company is a guarantor for this loan towards BWT. The loan period is one year and a half, and it bears interest of 1.75% per year.

3.16 Legal proceedings

See Note 20A to the financial statements.

3.17 Objectives and business strategy

The Company's vision is:

"Leading the way to make your pool water exceptional for pure enjoyment"

In 2018 the Company began implementing its strategic plan until 2025, with the aim of maintaining its growth and leadership in light of the current and anticipated changes and dominant trends in the markets where it is engaged, including development of the internet channels, the Omni Channel at retailers, and the increasing demand for IoT products, and smart home and smart pool solutions (as specified in section 2.1.1E above).

In light of these trends, the Company's strategy is to position itself as the **best brand in each distribution channel, and in the eyes of the end customer**, to offer **the best robotic cleaner** in general, and the best robotic pool cleaner in particular, and to provide **the best smart solution for pool management**. The Company's strategy also includes the development of capabilities which will allow the integration of smart digital solutions into The Company's products, such as the development of unique technologies, IoT connectivity, designated programs and applications, which will allow service providers and store managers to manage their business operations in the best way possible, while improving the value offered to store owners, and increasing loyalty. The Company also strives for the technologies and products which it develops to allow pool owners to control and manage the pool

systems and water quality effectively through their smartphones, and to receive, in real time, qualitative data regarding the status of their pool, and recommendations for treatment. All of the above reflect a process of digital transformation which the Company has been implemented in stages over several years, and which will allow it to better understand the advanced needs of its customers, to offer adequate solutions for those needs, and to presence in the fields of emerging businesses.

The Company's main objective is to maintain a growth rate by developing and marketing innovative technological products in The Company's core business segment, i.e., in the automatic pool cleaners' segment, in the various market segments, as well as growth in supplementary products, while identifying channels for marketing and sales or cooperation with companies and distribution networks, in order to substantiate its power in the markets.

As part of the above, the Company works, inter alia, as follows:

Continuing efforts to develop the market of electronic cleaners for public and private swimming pools.

- Continuing the deepening of business activities to grow the market share in the relevant markets (Europe and North America), and continued focus on developing territories (mainly the southern hemisphere and the Sun Belt in the United States);
- Continuing the investment in the development of new technologies in the automatic robot cleaners for private and public pools segment, such as OPTEQ technology, for a broad range of solutions, while leveraging the brand, marketing channels, know-how and technology which are available to the Company.
- Continuing the research and development efforts on new technology in the field of monitoring, control and treatment of swimming pool water, in order to develop an additional significant growth engine. These investments are expected to increase in the coming years, together with continued investment in the creation of supporting information systems. The Company is also evaluating opportunities for the distribution of new products which are synergistic to its operations.
- Investment in digital transformation processes, including giving robots IoT capabilities, which allow constant connectivity of products, creating a direct connection and strengthening the brand vis-à-vis pool owners, as well as effective digital marketing targeted directly to the customer.
- Operational and supply chain preparations to support the strategy, including streamlining processes and infrastructure, implementing digital systems, adding automatic production systems and creating advanced data-driven capabilities.
- Creation of advanced and appropriate information system infrastructure in all of the Company's divisions to support the Company's growth, in line with the strategy.
- Organizational preparations in terms of workforce to strengthen the organizational structure, the training units and accompaniment of managers in the change processes which are required to support the strategy.
- The Company is considering combining acquisitions and mergers as part of its growth strategy, in order to expand the value offers to the pool market.

In accordance with this strategy, at the end of 2017 the Company set for itself a sales target of NIS 1 billion, and an operating profitability rate in the range of 16% - 19% in 2021. As presented in this report, the Company achieved this target already in 2020.

The Company therefore set a revenue target of NIS 2.3 billion and an operating profitability target in the range of 17% to 20% for the year 2025.

The targets for 2025 are based on an assumed dual digit growth rate in sales of robots for private pools (constituting the primary growth engine), estimated revenue of around NIS 50-100 million from the Insight system, revenue from mergers and acquisitions to expand the value offer in the pool market, as well as growth in the segment of public robots and related products.

3.18 Expected developments in the coming year

In the coming year, the Company predicts growth in revenue of 23%-18%, mostly based on growth in the pool cleaning robots' segment.

The Company believes that the family of robots for the private market, which was launched in 2015, together with the new robot line which was launched in 2019, and the new models which will be launched in 2021, as well as the increased strengthening of the various marketing channels, including internet channels, will increase the demand for the Company's products in the coming years as well, due to their technological advantages over the competing products. The operating results in recent years clearly support the above.

In the safety products and supplementary products segment, the Company expects several installations of the Poseidon system in Asia, and further substantiation in that market.

As stated in this report, the Company is working on the development of a unique system for the monitoring, control and treatment of swimming pool water, which in part will be self-developed, and in part will be based on supplementary systems and products. The Company expects the costs and investments associated with the development of this system to amount to around NIS 31 million in the coming year, not including acquisitions and mergers. The first generation of this system is expected to be launched in 2023.

This information constitutes **forward looking information**, and as such is uncertain, and may not materialize, in whole or in part, or may materialize differently from the forecast.
This information is based on the data mentioned in sections 2.1.2, 2.2.2 and 2.3.1 above, on the Company's experience in its traditional markets, its intentions and plans regarding them, and on preliminary market surveys which were performed by the Company in respect of opportunities for penetration into new markets, the successful penetration attempts of the Company's new products, and the customers' willingness to try out those new products.

This information may not materialize, or may materialize only partially, if unexpected widespread defects appear in the Company's products, if any of the Company's competitors launches a competing product in the pool cleaners segment with similar or superior capabilities and/or with preferable costs, insofar as the merger between Fluidra and Zodiac (as specified in section 2.1.6E-G above) gives the merging companies significant advantages over the Company already in the short term, due to the circumstances and matters described in the aforementioned sections, on the ability to implement opportunities and methods for penetration into the aforementioned markets, due to unexpected difficulties and delays in developing the water monitoring and treatment system (including the ensuing general consequences), due to the effects of the Coronavirus crisis, and due to the other risk factors specified in section 3.22 below.

3.19 Financial information regarding geographical segments

For details regarding the geographical regions in which the Company operates, see Note 30C to the financial statements.

3.20 Information regarding extraordinary changes in the corporation's business affairs

For details regarding the consequences of the Coronavirus crisis after the reporting date, and its effects on the Company, see section 1.6.4 above.

3.21 Events which are outside of the corporation's ordinary business affairs

For details regarding the extraordinary effects of the Coronavirus crisis on the Company's results during the reporting year, see section 1.6.4 above.

3.22 Discussion regarding risk factors

The Company's operations are characterized by the following risk factors:

Macro risks

3.22.1 Global economic downturn / economic crisis

A deep economic crisis in the markets of Europe and/or the United States could adversely affect the pool segment and defer purchases by end customers, as was the case in 2008-2009.

3.22.2 Risks of changes in the value of currencies

Around 98% of the Company's revenues are due to foreign sales, and a significant part of its raw materials is acquired abroad or in USD-linked NIS. Therefore, the Company's practice is to execute hedging transactions in foreign currency. However, fluctuations in the USD, AUD and EUR exchange rates, as specified in section 1.6 above, may adversely affect the Company's financial results and financial position.

3.22.3 The Coronavirus crisis:

The main risks for the Company and its activity due to the Coronavirus pandemic, and the restrictions imposed as a result, are adverse effects on the Company's supply chain, due to the closure of all or some of the production lines of the Company's suppliers, or of the Company, restrictions on the transportation of raw materials to the Company and on the transportation of the Company's products between countries and within countries, whether in general or in accordance with the Just in Time ("JIT") framework. These exposures could lead to delays in the production of the Company's products, in failure to meet the demand for its products, or in failure to supply the products within the required timeframe. The Company is also exposed to market-wide effects of the economic crisis which was caused due to the pandemic, and to changes for the worse in current economic conditions in Israel and around the world, which could adversely affect its customers and suppliers. The combination of the foregoing effects could lead to significantly adverse effects on the Company's results. For details regarding other consequences, including possible positive consequences of the crisis, on the Company's sales, and regarding the Company's methods of addressing these risks, see section 1.6.4 above.

Branch-specific risks

3.22.4 Climate change

The Company's sales directly depend on the weather, mostly at the beginning of summer, in all of its operating territories. A late summer would adversely affect sales in that year, and even result in overcautious stocking in the subsequent year.

3.22.5 Incorrect reading of the market map

The Company is exposed to the general risk of incorrectly reading its market map, and lack of innovation, which could result loss of market shares and even loss of the entire market, due to the entry of new technologies which are completely different from the technology which is implemented by the Company. The Company places an emphasis on the subject of innovation, stays close to the market and is aware of developments occurring therein (including, inter alia, the Chinese market). The Company is currently in advanced stages of implementing its 2025 strategy, and additional possibilities of activity (as specified in section 3.17 above), which are intended to maintain the Company's leadership.

Special risks applicable to the Company and its subsidiaries

3.22.6 Entry of an additional manufacturer into the market and/or acquisitions and mergers in the segment

There is a risk of entry of another manufacturer into the market, who would succeed in penetrating and seizing market share, whether directly or by performing acquisitions and mergers with existing manufacturers. Due to the fact that the Company is the manufacturer that currently holds the largest market share in the robots' segment, another manufacturer, if one enters the market, can be expected to try to take some of the Company's market share and/or cause price declines and erosion of profitability, although an entry of this kind, if and when performed, is expected to take place gradually over several years. The Company is working already today to maintain its status in the market, and even to strengthen it, inter alia, as preparation for the entry of additional competitors to the market, as stated above. On this matter, see also section 2.1.1E above, and details regarding the Fluidra-Zodiac merger event, and the entry of BWT into the pool market, as stated in section 2.1.6 above.

3.22.7 Loss of market share and/or material customer and/or distributor

Loss of customers, or the weakening of one of the Company's distributors, or the abandonment of one of the Company's distributors, may result in a decrease in the Company's sales and market share, and adversely affect its profitability. The Company frequently monitors the sales activities and performance of its distributors, in order to identify, in advance, any adverse effects of this kind, and to prepare itself accordingly.

According to the Company's estimate, the loss of a large distributor could have a significant impact on its business affairs. However, it estimates that the damage will be limited to the short term, and that the effect can be mitigated over the long term.

The Company takes action to mitigate this risk, inter alia by managing a go to market strategy which includes strengthening relationships with distributors, and allowing them to maximize opportunities for the sale of the Company's products. The Company also strives to maintain close and tight-knit relationships with all of its partners.

3.22.8 Price cuts

Price cuts in the market, for various reasons, could adversely affect the Company's profitability. The Company takes actions to mitigate this risk, inter alia, by developing new technologies, continuous innovation, marketing strategy and cutting costs.

3.22.9 Serial defect in the Company's products

A significant defect in the quality of the Company's products us a risk factor for the Company's business and brand. The Company takes action to mitigate this risk, including, inter alia, appointing a VP Quality, establishing a multi-year quality plan, and implementing systems and processes.

3.22.10 Legal Claims of competitors

The Company has a limited number of significant competitors that compete over the same market segment. This competition has been transferred, more than once, by competitors, to the channel of legal claims, alleging prejudice of intellectual property rights, etc. The acceptance of a material claim against the Company could cause it to incur monetary and brand damages.

3.22.11 Compliance of the Company's products with standards and regulations

The Company's products are subject to regulations and standards in the various territories where the products are sold. The standards and regulations are dynamic. Changes in standards and regulations, mostly in central territories, may require the Company to adjust its products in order to receive approval for their sale. The Company invests efforts to adjust its products to the various standards and regulations in all territories, in order to mitigate this risk.

3.22.12 Drowning event in pool where a private pool alarm or public pool drowning detection system is installed

The safety products described above, which are intended to prevent drowning in pools, naturally create risk of a legal claim in case of the products' failure. However, the Company works in accordance with stringent standards in the relevant countries, and in accordance with the policies set forth in standards to prevent events of this kind. The Company also has insurance coverage for events of this kind.

3.22.13 Information security and cybersecurity risks and protection of privacy

The Company has extensive information system infrastructure to support all of the organization's operating segments. Additionally, digital operations (the application for private robots, for example) results in the adoption of many technologies and new products which increase the degree of exposure to threats and risks involving information security and cyberspace risks. Therefore, the Company is exposed to possible adverse effects on its business operations, due to those measures. Such exposure exists also and particularly in connection with protection of the information which the Company collects about its customers, and which the Company is obligated to protect in accordance with the applicable regulatory directives in Israel and outside of Israel (for additional details, see section 2.1.1B above). The Company monitors the risks and protects the information on several levels, including systems to protect the databases and information systems, the provision of permissions to access the system and to routinely manage them, physical security measures and raising awareness among all of its employees, and works to implement the regulations which apply to it, as stated above, in connection with the collection of customer data.

Presented below is a table summarizing the aforementioned risk factors, describing the nature of the risks, and the estimate of Company management regarding the impact of those risks on the Company:

Description of risk / risk factor	Extent of risk factor's impact on the Company's business		
	Minor effect	**Medium effect**	**Major effect**
Macro risks			
Global economic downturn / economic crisis		+	
Risks of changes in the value of currencies			+
The Coronavirus crisis		+	
Branch-specific risks			
Climate change		+	
Incorrect reading of the market map			+
Special risks applicable to the Company			
Entry of an additional manufacturer into the market and/or acquisitions and mergers in the segment		+	
Loss of market share and/or material customer and/or material distributor		+	
Price cuts		+	
Serial defect in the Company's products			+
Claims of competitors	+		
Compliance of the Company's products with standards and regulations	+		
Drowning event in pool where a private pool alarm or public pool drowning identification system is installed	+		
Information security and cybersecurity risks and protection of privacy		+	

Maytronics Ltd.

Board of Directors' Report regarding the State of the Corporation's AffairsFor the Period Ended December 31, 2020

A. Board of Directors' explanations regarding the state of the corporation's business affairs, operating results, equity and cash flows

1. Main Details from the Description of the Corporation's Business Affairs Report

Maytronics Ltd. and its subsidiaries (the "**Company**") specialize in the development, production and marketing of robotic cleaners for private and public swimming pools, and in the development, production and marketing of automatic covers for swimming pools, systems to protect pool users from drowning, and in the marketing of additional related products for swimming pools. The Company's business is export-based, and around 98% of the Company's revenues are generated from sales and services outside of Israel. The activities involving the global distribution of the Company's products are mostly carried out by external distributors and through subsidiaries. Distribution in the United States is carried out by a subsidiary based in Atlanta, Georgia ("MTUS"); in France, by the subsidiary Maytronics France ("MTFR"); in Australia, through the subsidiary Maytronics Australia ("MTAU"); and since June 2020, in Germany through the subsidiary Bünger & Frese ("BF"). The Company is significantly affected by seasonality, and around 64% of its sales in 2020, and most of its profits, were concentrated in the first half of the year. This seasonality is due to the fact that most of the Company's sales are targeted to the northern hemisphere, where private pools open around the months March - May, and close around September. Therefore, the Company's distributors buy most of the products for their inventory from December / January to July. The distributors themselves sell most of the products, generally from March until the season closes at summer's end.

The Company is a global leader in its main operating segment - robots for private pools, and it estimates that it holds around 50% of the global market share in this field. The Company invests in the development and improvement of its products in order to maintain its technological leadership, and to penetrate into new market segments.

2. Major events which occurred during and after the reporting period

2.1 State of the Company and of the market:

In summary, the Company's sales grew this year at a significant rate of 27.2%. The season extended into the third quarter, and in some regions even into the fourth quarter, which featured highly increased demand for private pool robots in all of the Company's main operating territories. It is noted that the public market, which declined during the year due to the restrictions on opening and congregating, recovered somewhat, and grew by 11.5% in the fourth quarter.

The Company's sales in Europe grew by 26% in 2020 relative to last year in terms of the local currency (around 20% after offsetting the revenue which was recorded from the

initial consolidation of BF). The Company's sales in the United States grew significantly by around 37% in terms of the local currency, and the Company's sales in Oceania grew by around 40% in terms of the local currency. The Company is very pleased with the business results in each of the main territories, and with the activities of the subsidiaries and the distribution network. In the foreseeable future, the Company will continue investing in the implementation of all available tools in order to increase awareness of the Company's products, and maintain its competitive advantage. In particular, the Company continues to see significant growth potential in the American market in the coming years, and is very pleased with the accelerated rate of progress of online sales and the development of sales in the Sun Belt, all while maximizing the ties and connections with its main partners in the United States, including PoolCorp, a strategic partner of the Company. It is further noted that, due to the Coronavirus crisis, many pool owners in all markets stayed at home and dedicated their resources and time to their home space. As a result, the use of pools, and the need to maintain them, increased significantly. There was also significant market demand for new pools.

The Company believes that awareness increased during this period among householders of the need for and advantages of private pools, and record-breaking demand was seen for inground pools and above ground pools.

The Company also noted that awareness of the need for a robotic pool cleaning solution has increased, and has particularly noticed the intensity of the demand for the Company's brand and robots. These factors, in addition to the good and stable weather, contributed significantly to the momentum and to the high levels of demand in all markets.

2.2 The Company's **order backlog** as of December 31, 2020, which is intended for sale in 2021, amounted to a total of NIS 329.5 million, as compared with an order backlog of NIS 195.9 million on December 31, 2019, an increase of 68.2% relative to last year. The sharp increase was mostly recorded in the segment of robotic cleaners for private pools. This trend of demand is continuing into the first quarter of 2021, and as of the publication date of the report, the order backlog amounts to NIS 364.1 million, as compared with NIS 124.1 million on the corresponding date last year. The Company is preparing to deal with this order backlog to the best of its ability, by streamlining work procedures, such as shift work, and by ensuring the supply chain continuity, and it hopes that these activities will allow it to meet the demand on a Just In Time ("JIT") basis. It is noted that the Company has seen a continuing trend of increasing demand, as part of the flourishing of the private pool segment in all main territories, as well as significant demand at the end of the year, as part of the early buy program for distributors.

The Company's assessment regarding the potential for growth in the various markets, and particularly in the American market, and the sales momentum of the different robot series in the various channels, as well as its assessments regarding the early achievement of its long-term sales and operating profitability targets and meeting the increased demand for its products, constitutes **forward looking information,** as defined in the Securities Law, 5728-1968, which is based, inter alia, on the Company's experience as of the date of this report, its understanding of conditions in the markets where it is engaged, the needs of its

customers, global developments, and its intentions and plans for the future, which may change from time to time, and its attempt to meet the increased demand for its products, and this assessment is uncertain to materialize, and is not under the Company's control. This assessment may not materialize, or may materialize only partially, insofar as new players or products appear in the market, as a result of changes in the preferences of the Company's customers, due to unexpected difficulties associated with its products and the continued development thereof, due to possible difficulties in recruiting workforce and in purchasing the required raw materials, due to the consequences of the Coronavirus outbreak, which at this stage are unpredictable, the resumption of routine activity in markets, and the Company's other risk factors, as specified in section 3.22 of the Description of the Corporation's Business Affairs Report for 2020.

2.3 **Impact of exchange rates in 2020 relative to the corresponding period last year:** In the fourth quarter of 2020, which, as is known, regularly has the lowest scope of activities during the year, and relative to the corresponding quarter last year: The USD exchange rate declined on average by 4.5%; the EUR increased by an average of 2%; and the AUD increased by an average of 1.7%. These exchange rate effects caused a slight decline in sales of NIS 0.3 million, and an increase of NIS 0.4 million in operating profit.
During the one-year period, and relative to last year last year, an average decline of 3.2% was recorded in the EUR exchange rate, as well as an average decline of 1.5% in the AUD exchange rate, and a decline of 2.6% in the USD exchange rate. The effect of changes in the exchange rates of these currencies on sales and on operating profit in 2020, relative to last year, amounted to a decrease of around NIS 29.6 million in sales, and a decrease of NIS 18.3 million in operating profit.

2.4 **Dividend distribution:**

2.4.1.1.1 On March 25, 2020, the Company's Board of Directors announced a final dividend distribution, in cash, for 2019, in the total amount of NIS 28 million, representing NIS 0.2591 per share, payable in two parts: on May 14, 2020 and August 13, 2020. The dividend in the amount of NIS 14 million was paid on May 14, 2020, while the second part was paid on August 13, 2020.

2.4.1.1.2 On August 19, 2020, the Company's Board of Directors announced a dividend distribution, in cash, for 2020, in the total amount of NIS 55 million, representing NIS 0.5083 per share. The dividend was paid on September 23, 2020.

2.4.1.1.3 After the reporting period, on March 24, 2021, the Company's Board of Directors announced a final dividend distribution in cash for 2020, in the total amount of NIS 45 million, and in the amount of NIS 0.4134 per share. The dividend will be paid on April 22, 2021.

2.5 **Change in organizational structure:** In the first quarter of the reporting period, the Company completed an organizational change in which it began the operation of a solutions and technologies division in the Company, intended to allow focusing, strengthening and adjusting the organization's capabilities to support the continuation of the Company's accelerated growth, in accordance with the strategic plan, while maintaining technological leadership and innovation. The division will be led by Mr. Amit Caspi, the Company's CSO. As part of this change, a business division also began

operating in the Company, led by (CRO) Mr. Sharon Goldenberg (the Company's former VP Marketing and Sales), and the managers of the subsidiaries began reporting to him (they previously reported directly to the CEO). Additionally, on February 19, 2020, Ms. Orly Huberman began serving as the Company's CIO. For additional details, see the immediate report dated March 25, 2020 (reference number 2020-01-030021), whose contents are included herein by way of reference, and section 3.8 of the Description of the Corporation's Business Affairs Report for 2020. Additionally, after the reporting date, in March 2021, as part of the Company's patterns of strategic development, Mr. Shay Peretz concluded his tenure as VP Water Technologies Development Division, and will lead the M&A Department as VP, and will also coordinate and lead the creation of the Company's data science (big data) center. As part of the change in organizational structure, the Water Technologies Development Division was transferred to the management of Amit Caspi, the CSO, in the Technologies and Solutions Division, from a comprehensive and professional perspective, such that all of the Company's development entities, the robots' segment and the water technologies segment, will each be managed as a unique technological unit, under a unified and focused development approach.

2.6 **Engagement in an agreement for the acquisition of shares of Bunger & Frese GmbH (hereinafter: "BF GmbH")**: On June 16, 2020, a transaction involving the acquisition of all shares of BF GmbH was closed, in consideration of a total of EUR 13 million. BF GmbH serves as the Company's distributor in the German market, and is engaged in two main operating segments: the sale of robotic pool cleaners (during the last twelve years, produced by the Company) and the sale of a wide variety of pool equipment, including, inter alia, pumps, filters, pool covers, manual pool cleaning tools, water heaters, water cleaning chemicals, etc., all in Germany's two main sale channels: sales to pool builders, and e-commerce sales. The acquisition of BF GmbH is intended to allow the Company to significantly promote the realization of its 2025 strategy in one of its most significant and important markets in Europe, with an estimated total of around 800 thousand pools, of which the Company estimates that only one third are currently cleaned by electric robots, and with products in the premium segment. For additional details, see the immediate report dated June 12, 2020 (reference number 2020-01-053050), whose contents are included herein by way of reference.

2.7 **Allocation of options and sale of shares of the controlling shareholder:**

2.7.1.1.1 On June 23, 2020, the Tel Aviv Stock Exchange approved the listing of the shares which will result from the exercise of 793,000 options for employees and 40,000 options for a service provider, which are convertible into ordinary Company shares with a par value of NIS 0.1 each[11], which the Company's Board of Directors resolved to grant on May 25, 2020, by virtue of the Company's options plan, which was adopted by the Board of Directors further to the Compensation Committee's approval at the end of 2017. The allocation to employees is in accordance with the

[11] In practice, offerees who exercise all of the options will not receive allocation of all of the shares arising therefrom, but rather only shares in an amount which reflects the amount of the monetary benefit associated with the options, as specified in section 11.2 of the outline, and in section 4.2.5 of the private offering report, as defined above.

Company's outline for the offering of securities to employees, dated February 26, 2018 (including the amendment to the outline dated March 15, 2018), and the private offering report dated May 26, and the allocation to the manager in accordance with the private offering report dated May 26, 2020 (reference numbers 2018-01-019252, 2018-01-025342, 2020-01-046417 and 2020-01-046411, respectively, whose contents are included herein by way of reference).

2.7.1.1.2 On August 20, 2020, the Company's controlling shareholder, Kibbutz Yizre'el - Workers Cooperative Association Ltd., sold around 5% of the Company's shares which it owns (around 3% of the Company's shares) in an over-the-counter transaction. As of the reporting date, its stake in the Company is 56.74%. For additional details, see the immediate report dated August 23, 2020 (reference number 2020-01-092202), whose contents are included herein by way of reference.

2.8 **Special general meeting regarding the renewal of the management agreement**: After the reporting date, on November 4, 2021, the general meeting approved the renewal of the Company's engagement with the Company's controlling shareholder in an agreement for the provision of management services and information transfer. For additional details regarding the convention of the meeting, and the resolution which was passed therein to renew the engagement, see the immediate reports dated November 29, 2020 and January 5, 2021 (reference numbers 2020-01-128424 and 2021-01-001438, respectively), whose contents are included herein by way of reference.

2.9 **Effects of the Coronavirus pandemic on the Company**: During the first quarter of 2020, the novel Coronavirus (COVID-19) began spreading all over the world, including in Israel. The pandemic began in the Hubei province of China, and was declared a worldwide pandemic by the World Health Organization in March 2020. In 2020 the global economy and the Israeli economy were forced to deal with the pandemic, which created a health and economic crisis the likes of which the world has never seen. In attempts to contain the spread of the pandemic, various countries imposed on their residents' restrictions on congregating, on movement, self-isolation of patients and of people who have had contact with patients, up to total lockdowns and the closure of businesses. These restrictions led to, inter alia, delays in the production, provision and transportation of raw materials, and difficulties in the distribution and marketing of products.

At the beginning of the crisis, the Company focused on the associated risks, while preparing to secure and stabilize its supply chain, some of which originated from the Far East, while also partially reliant on its own plants and on the plants of other entities, which were subject to the restrictions that were imposed, as stated above, by the various authorities.. However, the Company learned that the crisis presented a significant business opportunity, and worked to make the best of it.

In the latter sense of leveraging business opportunities, the actions taken by authorities all over the world (such as the imposition of restrictions on leaving the home, the imposition of total lockdowns, etc.), including a slower rate of vaccinating the population and a near-total shutdown of the tourism and aviation industries, required residents to

self-isolate in their homes, and to focus on home activities. In the Company's field of activity, this was reflected on the one hand in the closure of public pools (including hotel pools), and on the other hand in increased activity in the backyards of homes, including the operation of private pools, and the construction of new pools. The pandemic also resulted in a phenomenon of lesser use of service companies, which until that date had given routine maintenance and cleaning services for pools, and who were replaced by automatic pool cleaners, along with increased awareness of pool cleanliness.
As a result of the above, and also due to the excellent weather and the prolonged bathing season in the northern hemisphere, a significant increase occurred, as specified extensively in this report below, and particularly in the last two quarters, in the sales of pool products, including pool cleaning robots of the type produced and sold by the Company, and increased demand for the construction of new pools, to the extent that, as of the reporting date, the demand currently exceeds the supply.
The effects of the crisis on the Company's operating segments and financial results were therefore divided into two parts. **In the private pools segment,** the aforementioned increase in the use and construction of private pools, and in the awareness of pool cleanliness in general, and robotic cleaning methods in particular, resulted in an extraordinary increase in the Company's sales, which essentially met, already at the end of this reporting year, the sales target of NIS 1 billion which it had set for 2021. Several fundamental characteristics of the Company came together in order to allow the Company to optimally leverage this business opportunity to increase its sales and to develop its business. These include: 35 years of investment in the Company's infrastructure - including both the production infrastructure, and the sales and marketing infrastructure - with advanced production lines, and with a well-established and well-balanced international presence; As well as the digital arm of e-commerce; The strength of the Company's relationships with its distributors, and their loyalty to the Company; The motivation and strong capabilities of its employees; The Company's strong brands (including Dolphin and "Exceptional Experience"), and the relevance of its products - all allowed leveraging the crisis and the challenge inherent in the changes to the consumption habits of the Company's customers, as described above, and were key to the Company's success during this challenging period.

In the public pool cleaners' segment and in the Poseidon segment (computerized drowning prevention systems), however, and as specified in this report below, the Group suffered a decline in revenue during the past quarter, due to the social distancing restrictions which were imposed in different places around the world. The segment of public pool robots declined by 8.9% during the reporting year relative to 2019, and the longer the crisis continues, as described above, the longer this segment is expected to suffer adverse effects. The limited weight of this segment relative to the Company's overall business prevented negative effects on the Company's overall success during the crisis, particularly in the main segment of private pool cleaners.
However, it is noted that a certain recovery was seen in the fourth quarter, with an increase of 11.5% in sales of public pool robots.

The Company's estimate regarding the effects of the Coronavirus pandemic, including regarding the effects of government decisions on the actions of its suppliers, distributors and customers, as stated above, and on the Company's financial position and operating results, as well as the continuation of Company benefiting from the positive effects of the crisis on the Company's operating results, as described above, constitute **forward looking information,** and as such is uncertain, and may not materialize, in whole or in part, or may materialize differently from the forecast. This information is based, inter alia, on the Company's information, assessments and estimates as of the date of this report, on publications in Israel and outside of Israel, on directives issued by the relevant authorities on this matter until now, and on the actions of its customers in response to the pandemic, which may change from time to time, and which are uncertain to materialize, and are not under the Company's control. This assessment may not materialize, or may materialize only partially, insofar as the spread of the pandemic, and actions taken by the authorities to contain it and/or insofar as the actions of the Company's customers, distributors and suppliers deviate from that described above, or from any currently foreseeable outline, including due to a global recession which could affect the demand for the Company's products, and insofar as it receives additional or more accurate information regarding the development of its business affairs, or due to unexpected difficulties in its products or in the continued development thereof, as well as of the Company's other risk factors, as described in section 3.22 of the Description of the Corporation's Business Affairs Report.

3. Financial position

3.1 The Company's current assets as of December 31, 2020 amounted to a total of NIS 689,862 thousand, constituting 65% of the total balance sheet, as compared with current assets as of December 31, 2019, which amounted to a total of NIS 498,541 thousand and constituted 64% of the total balance sheet.

Changes in balance sheet items are as follows:

A. The total balances of short-term cash and cash equivalents amounted, as of the end of the reporting period, to NIS 244.8 million, as compared with NIS 96.8 million at the end of the corresponding period last year, representing an increase of NIS 148 million. The increase was due to the acceptance of short and long-term credit by the Group's member companies, due to the implications of the Coronavirus pandemic, as well as the increase in the Company's profits, and the initial consolidation of BF GmbH.

B. An increase of NIS 28.4 million (9.5%) in the balance of inventory, which was mostly due to the growth of activity, the shipment of finished products inventory to the subsidiaries in order to prepare for advance sales at the start of the season beginning in January 2021, to increase the availability and flexibility of sales in the first quarter of 2021, and the initial consolidation of BF GmbH, with a balance of inventory of NIS 5.9 million as of December 31, 2020.

C. An increase of NIS 2.6 million in the balance of trade receivables, due to the increase in sales in the fourth quarter of 2020, relative to the fourth quarter of 2019, and due to the initial consolidation of BF GmbH. It is noted that trade receivable days decreased, and amounted to an annual average of 71 days, as compared with 78 days last year.

D. The balance of receivables as of December 31, 2020 amounted to NIS 36.7 million, as compared with NIS 24.5 million as of December 31, 2019. The growth was mostly due to the increase of advance payments to suppliers and in VAT balances receivable, against the decrease in the revaluation of foreign currency transactions.

3.2 Long term investments - Long term deposits and debit balances as of December 31, 2020 amounted to NIS 1.3 million, as compared with NIS 1.6 million as of December 31, 2019. The decrease was mostly attributed to grants receivable in respect of R&D activity, in the subsidiary in France.

3.3 Fixed assets - The balance of net fixed assets as of December 31, 2020 was NIS 109.9 million, as compared with NIS 90.6 million as of December 31, 2019. The increase in fixed assets was primarily due to investments in the Company's production facilities at Dalton at Kibbutz Yizre'el, such as investment in the expansion of operating areas, investments in production lines and investments in machines and equipment, due to the increase of the Company's activities.

3.4 Right-of-use assets - The balance of right-of-use assets as of December 31, 2020 was NIS 96.1 million, as compared with NIS 90.4 million as of December 31, 2019. On January 1, 2019, IFRS 16 entered into effect. As part of its initial adoption, the Company recorded a net asset, which is attributed to the Company's lease agreements, which mostly include buildings and vehicles, against the recording of a liability.

3.5 Intangible assets - The balance of intangible assets, net, as of December 31, 2020, was NIS 142.8 million, as compared with NIS 72 million as of December 31, 2019. The increase in intangible assets was mostly due to the allocation of the PPA in respect of the acquisition of BF GmbH, in the amount of around NIS 42.4 million, which were initially recorded during the reporting period beginning in June 2020, including, inter alia, customer relations and goodwill, as well as an increase in discounted development costs. In 2020, the Company recorded investments in the pool water monitoring and control segment in the amount of around NIS 14.3 million, as well as investments in the robots' segment in the amount of around NIS 13.5 million.

3.6 Deferred tax assets - The balance of deferred tax assets as of December 31, 2020 was around NIS 26.1 million, as compared with NIS 23.8 million as of December 31, 2019. The tax asset was due to timing differences in the Company and the creation of additional deferred taxes in respect of cumulative losses for tax purposes in the French subsidiary, which are expected to be used in the future against taxable income.

3.7 The Company's current liabilities as of December 31, 2020 amounted to a total of NIS 411 million, representing 39% of the total balance sheet, as compared with NIS 278.5 million as of December 31, 2019, representing 36% of the total balance sheet. Significant changes in the current liabilities' items include the following:

A. Increase in short term credit in the amount of NIS 44.3 million, mostly for the Group's working capital requirements, and for balance sheet protection, as well as an increase of current maturities in respect of a deferred liability in the amount of NIS 17.3 million, due to the acquisition of BF GmbH.

B. Increase in trade payables, in the amount of NIS 37.4 million, due to the growth in the levels of activity and inventory during the reporting period.

C. Increase in other payables and credit balances of NIS 27.9 million, mostly due to the increase in liabilities to employees and institutions and the increase in expenses payable, due to the increase in the Company's activity, and on the other hand, the decrease in liabilities to the controlling shareholder.

3.8 The Company's long-term liabilities as of December 31, 2020 amounted to NIS 171.9 million, as compared with NIS 95.1 million as of December 31, 2019. The increase was mostly due to:

A. Long term loans which the Group's member companies took out from a banking corporation, in order to update its mix of loans in order to include more long-term loans, and as part of the Company's preparation for possible scenarios due to the Coronavirus crisis.

B. A deferred liability in the amount of NIS 16.9 million, in respect of the acquisition of BF GmbH.

3.9 Liquidity ratios:

	31/12/2020	**31/12/2019**
Working capital (NIS thousands)	278,836	220,028
Current ratio	1.68	1.79
Quick ratio	0.88	0.72

The Company's working capital increased by 27% relative to December 31, 2019. The decrease of the current ratio due to the relative increase in the item for current liabilities.

4. Operating results in NIS thousands

Presented below is a summary of the statements of income for the years 2018-2020:

Section	2020	2019	2018
Revenues from sales	1,076,880	846,506	748,326
Gross profit	451,348	352,699	319,139
% Gross profit	41.9%	41.7%	42.7%
Operating profit	208,215	145,273	133,189
% Operating profit	19.3%	17.2%	17.8%
Net income	168,448	117,939	106,087
% Net profit	15.6%	13.9%	14.2%

Presented below is an analysis of revenue and gross profit, reported by segments

1. Segmental revenues:	For the year ended December 31, 2020		For the year ended December 31, 2019		% of change	Explanations
	NIS thousands	% of total revenues	NIS thousands	% of total revenues		
Private pool cleaners	911,249	84.6%	694,990	82.1%	31.1%	The increase was due to the increased demand for private pool cleaning robots in all territories, relatively good weather, and the accelerated growth rate in online sales. It is further noted that, due to the Coronavirus crisis, many pool owners in all markets stayed at home, and dedicated resources and time to the home space. The use of pools, and the need to maintain them, increased during the second quarter. There was also significant market demand for new pools.
Public pool cleaners	64,611	6.0%	70,904	8.4%	(-8.9%)	The decrease was due to the Coronavirus crisis, which resulted in a certain closure of the hotel and spa sectors, due to social distancing measures which were imposed in various places around the world. It is noted that the decrease was moderated by the 11.5% increase in the fourth quarter, due to partial recovery in the hotel sector.
Safety products and related pool products	101,020	9.4%	80,612	9.5%	25.3%	The increase in sales was mostly due to the contribution to sales of BF GmbH in the supplementary products segment, and the increase in sales of automatic covers and water treatment products.
Total revenues	**1,076,880**	**100.0%**	**846,506**	**100.0%**	**27.2%**	

2. Segmental results:	**NIS thousands**	**% Gross profit**	**NIS thousands**	**% Gross profit**	**% of change**	
Private pool cleaners	378,098	41.5%	285,185	41.0%	32.6%	Increase of gross profit due to the increase of revenue. The increase in the gross profitability rate was due to the increased sales volume, the increased operational efficiency of workforce costs and the reduction of BOM costs, against the decrease due to currency rate effects.
Public pool cleaners	34,664	53.7%	37,563	53.0%	(-7.7%)	The decrease in profit was due to the decrease in revenue, as stated above, as a result of effects of the Coronavirus crisis on congregating and on the hotel and tourism sectors.
Safety products and related pool products	38,586	38.2%	29,951	37.2%	28.8%	The increase in profit was mostly due to the contribution of the sales of BF GmbH in the related products segment. The increase in gross profitability was mostly due to the automatic covers product.
Gross profit	**451,348**	**41.9%**	**352,699**	**41.7%**	**28.0%**	

Continued explanations regarding the other items in the statement of income (NIS thousands):

Section	For the year ended December 31, 2020	For the year ended December 31, 2019	Percent of change	Main explanations
Research and development expenses	32,436	24,528	32.2%	The increase was mostly due to the continued development of the robot segment and the segment of monitoring, control and treatment of pool water. Development costs in the segment of monitoring, control and treatment of pool water amounted during the reporting period to NIS 10.4 million.
Sales and marketing expenses	121,367	104,526	16.1%	The sales and marketing expenses supported the increase of 27.2% in revenue. The increase was mostly due to the addition of workforce in most of the territories and the growth in outgoing freight costs and digital marketing costs, against the decrease in expenses associated with international travel, conferences and seminars.
General and administrative expenses	89,330	78,372	14.0%	Total increase of NIS 10.9 million. The growth was mostly due to increased costs of information systems, workforce to support the Company's "Maytronics 2025" strategy, and the costs of the transaction involving the acquisition of BF GmbH (in the amount of NIS 1.1 million).
Operating profit	**208,215**	**145,273**	**43.3%**	Increase due to the increase in sales and gross profit, after offsetting the increase in operating expenses.
Finance expenses	13,414	1,127	1,090%	During the reporting period, net finance expenses were recorded due to currency rate effects in the Group and the rise of the interest rate, due to the increase in total credit during the reporting period. Last year revenue was recorded due to the effects of exchange rates in the Group, which was offset by interest expenses in respect of short-term loans, and interest expenses in respect of IFRS 16 (initial adoption in 2019).
Other expenses	2	298	-	-
Profit before income tax	**194,799**	**143,848**	**35.4%**	The increase was due to the increase in operating profit, after offsetting the increase in finance expenses.
Taxes on income	26,351	25,909	1.7%	The increase in tax expenses was due to the increase in taxable profit. The effective tax rate decreased to 13.5%, as compared with 18% last year, mostly due to an update of deferred taxes in respect of cumulative losses in the subsidiary in France, and tax income in respect of previous years, and the change in the mix of profits.
Net profit	**168,448**	**117,939**	**42.8%**	Increase in net profit due to the increase in operating profit, and after offsetting the increase in finance expenses and tax expenses, as stated above.

5. Equity

The Company's equity before minority interests amounted as of December 31, 2020 to NIS 451,492 thousand, which constitute 42% of the balance sheet, as compared with NIS 383,118 thousand, which constituted 49% of the balance sheet last year. The increase in equity was mostly due to the increase in the Company's profits, after offsetting distributed dividends. The decrease in the rate of equity out of the total balance sheet was due to the increase of the Company's liabilities, inter alia, due to the recording of a deferred liability in respect of the acquisition of BF GmbH.

Minority interests - This balance represents the minority interests in MTFR and in MTAU. As of December 31, 2020, the balance amounted to NIS 31,689 thousand, as compared with NIS 20,278 thousand last year. The increase in minority interests was mostly due to the increase in the profits of subsidiaries.

6. Cash flows

Summary cash flows - On December 31, 2020, the balance of cash and cash equivalents amounted to NIS 226,517 thousand, as compared with NIS 78,548 thousand at the end of 2019.

In total, the cash balance increased by NIS 147,969 thousand in 2020, as compared with an increase of NIS 26,347 thousand in 2019.

The changes were due to the following factors:

Cash flows from operating activities - In 2020, cash flows from operating activities arose for the Company in the amount of NIS 245 million, relative to cash flows for the Company in the amount of NIS 144.8 million last year.

The increase in cash from operating activities during the reporting period, relative to the corresponding period last year, was mostly due to the increase in the Company's profit, the increase in trade payables, and the increase in other payables.

Cash flows from investing activities - In 2020, cash in the amount of NIS 78.7 million was used by the Company for investing activities, as compared with NIS 45.1 million last year.

In 2020 the Company invested in the acquisition of BF GmbH, and invested more in the acquisition of fixed assets, and in the acquisition and capitalization of intangible assets.

Cash flows from financing activities - Cash in the amount of NIS 12 million was used for financing activities in 2020, as compared with NIS 68.1 million which was used for financing activities last year. In 2020 the Company took out greater long-term credit to finance its activities, and as part of the Company's preparation for possible scenarios of the Coronavirus crisis. The cash which was used by the Company this year and last year was mostly in respect of a dividend distribution in the amount of NIS 83 million and NIS 72 million, respectively.

B. Exposure to and management of market risks

1.The Company's Market Risks Manager:

The CEO, Mr. Eyal Tryber, and the CFO, Mr. Meni Maymon, CPA, are responsible for the management of market risks in the Company (for details regarding these managers, see Regulation 26A in Chapter D of the periodic reports for 2020).

2. Material market risks to which the Company is exposed:

2.1 **Currency risk**: Changes in the USD, EUR and AUD exchange rates affect the Company's results. 98% of the Company's sales, and 50% of the Company's expenses, are in foreign currency. The Company's exposure is mostly due to the revaluation of the NIS vs. the EUR, the revaluation of the NIS vs. the USD, and the revaluation of the NIS vs. the AUD.
The Company has two types of currency exposures:

Balance sheet exposure - due to the revaluation of assets vs. liabilities in those currencies, and cash flow exposure, which is due to net surplus revenues in the aforementioned currencies.

2.2 **Fair value risk in respect of interest rate changes**: The Company has deposits at fixed interest, and investments in bonds. Changes in market interest rates change the fair value of the deposits, and the value of the bonds.

2.3 **Price risk**: Applies to changes in the prices of the securities which are held in the Company's investment portfolio.

3. The corporation's policy regarding the management of the aforementioned market risks:

The Company's practice is to perform currency hedging transactions, according to the assessments of Company management, in respect of changes in foreign currency rates relative to the NIS. The Company's practice is to estimate the currency exposure (in both cash flow and balance sheet terms) on an ongoing basis, and to hedge a significant part of that exposure, generally for periods of half a year to one year forward.

The hedging measures used by the Company mostly include forward transactions and purchasing of put options. In order to finance the purchasing of put options, the Company's practice is also to sell call options (cylinder strategy).

4. Means of supervision over the market risks management policy and the policy implementation method:

The Board of Directors, in accordance with the balance sheet committee's recommendations, establishes policies from time to time, inter alia, on the subject of market risks and the management thereof, with an emphasis on currency risk, and on the financial investments of reserves. The balance sheet committee also reports to the Board of Directors from time to time regarding the implementation of the policy which was determined by the Board of Directors in that area.

Linkage basis report as of December 31, 2020							
	Linked to the USD	**Linked to the EUR**	**Linked to the AUD**	**Linked to the CPI**	**Unlinked and other**	**Non-financial instrument**	**Total**
	NIS thousands						
Assets							
Cash and cash equivalents	48,165	156,564	13,454	-	8,334	-	226,517
Short term investments	143	-	-	7,427	10,733	-	18,303
Trade receivables, net	17,722	15,401	44,533	-	4,341	-	81,997
Other accounts receivable	698	4,457	1,272	-	24,979	5,343	36,749
Inventory	-	-	-	-		326,296	326,296
Long term deposits and accounts receivable	-	706	534	-	68	-	1,308
Fixed assets, net	-	-	-	-	-	109,878	109,878
Right-of-use assets, net	-	-	-	-	-	96,130	96,130
Intangible assets, net	-	-	-	-	-	142,774	142,774
Deferred taxes	-	-	-	-	-	26,147	26,147
Total assets	**66,728**	**177,128**	**59,793**	**7,427**	**48,455**	**706,568**	**1,066,099**
Liabilities							
Short term credit	36,643	21,499	-	-	74,809	-	132,951
Trade payables	22,991	12,066	5,009	-	90,926	-	130,992
Other accounts payable	21,045	24,402	10,711	-	47,722	9,064	112,944
Lease liability	-	-	-	-	-	98,618	98,618
Deferred liability of acquired subsidiary	-	34,176	-	-	-	-	34,176

Deferred taxes	-	-	-	-	-	3,649	3,649
Employee benefit liabilities, net	-	-	-	-	-	4,555	4,555
Other liabilities	-	5,624	514	-	58,895	-	65,033
Total liabilities	**80,679**	**97,767**	**16,234**	**-**	**272,352**	**115,886**	**582,918**
Net balance sheet balance	**(13,951)**	**79,361**	**43,559**	**7,427**	**(223,897)**	**590,682**	**483,181**

Linkage bases report as of December 31, 2019

	Linked to the USD	**Linked to the EUR**	**Linked to the AUD**	**Linked to the CPI**	**Unlinked and other**	**Non-financial instrument**	**Total**
	NIS thousands						
Assets							
Cash and cash equivalents	23,113	32,632	10,967	-	11,836	-	78,548
Short term investments	163	-	-	7,147	10,908	-	18,218
Trade receivables, net	27,439	15,074	33,925	-	2,932	-	79,370
Other accounts receivable	1,349	4,157	1,410	-	16,100	1,473	24,489
Inventory	-	-	-	-	-	297,916	297,916
Long term deposits and	-	1,086	470	-	62	-	1,618

accounts receivable							
Fixed assets, net	-	-	-	-	-	90,596	90,596
Right-of-use assets, net	-	-	-	-	-	90,436	90,436
Intangible assets, net	-	-	-	-	-	71,995	71,995
Deferred taxes	-	-	-	-	-	23,795	23,795
Total assets	**52,064**	**52,949**	**46,772**	**7,147**	**41,838**	**576,211**	**776,981**
Liabilities							
Short term credit	30,254	6,984	-	-	51,403	-	88,641
Trade payables	18,243	7,053	3,546	-	64,752	-	93,594
Other accounts payable	10,278	19,022	8,139	-	35,639	7,991	81,069
Lease liability	-	-	-	-	-	91,673	91,673
Deferred taxes	-	-	-	-	-	5,981	5,981
Employee benefit liabilities, net	-	-	-	-	-	3,766	3,766
Other liabilities	453	6,532	368	-	1,508	-	8,861

Total liabilities	**59,228**	**39,591**	**12,053**	**-**	**153,302**	**109,411**	**373,585**
Net balance sheet balance	**(7,164)**	**13,358**	**34,719**	**7,147**	**(111,464)**	**466,800**	**403,396**

Derivative financial instruments:

Presented below are details regarding the Company's derivative financial instruments which were not designated as hedging instruments:

As of December 31, 2020:

			Par value in source currency, in thousands		
	Currency	**Maturity / expiration date**	**Long**	**Short**	**Fair value NIS thousands**
Future transactions	EUR/ILS	1-12/2021	81,000	73,750	1,264
	AUD/ILS	1-11/2021		20,000	-1,406
	USD/ILS	2/2021		12,500	1,079

As of December 31, 2019:

			Par value in source currency, in thousands		
	Currency	**Maturity / expiration date**	**Long**	**Short**	**Fair value NIS thousands**
Future transactions	EUR/ILS	1-11/2019	58,000	47,500	3,194
	AUD/ILS	1-6,9-12/2019	2,000	8,150	-150

Sensitivity tests to financial instruments: As of December 31, 2020

The Company performed, as of the balance sheet date, four sensitivity tests to changes in the upper and lower range of 5% and 10% in market factors. The market tests were performed in accordance with the determined model.

1. Table specifying the changes in the fair value of financial instruments which are sensitive to changes in the **USD**:

	Profit (loss) from the changes (NIS thousands)		NIS thousands	Profit (loss) from the changes (NIS thousands)	
	+10% NIS 3.537 to USD 1	**+5%** NIS 3.376 to USD 1	**Fair value** NIS 3.215 to USD 1	**-10%** NIS 2.894 to USD 1	**-5%** NIS 3.054 to USD 1
Cash and cash equivalents	4,817	2,408	48,165	-4,817	-2,408
Short term investments	14	7	143	-14	-7
Trade receivables	1,842	921	18,420	-1,842	-921
Short term credit	-3,664	-1,832	-36,643	3,664	1,832
Trade and other payables	-4,404	-2,202	-44,036	4,404	2,202
Total	**-1,395**	**-698**	**-13,951**	**1,395**	**698**

2. Table specifying the changes in the fair value of financial instruments which are sensitive to changes in the **EUR**:

	Profit (loss) from the changes (NIS thousands)		NIS thousands	Profit (loss) from the changes (NIS thousands)	
	+10% NIS 4.339 to EUR 1	**+5%** NIS 4.141 to EUR 1	**Fair value** NIS 3.944 to EUR 1	**-10%** NIS 3.550 to EUR 1	**-5%** NIS 3.747 to EUR 1
Cash and cash equivalents	15,656	7,828	156,564	-15,656	-7,828
Trade receivables	1,986	993	19,858	-1,986	-993
Short term credit	-2,150	-1,075	-21,499	2,150	1,075
Trade and other payables	-3,647	-1,823	-36,468	3,647	1,823
Long term loan	-502	-251	-5,017	502	251
Total	**11,343**	**5,672**	**113,438**	**-11,343**	**-5,672**

3. Table specifying the changes in the fair value of financial instruments which are sensitive to changes in the **AUD**:

	Profit (loss) from the changes (NIS thousands)		NIS thousands	Profit (loss) from the changes (NIS thousands)	
	+10% NIS 2.732 to AUD 1	**+5%** NIS 2.608 to AUD 1	**Fair value** NIS 2.483 to AUD 1	**-10%** NIS 2.235 to AUD 1	**-5%** NIS 2.359 to AUD 1
Cash and cash equivalents	1,345	673	13,454	-1,345	-673
Trade receivables	4,581	2,290	45,805	-4,581	-2,290
Trade and other payables	-1,572	-786	-15,720	1,572	786
Total	**4,354**	**2,177**	**43,539**	**-4,354**	**-2,177**

4. Table specifying the changes in the fair value of financial instruments which are sensitive to changes in the **Consumer Price Index**:

	Profit from the changes (NIS thousands)		NIS thousands	Loss from the changes (NIS thousands)	
	+10% 110.1 points	**+5%** 105.1 points	**Fair value** 100.1 points	**-10%** 90.1 points	**-5%** 95.1 points
Short term investments	743	371	7,427	-743	-371
Total	**743**	**371**	**7,427**	**-743**	**-371**

C. Corporate Governance Aspects

Disclosure regarding the corporation's internal auditor

The corporation's internal auditor is Mr. Daniel Shapira, C.P.A.

A. An accountant with 28 years of experience in the internal auditing of public companies.
B. The internal auditor is not an employee of the Company, but rather provides it with internal audit services through outsourcing.
C. To the best of the Company's knowledge, the internal auditor meets the conditions set forth in section 146(B) of the Companies Law, 5759-1999, and the conditions set forth in section 8 of the Internal Audit Law, 5752-1992 (the "**Internal Audit Law**").
D. The auditor commenced his tenure in November 2004, and his appointment was approved by the Company's Audit Committee and Board of Directors on November 9, 2004, due to his qualifications and professional experience.
E. The estimated scope of his position is 530 annual hours. This scope reflects, according to the assessment of the Audit Committee, the amount of hours required to implement the audit plan.
F. Professional fees were paid to the internal auditor for 2020 in the amount of NIS 114 thousand. The auditor's professional fees were paid based on the framework of hours which was determined for the audit plan, and the actual implementation thereof, is independent of the audit results, and is in accordance with the conventional rate and market conditions, and therefore, the Board of Directors believes that it is not a factor which could affect his professional judgment.
G. Considerations in the determination of the current and multi-annual audit plans:

   The audit plan for 2020 refers to the Company and its subsidiaries, and was formulated and approved by the Board of Directors' Audit Committee, with the internal auditor's recommendation, and in collaboration with Company management, in a manner whereby most material issues will be evaluated as part of the internal

audit work over time. The internal auditor has the discretion to deviate from the work plan.

H. Professional standards guiding the audit work:

In accordance with the internal auditor's announcement, the audit work is performed in accordance with conventional audit standards for internal auditor work, and professional guidelines and instructions which have been approved and published by the Institute of Internal Auditors in Israel.

I. The internal auditor's superior in the organization is the Company's CEO.

J. In 2020, 8 audits were conducted by the internal auditor. The reports were submitted to the Chairman of the Board, to the CEO and to the Audit Committee during the year, in writing. The reports were discussed in meetings of the Audit Committee which were dedicated to the discussion of the internal audit reports. The meetings included presentation of the internal audit report to the committee members; the internal auditor presented the findings of the audit which was conducted in the Company, and the Company's representatives presented the Company's reference to the report, and corrective actions.

<u>The reports addressed the following subjects:</u>

- 2018 internal audit regarding the implementation of the recommendations in the audit report regarding inventory management in Maytronics Israel. The audit was conducted during the first quarter of 2020, and was presented to the Audit Committee for discussion on August 17, 2020.
- Internal audit regarding interested party transactions in Maytronics Israel. The audit was conducted during the first quarter of 2020, and was presented to the Audit Committee for discussion on August 17, 2020.
- Audit regarding the implementation of the recommendations of the 2017 audit report regarding service and warranty in the subsidiary MTUS. The audit was conducted during the second quarter if 2020, and was presented to the Audit Committee for discussion on August 17, 2020.
- 2017 internal audit regarding the implementation of the recommendations in the audit report regarding the reimbursement of expenses to employees in the subsidiary MTUS. The audit was conducted during the second quarter of 2020, and was presented to the Audit Committee for discussion on August 17, 2020.
- Internal audit regarding transportation and logistics costs in Maytronics Israel. The audit was conducted during the third quarter of 2020, and was presented to the Audit Committee for discussion on November 23, 2020.
- Internal audit regarding transportation and logistics costs in the subsidiary MTUS. The audit was conducted during the third quarter of 2020, and was presented to the Audit Committee for discussion on January 26, 2021.
- Internal audit regarding purchasing and supplier payment policies in the subsidiary MTUS. The audit was conducted during the fourth quarter of 2020, and was presented to the Audit Committee for discussion on January 26, 2021.
- Internal audit regarding the policy and implementation in respect of the provision of discounts and rebates to customers in the subsidiary MTUS. The audit was conducted during the fourth quarter of 2020, and will be presented to the Audit Committee for discussion in the first half of 2021.

K. The scope, characteristics and continuity of the internal auditor's activities and work plan:

   The Board of Directors believes that the scope, characteristics and continuity of the internal auditor's activities and work plan are reasonable, and are adequate in order to achieve the Company's internal audit goals. The scope of the audit will be evaluated each year by the internal auditor, in collaboration with the Audit Committee and Company management.

L. The internal auditor has continuous and direct access to any information sought by him, including financial data, as specified in section 9 of the Internal Audit Law, 5752-1992, including in connection with an audit which he conducted, as stated above, in respect of the Company's subsidiaries.

Disclosure regarding the auditor's professional fees

The Company's accountant is Kost Forer Gabbay and Kasierer accountancy firm.

The auditor's professional fees during the years 2020 and 2019 in respect of audit services, audit-related services and tax services, amounted to a total of NIS 550 thousand per year. Total hours invested during the years 2020 and 2019 in respect of these services amounted to around 3,011 hours and 3,100 hours, respectively.

Additionally, during the years 2020 and 2019 the Company paid a total of NIS 276 thousand and NIS 240 thousand, respectively, in respect of consulting services on various issues including tax advice, investment center, and more. In respect of these services, a total of 686 hours were invested in 2020, and 730 hours in 2019.

The professional fees were determined between the Company and the auditors, in accordance with the required scope of work, and in respect of 2019, were reported in the shareholders' meeting (and the fees for 2020 will be reported in the next annual general meeting).

Directors with accounting and financial expertise

In accordance with the provisions of the Securities Law, 5728-1968, and the provisions of the Companies Law, 5759-1999, and regulations enacted by virtue thereof, the Company is required to determine the appropriate minimum number of directors with accounting and financial expertise.

The Company's Board of Directors decided, in consideration of the scope of the Company's activities, its size and its operating segment, that the appropriate minimum number of directors with accounting and financial expertise will be at least two directors.

As of the date of this report, 4 directors have accounting and financial expertise:

Mr. Dan Laluz, Mr. Shlomo Liran, Mr. Ariel Brin-Dolinko and Ms. Roni Meninger. For details regarding their relevant education and experience, see section 13 in Part D (additional details) of this periodic report.

Independent directors

As of the date of this report, the Company has not adopted, in its articles of association, a provision regarding the minimum number of independent directors (as this term is defined in the Companies Law, 5759-1999), who will serve, from time to time, on the Company's Board of Directors.

It is noted that, as of the date of this report, one independent director serves on the Company's Board of Directors - Mr. Dan Laluz, as specified in Regulation 26(A) in Part D of this periodic report.

Donations

The Company's policy is to donate to organizations and associations which aim to work for the community, to promote health issues, and to support population groups in need. In 2020, the Company donated NIS 241 thousand.

Critical accounting estimates

In the preparation of the financial statements, Company management is required to apply judgment and to use estimates, approximations and assumptions, which affect the implementation of the accounting policy. For additional details regarding these assumptions and estimates, see Note 3 to the financial statements.

		March 24, 2021
Jonatan Bassi Chairman of the Board	Eyal Tryber CEO	Approval Date of the Board of Directors' Report

8.

Maytronics Ltd.

Consolidated Financial Statements

As of December 31, 2020

Maytronics Ltd.

Consolidated Financial Statements as of December 31, 2020

Table of Contents

	Page
Independent Auditors' Report - Internal Control over Financial Reporting	3
Independent Auditors' Report	4
Consolidated Statements of Financial Position	5-6
Consolidated Statements of Profit and Loss and Other Comprehensive Income	7-8
Consolidated Statements of Changes in Equity	9-11
Consolidated Statements of Cash Flows	12-14
Notes to the Consolidated Financial Statements	15-86

Kost Forer Gabbay and Kasierer
2 Palyam Ave., Brosh Building,
Haifa 3309502
Tel: 972-4-8654000
Fax: +972-3-5633433
ey.com

Building a better working world

Independent Auditors' Report to the Shareholders of Maytronics Ltd.

Regarding the Audit of Components of Internal Control over Financial Reporting

In Accordance with Section 9B(C) of the Securities Regulations

(Periodic and Immediate Reports), 5730-1970

We have audited internal controls over financial reporting of Maytronics Ltd. and its subsidiaries (hereinafter, jointly: the "Company") as of December 31, 2020. These controls were determined as explained in the following paragraph. The Company's board of directors and management are responsible for implementing effective internal control over financial reporting, and for evaluating the effectiveness of internals control over financial reporting, as included in the periodic report as of the foregoing date. Our responsibility is to express an opinion regarding the Company's internal control over financial reporting, based on our audit.

The internal controls over financial reporting which we audited were determined in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel, "Audit of Internal Controls over Financial Reporting" (hereinafter: "Audit Standard (Israel) 911"). These controls include: (1) Entity-level controls, including controls over the process of preparing and finalizing financial reports, and general controls over information systems; (2) Controls over revenue processes; (3) Controls over inventory pricing processes; (4) Controls over inventory entry and exit processes (each of the above shall hereinafter be referred to as: the "Audited Controls").

We conducted our audit in accordance with Audit Standard (Israel) 911. In accordance with this standard, we are required to plan and conduct the audit in order to identify the audited controls and to obtain a reasonable measure of assurance about whether these controls have been implemented, in all material respects. Our audit included reaching an understanding of internal control over financial reporting, identifying the audited controls, assessing the risk of the existence of any material weakness in the audited controls, and evaluating and assessing the effectiveness of the planning and operation of those controls, based on the estimated risk. Our audit of those controls also included the performance of other policies which we considered necessary, in light of the circumstances. Our audit only addressed the audited controls, as opposed to an internal audit of all material processes in connection with financial reporting, and our opinion therefore applies only to the addressed. Our audit also did not address the bidirectional effects between the audited controls and the unaudited controls, and our opinion therefore does not take into account possible effects of this kind. We believe that our audit provides a reasonable basis for our opinion in the context described above.

Due to inherent restrictions, internal control over financial reporting in general, and of particular controls in particular, may not prevent or discover misrepresentation. Additionally, reaching conclusions regarding the future, based on any current evaluation of effectiveness, is exposed to the risk that he controls will become inadequate, due to changes in circumstances, or that the extent of compliance with policies or procedures will change for the worse.

In our opinion, the Company effectively implemented, in all material respects, the audited controls as of December 31, 2020.

We have also audited, in accordance with generally accepted auditing standards in Israel, the Company's consolidated financial statements as of December 31, 2020 and 2019, and for each of the three years in the period ended December 31, 2020, and our report, dated March 24, 2021, includes an unqualified opinion regarding those financial statements.

Haifa,
March 24, 2021

Kost Forer Gabbay and Kasierer
Certified Public Accountants

Kost Forer Gabbay and Kasierer
2 Palyam Ave., Brosh Building,
Haifa 3309502
Tel: 972-4-8654000
Fax: +972-3-5633433
ey.com

Building a better working world

Independent Auditors' Report

To the Shareholders of Maytronics Ltd.

We have audited the attached consolidated statements of financial information of Maytronics Ltd. (hereinafter: the "Company") as of December 31, 2020 and 2019, as well as the consolidated statements of profit and loss and other comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2020. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We have not audited the financial statements of consolidated companies, whose assets as included in the consolidation constitute 20% and 22% of total consolidated assets as of December 31, 2020 and 2019, respectively, and whose income as included in the consolidation constitute 43%, 39% and 35% of total consolidated income for the years ended December 31, 2020, 2019 and 2018, respectively.
The financial statements of those companies were audited by other auditors, whose reports were furnished to us, and our opinion, insofar as it pertains to the amounts which were included in respect of those companies, is based on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards set forth in the Auditors' Regulations (Auditor's Mode of Performance), 1973. Pursuant to these standards, we are required to plan and conduct the audit with the aim of obtaining a reasonable measure of assurance regarding whether the financial statements are free of any material misrepresentation. Conducting an audit includes testing, on a sample basis, the evidence provided to support the amounts and information presented in the financial statements. An audit also includes conducting an evaluation of the accounting principles used, and of the significant estimates made by the Company's Board of Directors and management, as well as an evaluation of the overall adequacy of presentation in the financial statements. We believe that our audit, and the reports of the other auditors, provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the aforementioned consolidated financial statements adequately reflect, in all material respects, the financial position of the Company and its consolidated companies as of December 31, 2020 and 2019, as well as their operating results, changes in equity and cash flows for each of the three years in the period ended December 31, 2020, in accordance with International Financial Reporting Standards (IFRS), and the provisions of the Securities Regulations (Annual Financial Statements), 5770-2010.

We have also audited, in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel, "Audit of Internal Controls over Financial Reporting", the Company's internal controls over financial reporting as of December 31, 2020, and our report dated March 24, 2021 includes an unqualified opinion regarding the effective existence of those controls.

Haifa, Kost Forer Gabbay & Kasierer

March 24, 2021 Certified Public Accountants

Consolidated Statements of Financial Position

	Note	As of December 31, 2020	2019
		NIS thousands	
Current assets			
Cash and cash equivalents	6	226,517	78,548
Short-term investments	7	18,303	18,218
Trade receivables, net	8	81,997	79,370
Other accounts receivable	9	36,749	24,489
Inventory	10	326,296	297,916
		689,862	498,541
Non-current assets			
Long-term receivables		1,194	1,509
Long-term deposits	11	114	109
Fixed assets, net	13	109,878	90,596
Right-of-use assets, net	14	96,130	90,436
Intangible assets, net	15	142,774	71,995
Deferred taxes, net	21D	26,147	23,795
		376,237	278,440
		1,066,099	776,981

The accompanying notes are an integral part of the consolidated financial statements.

Maytronics Ltd.

Consolidated Statements of Financial Position

	Note	As of December 31, 2020	2019
		NIS thousands	
Current liabilities			
Credit from banks	16	132,951	88,641
Current maturities of lease liabilities	14	16,840	15,209
Current maturities of deferred liability of acquired subsidiary	5	17,299	-
Trade payables	17	130,992	93,594
Income taxes payable	21	9,130	6,626
Other accounts payable	18	91,984	64,050
Provisions	26	11,830	10,393
		411,026	278,513
Non-current liabilities			
Loans from banks and from others	19	58,591	6,465
Lease liabilities	14	81,778	76,464
Deferred liability of acquired subsidiary	5	16,877	-
Employee benefit liabilites, net	20	4,555	3,766
Other liabilities	12, 23	6,442	2,396
Deferred taxes	21D	3,649	5,981
		171,892	95,072
Equity attributable to equity holders of the company	24		
Share capital		11,116	11,052
Share premium		108,007	102,891
Treasury shares		(500)	(500)
Retained earnings		357,963	286,683
Capital reserve from share-based payment transactions		8,440	9,206
Capital reserve from transactions with controlling shareholders		164	164
Capital reserve from remeasurement of defined benefit plans		(1,981)	(1,537)
Revaluation surplus		2,147	2,147
Capital reserve from transactions with non-controlling interests		(6,895)	(6,895)
Adjustments arising from the translation of financial statements of foreign operations		(26,969)	(20,093)
		451,492	383,118
Non-controlling interests		31,689	20,278
Total equity		483,181	403,396
		1,066,099	776,981

The accompanying notes are an integral part of the consolidated financial statements.

March 24, 2021			
Approval date of the financial statements	Jonatan Bashi Chairman	Eyal Tryber CEO	Meni Maymon CFO

Maytronics Ltd.

Consolidated Statements of Profit and Loss and Other Comprehensive Income

	Note	For the year ended December 31, 2020	2019	2018
		NIS thousands		
Revenues from sales	28A	1,076,880	846,506	748,326
Cost of sales	28B	625,532	493,807	429,187
Gross profit		451,348	352,699	319,139
Research and development expenses	28C	32,436	24,528	22,451
Sales and marketing expenses	28D	121,367	104,526	92,947
General and administrative expenses	28E	89,330	78,372	70,552
Operating income		208,215	145,273	133,189
Other income (expenses), net		(2)	(298)	78
Finance income	28F	467	18,318	3,233
Finance expenses	28G	(13,881)	(19,445)	(9,576)
Income before taxes on income		194,799	143,848	126,924
Taxes on income	21	26,351	25,909	20,837
Net income		168,448	117,939	106,087
Total other comprehensive income (loss):				
Amounts that will be reclassified to profit or loss upon the fulfillment of specific conditions:				
Adjustments arising from the translation of financial statements of foreign operations		(6,763)	(12,567)	4,408
Amounts that will not subsequently be reclassified subsequently to profit or loss:				
Remeasurement gain (loss) from defined benefit plans		(444)	(1,295)	206
Total other comprehensive income (loss)		(7,207)	(13,862)	4,614
Total comprehensive income		161,241	104,077	110,701
Net income attributable to:				
Equity holders of the Company		154,280	111,212	99,524
Non-controlling interests		14,168	6,727	6,563
		168,448	117,939	106,087
Total comprehensive income attributable to:				
Equity holders of the Company		146,960	98,896	104,451
Non-controlling interests		14,281	5,181	6,250
		161,241	104,077	110,701

The accompanying notes are an integral part of the consolidated financial statements.

Maytronics Ltd.

Consolidated Statements of Profit and Loss and Other Comprehensive Income

	Note	For the year ended December 31, 2020	2019	2018
		NIS		
Net earnings per share (basic and diluted) attributable to equity holders of the Company (in NIS)	29			
Basic net earnings per share		1.43	1.03	0.92
Diluted net earnings per share		1.41	1.03	0.92

The accompanying notes are an integral part of the consolidated financial statements.

Maytronics Ltd.

Consolidated Statements of Changes in Equity

	Attributable to Equity holders of the Company												
	Share capital	Share premium	Treasury shares	Retained earnings	Capital reserve from share-based payment transactions	Capital reserve from transactions with controlling shareholders	Adjustments arising from translation of financial statements of foreign operations	Capital reserve from remeasurement of defined benefit plans	Revaluation surplus	Capital reserve from transactions with non-controlling interests	Total	Non-controlling interests	Total equity
	NIS thousands												
Balance as of January 1, 2020	11,052	102,891	(500)	286,683	9,206	164	(20,093)	(1,537)	2,147	(6,895)	383,118	20,278	403,396
Net income	-	-	-	154,280	-	-	-	-	-	-	154,280	14,168	168,448
Total other comprehensive income (loss) - adjustments arising from translation of financial statements of foreign operations	-	-	-	-	-	-	(6,876)	-	-	-	(6,876)	113	(6,763)
Loss from remeasurement of defined benefit plans	-	-	-	-	-	-	-	(444)	-	-	(444)	-	(444)
Total other comprehensive income (loss)	-	-	-	-	-	-	(6,876)	(444)	-	-	(7,320)	113	(7,207)
Total comprehensive income (loss)	-	-	-	154,280	-	-	(6,876)	(444)	-	-	146,960	14,281	161,241
Exercise of share options	64	5,116	-	-	(5,116)	-	-	-	-	-	64	-	64
Dividend paid	-	-	-	(83,000)	-	-	-	-	-	-	(83,000)	-	(83,000)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(2,870)	(2,870)
Cost of share-based payment	-	-	-	-	4,350	-	-	-	-	-	4,350	-	4,350
Balance as of December 31, 2020	11,116	108,007	(500)	357,963	8,440	164	(26,969)	(1,981)	2,147	(6,895)	451,492	31,689	483,181

The accompanying notes are an integral part of the consolidated financial statements.

Maytronics Ltd.

Consolidated Statements of Changes in Equity

	Attributable to Equity holders of the company											
	Share capital	Share premium	Treasury shares	Retained earnings	Capital reserve from share-based payment transactions	Capital reserve from transactions with controlling shareholders	Adjustments arising from translation of financial statements of foreign operations	Capital reserve from remeasurement of defined benefit plans	Revaluation surplus	Capital reserve from transactions with non-controlling interests	Total	Non-controlling interests	Total equity
	NIS thousands												
Balance as of January 1, 2019	11,052	102,891	(500)	247,471	4,591	164	(9,072)	(242)	2,147	(6,895)	351,607	17,012	368,619
Net income	-	-	-	111,212	-	-	-	-	-	-	111,212	6,727	117,939
Total other comprehensive loss - adjustments arising from translation of financial statements of foreign operations	-	-	-	-	-	-	(11,021)	-	-	-	(11,021)	(1,546)	(12,567)
Loss from remeasurement of defined benefit plans	-	-	-	-	-	-	-	(1,295)	-	-	(1,295)	-	(1,295)
Total other comprehensive loss	-	-	-	-	-	-	(11,021)	(1,295)	-	-	(12,316)	(1,546)	(13,862)
Total comprehensive income (loss)	-	-	-	111,212	-	-	(11,021)	(1,295)	-	-	98,896	5,181	104,077
Dividend paid	-	-	-	(72,000)	-	-	-	-	-	-	(72,000)	-	(72,000)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(1,915)	(1,915)
Cost of share-based payment	-	-	-	-	4,615	-	-	-	-	-	4,615	-	4,615
Balance as of December 31, 2019	11,052	102,891	(500)	286,683	9,206	164	(20,093)	(1,537)	2,147	(6,895)	383,118	20,278	403,396

The accompanying notes are an integral part of the consolidated financial statements.

Maytronics Ltd.

Consolidated Statements of Changes in Equity

	Attributable to Equity holders of the Company												
	Share capital	Share premium	Treasury shares	Retained earnings	Capital reserve from share-based payment transactions	Capital eeserve from transactions with controlling shareholders	Adjustments arising from translation of financial statements of foreign operations	Capital reserve from remeasurement of defined benefit plans	Revaluation surplus	Capital reserve from transactions with non-controlling interests	Total	Non-controlling interests	Total equity
	NIS thousands												
Balance as of January 1, 2018	11,052	102,891	(500)	210,947	-	164	(13,728)	(448)	2,147	(5,997)	306,528	10,372	316,900
Net income	-	-	-	99,524	-	-	-	-	-	-	99,524	6,563	106,087
Other comprehensive income (loss) - adjustments arising from translation of financial statements of foreign operations	-	-	-	-	-	-	4,721	-	-	-	4,721	(313)	4,408
Gain on remeasurement of defined benefit plans	-	-	-	-	-	-	-	206	-	-	206	-	206
Total other comprehensive income (loss)	-	-	-	-	-	-	4,721	206	-	-	4,927	(313)	4,614
Total comprehensive income	-	-	-	99,524	-	-	4,721	206	-	-	104,451	6,250	110,701
Dividend paid	-	-	-	(63,000)	-	-	-	-	-	-	(63,000)	-	(63,000)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(1,757)	(1,757)
Equity issue of subsidiary	-	-	-	-	-	-	(65)	-	-	(898)	(963)	2,147	1,184
Cost of share-based payment	-	-	-	-	4,591	-	-	-	-	-	4,591	-	4,591
Balance as of December 31, 2018	11,052	102,891	(500)	247,471	4,591	164	(9,072)	(242)	2,147	(6,895)	351,607	17,012	368,619

The accompanying notes are an integral part of the consolidated financial statements.

Maytronics Ltd.

Consolidated Statements of Cash Flows

	For the year ended December 31,		
	2020	2019	2018
	NIS thousands		
Cash flow from operating activities			
Net income	168,448	117,939	106,087
Adjustments to reconcile net income to net cash provided by operating activities:			
Adjustments to profit and loss items:			
Taxes on income	35,234	19,640	18,745
Deferred taxes, net	(8,839)	2,519	(1,362)
Finance expenses, net	5,985	5,193	1,642
Depreciation and amortization	46,790	40,577	20,987
Cost of share-based payment	4,350	4,615	4,591
Revaluation of options to kibbutz members	1,501	1,047	461
Increase in employee benefits liabilities, net	277	275	236
Interest accrued on long term deposit and exchange differences in respect of investments	(308)	353	(43)
Capital gains (loss) from the sale of fixed assets, net	(41)	(40)	225
Revaluation of securities measured at fair value through profit or loss, net	302	(845)	635
Revaluation of derivatives, net	2,107	(4,148)	(452)
Exchange differences from cash and cash equivalents	1,127	1,131	(917)
	88,485	70,317	44,748
Changes in assets and liabilities items:			
Decrease (increase) in trade receivables, net	1,733	(13,666)	(15,171)
Decrease (increase) in other accounts receivable (including long term)	(12,935)	11,238	(4,320)
Increase in inventory	(28,452)	(29,241)	(42,977)
Increase (decrease) in trade payables	36,186	(1,061)	10,527
Increase in other accounts payable, provisions and taxes payable	30,825	11,565	5,200
Increase in other liabilities	1,920	2,545	381
	29,277	(18,620)	(46,360)
Cash which was paid and received during the year in respect of:			
Interest and dividend received	454	515	484
Interest paid	(6,439)	(5,708)	(2,126)
Taxes paid	(35,234)	(19,640)	(18,745)
	(41,219)	(24,833)	(20,387)
Net cash provided by operating activities	244,991	144,803	84,088

The accompanying notes are an integral part of the consolidated financial statements.

	For the year ended December 31,		
	2020	2019	2018
	NIS thousands		
Cash flows from investing activities			
Purchase and capitalization of intangible assets	(33,857)	(22,256)	(22,563)
Purchase of fixed assets	(35,245)	(22,992)	(33,175)
Proceeds from sale of fixed assets	179	182	147
Acquisition of initially consolidated subsidiary (B)	2,411	-	-
Repayment of deferred liability of acquired subsidiary	(11,821)	-	-
Receipt of investments grants	-	489	1,337
Purchase of securities measured at fair value through profit or loss, net	(387)	(514)	(110)
Net cash used in investing activities	(78,720)	(45,091)	(54,364)
Cash flows from financing activities			
Proceeds from exercise of options	64	-	-
Receipt of short-term credit, net	25,644	26,312	33,986
Receipt of long term loan	80,000	-	8,473
Repayment of long term loan	(15,031)	(5,722)	(2,199)
Dividend paid to shareholders of the Company	(83,000)	(72,000)	(63,000)
Dividend paid to non-controlling interests	(2,870)	(1,915)	(1,757)
Issuance of shares to non-controlling interests	-	-	1,184
Repayment of lease liabilities	(16,830)	(14,753)	-
Net cash used in financing activities	(12,023)	(68,078)	(23,313)
Exchange differences on balances of cash and cash equivalents	(1,127)	(1,131)	917
Translation differences from cash balances of foreign operations	(5,152)	(4,156)	1,134
Increase in cash and cash equivalents	147,969	26,347	8,462
Cash and cash equivalents at beginning of year	78,548	52,201	43,739
Cash and cash equivalents at end of year	226,517	78,548	52,201

		For the year ended December 31,		
		2020	2019	2018
		NIS thousands		
(A)	Significant non-cash transactions			
	Purchase of fixed assets intangible assets on credit	3,723	2,056	2,173
	Recognition of right-of-use asset against lease liability	23,913	7,054	-
	Acquisition of shares of consolidated company	34,176	-	-

The accompanying notes are an integral part of the consolidated financial statements.

		For the year ended December 31,		
		2020	2019	2018
		NIS thousands		
(B)	Acquisition of initially consolidated subsidiary			
	Working capital (excluding cash and cash equivalents)	(5,491)	-	-
	Long term accounts receivable	(101)	-	-
	Fixed assets	(233)	-	-
	Intangible assets	(15,492)	-	-
	Goodwill	(28,919)	-	-
	Loans from others	3,883	-	-
	Deferred taxes	4,054	-	-
	Deferred liability	44,710	-	-
		2,411	-	-

The accompanying notes are an integral part of the consolidated financial statements.

Note 1 - General

A. Maytronics Ltd. and its investee companies are engaged in the development, manufacturing and marketing of private and public pool cleaning robots, private pool alarms, systems to prevent drowning in private and public pools, and covers for private swimming pools.

B. On July 2, 2007, the Company formed Maytronics US Inc. in the United States (hereinafter: "MTUS" or the "Consolidated Company in the US"). The consolidated company markets the Company's products in the United States, and provides service for private and public pool robots.

C. In early 2009 the Company acquired the control of Mg International SA (hereinafter: "MTFR" or the "Consolidated Company in France"), a French company whose shares are listed on the Alternext stock exchange in Europe. MTFR markets the Company's products, manufactures pool covers, and provides service for all of its products, including private and public pool robots, mostly for the French market. As of December 31, 2020, the Company holds 73% of MTFR's issued and paid-up capital, and 82.45% of its voting rights.

D. In 2011 the Company formed Maytronics Australia Pty Ltd (hereinafter: "MTAU" or the "Consolidated Company in Australia"), jointly with executives. MTAU markets the Company's products mostly in Australia and New Zealand, and provides service for private and public pool robots. As of December 31, 2020, the Company holds 61.2% of MTAU's issued and paid-up capital.

E. In June 2020, the Company acquired all of the shares of Bunger & Frese GmbH (hereinafter: "BF" or the "Consolidated Company in Germany"). BF GmbH is a distributor for the Company in the German market, which specializes in sales to pool builders and in e-commerce sales, and is engaged in two main operating segments: sales of robotic pool cleaners and sales of a wide variety of pool equipment.

Note 1 - General (Cont.)

F. Effects of the Coronavirus crisis

In March 2020, the Word Health Organization declared the outbreak of the novel Coronavirus (COVID-19), which first broke out in China, as a worldwide pandemic. Various authorities around the world began implementing measures to contain the spread of the virus, including, inter alia, restrictions on the movement of people. At the beginning of the crisis, the Company focused on the associated risks, while preparing to secure and stabilize its supply chain (such as delays in the production, provision and transportation of raw materials, and difficulties in product distribution and marketing), while preparing to secure and stabilize its supply chain – activities in which the Company is still engaged as of the reporting date. The Company maintains a high level of awareness of the possible risks, monitors the developments, publications and instructions of various government entities in Israel and outside of Israel, and is preparing for various scenarios. As part of the above, the Company is preparing for the activation of its production lines, in order to ensure their continuous operation, and it maintains continuous contact with its subsidiaries and with its foreign distributors, and is guardedly managing its cash flows.

G. Definitions

In these financial statements:

The Company	-	Maytronics Ltd.
The Group	-	Maytronics Ltd. and its investee companies.
Consolidated Companies	-	Companies which are under the Company's control (as defined in IFRS 10), and whose reports are consolidated with the Company's reports.
Controlling Shareholders and Interested Parties	-	As defined in the Securities Regulations (Annual Financial Statements), 5770-2010.
Related Parties	-	As defined in IAS 24.

H. The Group's activities are characterized by seasonality. Most of the Group's sales and profits arise during the first two quarters of the year.

Note 2 - Significant Accounting Policies

The accounting policy specified below was applied in the financial statements consistently, throughout all presented periods, unless specified otherwise.

A. Presentation basis of the financial statements

The financial statements were prepared in accordance with International Financial Reporting Standards (IFRS).
The financial statements were also prepared in accordance with the provisions of the Securities Regulations (Annual Financial Statements), 5770-2010.

The Company's financial statements were prepared on a cost basis, except for financial assets and liabilities which are presented at fair value through the statement of income.

The Company chose to present components of profit or loss according to the function of expense method.

B. Consolidated financial statements

The consolidated financial statements include the reports of companies over which the Company has control (subsidiaries). Control exists when the Company has power over the investee entity, exposure or rights to variable returns due to its involvement in the investee entity, and the ability to use its power to influence the amount of returns which will arise from the investee entity. The evaluation of control includes taking into account the effect of potential voting rights only if they are real. Financial statements are consolidated from the date when control is gained until the date when control is lost.

The financial statements of the Company and its subsidiaries are prepared for identical dates and periods. The accounting policy in the subsidiaries' financial statements was applied consistently and uniformly relative to the policy which was applied in the Company's financial statements. Material intercompany balances and transactions, and profit and loss due to transactions between the Company and its subsidiaries, were canceled out, in their entirety, in the consolidated financial statements.

Non-controlling interests in respect of subsidiaries represent the equity of the subsidiaries which is not attributable, directly or indirectly, to the parent company. Non-controlling interests are presented separately under the Company's equity. Profit or loss and any component of other comprehensive income are attributed to the Company and to non-controlling interests. Losses are attributed to non-controlling interests even if this results in a negative balance of non-controlling interests in the consolidated statement of financial position.
Changes to the stake in a subsidiary which do not lead to loss of control are recognized as a change in equity by adjusting the balance of non-controlling interests against the Company's shareholders' equity, less/plus the consideration which was paid or received.

Note 2 - Significant Accounting Policies (Cont.)

C. Business combinations

Business combinations are accounted for using the acquisition method. The acquisition cost is measured according to the fair value of the consideration which was transferred on the acquisition date, plus non-controlling interests in the acquired entity. In any business combination, the Company chooses whether to measure the non-controlling interests in the acquired entity according to their fair value on the acquisition date, or according to their proportional part in the fair value of the acquired entity's net identifiable assets.

Direct acquisition costs are carried to the statement of income upon their materialization.
Contingent consideration is recognized at fair value on the acquisition date. Contingent consideration is classified as a financial asset or liability in accordance with IFRS 9. Subsequent changes in the fair value of the contingent consideration are recognized in the statement of income or in the statement of other comprehensive income.

Goodwill is initially measured at cost, which is the difference between the purchase consideration and the non-controlling interests, and the net amount of identifiable assets which were acquired and of the liabilities which were accepted. If the resulting amount of goodwill is negative, the buyer recognizes the arisen profit on the acquisition date.

D. Functional currency, presentation currency and foreign currency

1. Functional currency and presentation currency

The presentation currency of the financial statements is the NIS.

The Group determines the functional currency for each member company in the Group, and uses that currency to measure each company's financial position and operating results separately.

The Company's functional currency is the NIS.

The functional currency of the subsidiary in the United States is the USD. The functional currency of the subsidiary in France is the EUR. The functional currency of the subsidiary in Australia is the AUD. The functional currency of the subsidiary in Germany is the EUR.

Note 2 - Significant Accounting Policies (Cont.)

D. Functional currency, presentation currency and foreign currency (Cont.)

1. Functional currency and presentation currency (Cont.)

Assets and liabilities of an investee which is a foreign operation, including excess costs which have arisen, are translated according to the closing price on each reporting date. Items in the statement of income are translated according to the average exchange rates in all presented periods. Translation differences which have arisen are carried to other comprehensive income (loss).

Upon realization of a foreign operation, or upon partial realization of a foreign operation, which involves loss of control, the accumulated profit (loss) attributable to that operation, which was recognized under other comprehensive income, is carried to the statement of income. Upon partial realization of a foreign operation while retaining control of the consolidated company, a proportional part of the amount which was recognized under other comprehensive income is re-attributed to non-controlling interests.

2. Transactions, assets and liabilities in foreign currency

Transactions denominated in foreign currency are recorded upon initial recognition according to the exchange rate on the transaction date. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated on each reporting date to the functional currency, according to the exchange rate as of that date. Exchange differences, excluding those which are capitalized to qualifying assets or carried to equity in hedging transactions, are carried to the statement of income. Non-monetary assets and liabilities denominated in foreign currency which are presented at cost are translated according to the exchange rate as of the trade date. Non-monetary assets and liabilities denominated in foreign currency which are presented at fair value are translated to the functional currency according to the exchange rate as of the date when fair value was determined.

3. CPI-linked monetary items

Monetary assets and liabilities which are linked, in accordance with their terms, to changes in the consumer price index in Israel (hereinafter: the "CPI"), are adjusted according to the relevant CPI, on each reporting date, in accordance with the terms of the agreement.

E. Cash equivalents

Cash equivalents are considered highly liquid investments, including short term unrestricted deposits in banking corporations, whose original period does not exceed three months after the date of the investment, or which exceeds three months but is immediately withdrawable without a penalty, and which constitute a part of the Group's cash management.

Note 2 - Significant Accounting Policies (Cont.)

F. Short term investments

Short term investments include investments in marketable securities which are presented at fair value. Deposits are presented according to their deposit terms.

G. Inventory

Inventory is measured according to cost or net realizable value, whichever is lower. The cost of inventory includes expenses required to purchase the inventory and bring it to its current location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to completion and costs required to realize the sale. The Company periodically evaluates the condition of inventory, mostly based on the current and future use of the material and based on its age, and makes provisions for slow and dead inventory accordingly.

The cost of inventory is determined as follows:

Raw and auxiliary materials	- According to the weighted average method.
Goods in process and finished goods	- Based on the average cost, including materials, labor and other direct and indirect production expenses.

H. Revenue recognition

Revenue from contracts with customers is recognized in the statement of income when the control of the asset or of the service has been delivered to the customer. The transaction price is the amount of consideration which is expected to be received in accordance with the contract terms, less amounts which have been collected for third parties (e.g., taxes).

When determining the amount of revenue from contracts with customers, the Company evaluates whether it functions as the primary supplier or as an agent under the contract. The Company is the primary supplier when it controls the goods or the service which was guaranteed before being delivered to the customer. In those cases, the Company recognizes revenue according to the gross amount of consideration. In cases where the Company functions as an agent, the Company recognizes the revenue as the net total after deducting amounts owed to the primary supplier.

Revenues from sales of goods

Revenues from the sale of goods are recognized in the statement of income at the point in time when control of the goods which are sold to the customer is transferred. Control is generally transferred on the date when the goods are delivered to the customer.

Note 2 - Significant Accounting Policies (Cont.)

H. Revenue recognition (Cont.)

Revenue which includes warranty services

As part of its contracts, the Company provides warranty services to its customers, in accordance with the provisions of the law, or in accordance with standard industry practice. In most of the Company's contracts, it provides the warranty services in order to guarantee the quality of the work which has been performed, and not as an additional service given to the customer. Accordingly, the warranty does not constitute a distinct performance obligation, and the Company therefore recognizes a warranty provision in its financial statements, in accordance with the provisions of IAS 37.

I. Government grants

Government grants are recognized when there is reasonable assurance that the grants will be received, and that the Company will meet all of the conditions for the receipt of the grant.
Government grants which were received from the Chief Scientist in Israel are recognized on the date they are accepted as a liability, if there is reasonable assurance that the research activity will lead to sales which will create entitlement to royalties for the state.
The liability is initially recognized at fair value, and discounted according to the market interest rate. The difference between the amount of the grant which was received and the fair value of the liability is treated as a government grant, and is offset from the research and development expenses. After initial recognition, the liability is measured at amortized cost using the effective interest method. Amounts paid as royalties are recognized as settlement of the liability. When economic benefits, as stated above, are not expected from the research activity, the receipts of the grant are recognized as a decrease in the attributable research and development expenses. In that case, the royalty payment liability is accounted for as a deferred liability, in accordance with IAS 37.

On each reporting date, the Company evaluates whether there is reasonable assurance that the liability which was recognized (entirely or partially) will not be settled (since the Company will not be required to pay royalties), based on the best estimate of future sales, using the original effective interest rate, and if so, the appropriate liability is derecognized against a decrease in research and development expenses.

Amounts paid as royalties are recognized as settlement of the liability.

Note 2 - Significant Accounting Policies (Cont.)

J. Taxes on income

Tax results in respect of current or deferred taxes are carried to the statement of income, except if they are attributable to components which are carried to carried to other comprehensive income or to equity.

1. Current taxes

The current tax liability is determined using the tax rates and tax laws which have been enacted, or substantially enacted, until the reporting date, as well as adjustments required in connection with the tax liability which is due in respect of prior years.

2. Deferred taxes

Deferred taxes are calculated in respect of temporary differences between the amounts which are included in the financial statements, and the amounts which are taken into account for tax purposes.

Deferred tax balances are calculated according to the tax rate which is expected to apply when the asset is realized or the liability is settled, based on the tax laws which have been enacted, or substantially enacted, until the reporting date.

Deferred tax assets are evaluated on each reporting date, and if they are not expected to be used they are amortized, temporary differences for which deferred tax assets were not recognized are evaluated on each reporting date, and if they are expected to be used, a corresponding deferred tax asset is recognized.

The calculation of deferred taxes does not include taking into account taxes which would apply in case of the realization of investments in investees, so long as the sale of the investment in the investee is not expected in the foreseeable future. Additionally, deferred taxes in respect of distribution of profits by investees as dividends were not taken into account, since the dividend distribution does not involve additional tax liability, or due to the Company's policy of not initiating dividend distributions by consolidated companies, which would result in additional tax liability.
Deferred taxes are offset if a legal right exists to offset a current asset against a current tax liability, and the deferred taxes are attributable to the same taxable entity and the same tax authority.

Note 2 - Significant Accounting Policies (Cont.)

K. Leases

On January 1, 2019, the Company initially adopted IFRS 16, Leases (hereinafter: the "Standard"). The Company chose partial retrospective adoption of the standard's provisions (without restatement of comparative figures).

The accounting policy which was applied to leases until December 31, 2018 was as follows:

Tests for the classification of a lease as a finance or operating lease are based on the substance of the agreements, and are evaluated on the trade date according to the following rules, as set forth in IAS 17:

The Group as lessee

Operating lease

Assets which do not involve the real transfer of all of the risks and benefits implicit in the ownership of the leased asset are classified as an operating lease. Lease payments are recognized as an expense in the statement of income in a straight line throughout the lease period.

The accounting policy which is applied to leases beginning on January 1, 2019 is as follows:

The Company treats a contract as a lease contract when, in accordance with the contract terms, the right to control the right to control is transferred for a certain period of time, in exchange for consideration.

1. The Group as lessee

For transactions in which the Company is the lessee, it recognizes on the lease commencement date a right-of-use asset against a lease liability, except for lease transactions for periods of up to 12 months, and lease transactions in which the underlying asset is of a low value, in which the Company chose to recognize the lease payments as an expense under the statement of income, in a straight line throughout the lease period.

On the commencement date, the lease liability includes all of the unpaid lease payments, discounted by the interest rate implicit in the lease when it can be easily determined, or by the Company's incremental interest rate. After the commencement date, the Company measures the lease liability using the effective interest method.

Note 2 - Significant Accounting Policies (Cont.)

K. Leases (Cont.)

1. The Group as lessee

The right-of-use asset as of the commencement date is recognized as the amount of the lease liability plus lease payments which were paid on or before the commencement date, plus transaction costs which have materialized.
The right-of-use asset is measured according to the cost model, and is amortized throughout its useful lifetime, or the lease period, whichever is shorter.

When indicators of impairment exist, the Company tests for impairment of the right-of-use asset, in accordance with the provisions of IAS 36.

2. CPI-linked lease payments

On the commencement date, the Company uses the CPI rate as of the commencement date to calculate the future lease payments.

In transactions where the Company is a lessee, changes in the amount of the future lease payments due to changes in the CPI are discounted (with no change to the discount rate which applies to the lease liability) to the balance of the right-of-use asset, and credited to an adjustment to the balance of the lease liability, only when a change has occurred in the cash flows due to the change in the CPI (i.e., on the date when the adjustment to the lease payments enters into effect).

3. Options to extend and cancel lease periods

The non-cancellable lease period also includes periods which are covered by an option to extend the lease, when the option to extend is reasonably certain to be exercised, as well as periods which are covered by an option to cancel the lease, when it is reasonably certain that the option to extend will not be exercised.
In case of changes to the expectation regarding whether extension option will be exercised, or regarding whether the cancellation option will not be exercised, the Company remeasures balance of the lease liability according to the updated lease period, using the updated discount rate as of the date of the change in expectation, with the total change applied to the balance of the right-of-use asset until it is zeroed out, and beyond that amount – to the statement of income.

Note 2 - Significant Accounting Policies (Cont.)

K. Leases (Cont.)

4. Lease amendments

In case of an amendment to the lease terms which does not reduce the scope of the lease, and is not treated as a separate lease transaction, the Company remeasures the balance of the lease liability according to the amended lease terms, using the updated discount rate on the date of the amendment, and carries the amount of the change in the balance of the lease liability to the balance of the right-of-use asset.

In case of an amendment to the lease terms which results in a decrease in the scope of the lease, the Company recognizes the profit or loss arising from the partial or full derecognition of the balance of the right-of-use asset and the lease liability. Subsequently, the Company remeasures the balance of the lease liability according to the amended lease terms, using the updated discount rate on the date of the amendment, and carries the amount of change in the balance of the lease liability to the balance of the right-of-use asset.

L. Property, plant and equipment

Items of property, plant and equipment are presented at cost plus direct acquisition costs, less accumulated depreciation, and less accumulated impairment loss not including routine maintenance expenses. The cost includes replacement parts and auxiliary equipment which are used for the property, plant and equipment.

Depreciation is calculated in equal annual rates in a straight line throughout the asset's useful lifetime, as follows:

	%	Mostly %
Machines, facilities and molds	10-20	20
Vehicles	15	15
Furniture and office equipment	7-33	33
Leasehold improvements	See below	

Leasehold improvements are amortized in a straight line throughout the lease period (including options to extend which are available to the Group, and which it intends to exercise), or in accordance with the assets' estimated lifetime, whichever is shorter.

The useful lifetime, depreciation method and residual value of each asset is evaluated at least at the end of each year, and changes are prospectively treated as changes in accounting estimates. The depreciation of assets is discontinued either on the date when the asset is classified as held for sale, or the date when the asset is derecognized, whichever is earlier.

Note 2 - Significant Accounting Policies (Cont.)

M. Intangible assets

Intangible assets which are purchased separately are measured upon initial recognition at cost plus direct acquisition costs. Intangible assets which are purchased in business combinations are measured according to their fair value on the acquisition date. Costs in respect of internally developed intangible assets, excluding discounted development costs, are carried to the statement of income upon their materialization.

Intangible assets with definite useful lifetimes are amortized over their useful lifetimes using the straight line method, and are tested for impairment when indicators of impairment exist. The amortization period and amortization method for intangible assets are evaluated at least at the end of each year.

Intangible assets with indefinite useful lifetimes are not systematically amortized, and are tested for impairment on an annual basis, and in case any indicator of impairment has been identified. The useful lifetime of these assets is evaluated each year in order to determine whether the estimation of the lifetime as indefinite still applies. If the events and circumstances no longer support that estimate, the change of the useful lifetime from indefinite to definite is treated as a change in accounting estimate, and an impairment test is conducted on that same date. From that date onwards, the asset is systematically amortized throughout its useful lifetime.

Research and development costs

Research costs are carried to the statement of income upon their materialization. Costs which have materialized in respect of a development project or which have been internally generated are recognized as intangible assets only if it is possible to prove the technological feasibility of the completion of the intangible asset, such that it will be available for use or sale; The Company's intention of completing the intangible asset and using or selling it; The ability to use or sell the intangible asset; The manner in which the intangible asset will create future economic benefits; The existence of the required resources: technical, financial, and others, which are available for the completion of the intangible asset, and the ability to reliably measure the costs in respect thereof during its development.

The asset is measured at cost and presented net of accumulated amortization and net of accumulated impairment. The amortization of the asset begins when development has been completed and the asset is available for use. The asset is amortized throughout the asset's useful lifetime. An impairment test is conducted once per year and throughout the development period.

Note 2 - Significant Accounting Policies (Cont.)

M. Intangible assets (Cont.)

When an internally generated intangible asset cannot be recognized, the development costs are carried to the statement of income on the date of their materialization. development costs which were previously recognized as an expense are not recognized as an asset in subsequent periods.

Software programs

The Group's assets include computer systems which are comprised of hardware and software components. Software programs which constitute an integral part of hardware which cannot function without the installed software programs are classified as property, plant and equipment. However, standalone software licenses which add additional functionality to hardware are classified as intangible assets.

The useful lifetimes of intangible assets are as follows:

	Years
Development costs	5
Computer programs	3
Technology, customer relations and brands	7-14

N. Impairment of non-financial assets

The Company evaluates the need for impairment of non-financial assets when indicators exist, due to events or changes in circumstances, which indicate that the balance in the financial statements is non-recoverable.
In cases where the balance of the non-financial assets in the financial statements exceeds their recoverable amount, the assets are amortized to their recoverable amount. The recoverable amount is the higher of either fair value less costs to sell or value in use. The estimation of value in use includes discounting the expected cash flows using a pre-tax discount rate which reflects the specific risks of each asset. In case of assets which do not produce independent cash flows, a recoverable amount is determined for the cash generating unit with which the asset is associated. Impairment losses are carried to the statement of income.

Impairment loss of an asset, excluding goodwill, is only reversed when changes have occurred in the estimates which were used to determine the asset's recoverable amount, from the date when the impairment loss was last recognized. The reversal of loss described above is limited to the lower of either the asset's previously recognized amount of impairment (less depreciation or amortization), or the asset's recoverable amount. For assets measured at cost, the reversal of loss described above is carried to the statement of income.

Note 2 - Significant Accounting Policies (Cont.)

N. Impairment of non-financial assets (Cont.)

The following unique criteria are applied when testing the following specific assets for impairment:

Goodwill in respect of consolidated companies
The Company tests for impairment of goodwill once per year, as of December 31, or more frequently in case of events or changes in circumstances which indicate that impairment has occurred. The impairment test of goodwill is determined by evaluating the recoverable amount of the cash generating unit (or group of cash generating units) to which the goodwill has been allocated. When the recoverable amount of the cash generating unit (or group of cash generating units) is lower than the balance in the financial statements of the cash generating unit (or group of cash generating units) to which the goodwill has been allocated, impairment loss is recognized, which is initially attributed to goodwill. Impairment losses of goodwill are not reversed in subsequent periods.

O. Financial instruments

1. Financial assets

Financial assets are measured on the date of initial recognition at fair value plus transaction costs which are directly attributable to the acquisition of the financial asset, except in case of a financial asset which is measured at fair value through profit or loss, for which the transaction costs are carried to the statement of income.

The Company classifies and measures debt instruments in its financial statements based on the following criteria:
(A) The Company's business model regarding the management of financial assets; and
(B) The characteristics of the financial asset's contractual cash flows.

1A) The Company measures debt instruments at amortized cost when:

The Company's business model involves the holding of financial assets in order to collect contractual cash flows; and the contractual terms of the financial assets include entitlement, on predefined dates, to cash flows which constitute only principal and interest payments in respect of the amount of unpaid principal.
After initial recognition, instruments in this group are measured in accordance with their terms at amortized cost using the effective interest method, less a provision for impairment.

Note 2 - Significant Accounting Policies (Cont.)

O. Financial instruments (Cont.)

1B) The Company measures debt instruments at fair value through profit or loss when:

A financial asset which constitutes a debt instrument does not meet the criteria for measurement at amortized cost or at fair value through other comprehensive income. After initial recognition, the financial asset is measured at fair value, while the profit or loss due to the fair value adjustments is carried to the statement of income.

1C) Equity instruments and other financial assets held for trading:

Investments in equity instruments do not meet the foregoing criteria, and are therefore measured at fair value through profit or loss.
Other financial assets held for trading such as derivatives, including embedded derivatives which were separated from the host contract, are measured at fair value through profit or loss unless they are intended for use as effective hedging instruments.
Dividend income from investments in equity instruments is recognized on the effective date of entitlement to the dividend in the statement of income.

2. Impairment of financial assets

The Company evaluates, on each reporting date, the loss provision in respect of financial debt instruments which are not measured at fair value through profit or loss.
The Company has financial assets with short credit periods, such as trade receivables, which it is entitled to treat according to the expedient specified in the standard; in other words, the Company measures the loss provision in an amount equal to the expected credit losses throughout the instrument's entire lifetime. The Company chose to apply the expedient in respect of these financial assets.

3. Financial liabilities

On the date of initial recognition, the Company measures the financial liabilities which fall under the scope of the standard at fair value less transaction costs which are directly attributable to the issuance of the financial liability, except in case of financial liabilities measured at fair value through profit or loss, for which the transaction costs are carried to the statement of income.
After initial recognition, the Company measures all financial liabilities according to the amortized cost method, except for financial liabilities at fair value through profit or loss, such as derivatives.

Note 2 - Significant Accounting Policies (Cont.)

O. Financial instruments (Cont.)

4. Derecognition of financial liabilities

The Company derecognizes a financial liability if and only if it has been settled – in other words, when the contractual obligation has been fulfilled or canceled, or has expired.
A financial liability is settled when the debtor repays the liability through cash payment, other financial assets, goods or services, or is legally released from the liability.

5. Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount is presented in the statement of financial position, if a legally enforceable right exists to offset the amounts which were recognized, and there is an intention to settle the asset and liability on a net basis, or to realize the asset and settle the liability in parallel. The right to offset must be legally enforceable not only in the ordinary course of business of the parties to the agreement, but also in case of bankruptcy or insolvency of one of the parties. In order for the right to offset to exist immediately, it must not depend on any future event, and there must not be any time periods during which it will not apply, or any events which would cause it to expire.

P. Treasury shares

The shares in the Company which are held by the Company and/or by consolidated companies are measured according to their purchase cost, and presented after offsetting from the Company's capital. Any profit or loss due to the purchase, sale, issuance or cancellation of treasury shares is carried directly to equity.

Note 2 - Significant Accounting Policies (Cont.)

Q. Provisions

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) due to an event which occurred in the past, when economic resources are expected to be required in order to settle the liability, and when it is reliably measurable. When the Group expects all or part of the expense to be reimbursed to the Company, such as in an insurance contract, the reimbursement will be recognized as a separate asset, only on the date when the acceptance of the asset is virtually certain. The expense will be recognized in the statement of income after deducting the reimbursement of the expense.

Presented below are the types of provisions which were included in the financial statements:

Warranty

The Group recognizes a warranty provision in respect of its product sales.
The warranty is limited to technical malfunctions which it has defined, and does not include warranty for customer damages.

Lawsuits

A provision for claims is recognized when the Group has a present legal obligation or a constructive obligation due to an event which occurred in the past, when it is more likely than not that the group will require economic resources to settle the liability, and when it is reliably measurable.

R. Liabilities in respect of employee benefits

The Group has several types of employee benefits:

1. Short term employee benefits

Short term employee benefits are benefits which are expected to be settled, in their entirety, before 12 months have passed since the end of the annual reporting period during which the employees provided the applicable services. These benefits include salaries, vacation days, sick days, convalescence days and employer contributions to National Insurance, and are recognized as an expense upon the provision of services. Liabilities in respect of cash bonuses or profit participation programs are recognized when the Group has a legal or constructive obligation to pay the amount in question in respect of a service which was given by the employee in the past, and when the amount is reliably measurable.

Note 2 - Significant Accounting Policies (Cont.)

R. Liabilities in respect of employee benefits (Cont.)

2. Post-employment benefits

The plans are generally financed by contributions to insurance companies, and are classified as defined contribution plan and as defined benefit plans.

The Group has a defined contribution plan in accordance with section 14 of the Severance Pay Law, under which the Group routinely makes payments without having a legal or constructive obligation to make additional payments, even if sufficient amounts of principal have not yet accrued to pay all of the benefits to the employee, which pertain to the employee's employee during the current period and during prior periods.

Contributions to defined contribution plans in respect of severance pay or in respect of compensation are recognized as an expense upon the contribution to the plan, in parallel with the receipt of the employment services from the employee.

The Group also has a defined benefit plan in respect of the payment of severance pay, in accordance with the Severance Pay Law. By law, employees are entitled to receive severance pay upon their dismissal or resignation. The liability for employee severance pay is measured according to the actuarial value method of the projected entitlement unit. The actuarial calculation takes into account future salary costs and the employee departure rate, based on an estimation of the timing of payment. The amounts are presented after discounting the future cash flows using interest rates in accordance with the yield, as of the reporting date, of high quality CPI-linked corporate debentures, whose maturity dates are similar to the applicable liability period for severance pay.

The Company routinely contributes funds in respect of its severance pay liabilities for some of its employees in pension funds and insurance companies (hereinafter: the "Plan Assets"). The plan assets are assets which are held by a long-term employee benefits fund or qualified insurance policies. The plan assets are not available for use by the group's creditors, and cannot be directly paid to the Group.

The liability for employee benefits which is presented in the balance sheet represents the present value of the defined benefit liability, after deducting the fair value of the plan assets.

Remeasurements of the net liability are carried to other comprehensive income during the period of their materialization.

Note 2 - Significant Accounting Policies (Cont.)

S. Share-based payment transactions

The Company's employees and service providers are entitled to benefits by way of equity-settled share-based payment plans. Some employees are entitled to benefits by way of cash-settled share-based payments, which are measured according to the increase in value of the Company's shares.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured according to the fair value of the equity instruments on the grant date. The fair value is determined using a generally accepted options pricing model.

The cost of equity-settled transactions is recognized in the statement of income along with the corresponding increase in equity, over the period when the service conditions were fulfilled, and ends on the date when the relevant employees are entitled to compensation (hereinafter: the "Vesting Period"). The cumulative expense which is recognized in respect of equity-settled transactions at the end of each reporting date until the vesting date reflects the extent to which the vesting period has passed, and the Group's best estimate regarding the number of equity instruments which will eventually vest.

Expenses in respect of grants which do not eventually vest are not recognized.

Cash-settled transactions

The cost of cash-settled transactions is measured according to the fair value on the grant date, using a generally accepted options pricing model. The fair value is recognized as an expense throughout the vesting period, and a liability is recognized in parallel. The liability is remeasured in each reporting period according to the fair value until its settlement, with changes in fair value being carried to the statement of income.

T. Earnings (loss) per share

Earnings per share are calculated by dividing the net profit attributable to the Company's shareholders by the weighted number of ordinary shares which exists in practice during the period.
Potential ordinary shares are included in the calculation of diluted earnings per share if they have a dilutive effect on earnings per share from continuing operations. Potential ordinary shares which were converted during the period are included under diluted earnings per share only until the conversion date, and from that date onwards, are included under basic earnings per share. The Company's share in the profits (losses) of investees is calculated according to its share in the earnings (loss) per share of those companies, multiplied by the number of shares which are held by the Company.

Note 2 - Significant Accounting Policies (Cont.)

U. Change in accounting policy - initial adoption of new financial reporting standards and amendments to existing accounting standards

Amendment to IFRS 3 - Business Combinations

In October 2018, the IASB published an amendment to IFRS 3, Business Combinations (hereinafter: the "Amendment").

The amendment includes a clarification stating that, in order to be considered a "business", a set of purchased operations and assets will include, as a minimum, one input and substantive process, which together contribute significantly to the ability to produce outputs. The amendment also clarifies that a business may exist even without all of the inputs and processes which are required to produce outputs. The amendment includes an optional test, according to which a company can determine that it does not constitute a business acquisition, with no need for additional testing.

The amendment will be adopted for the first time in respect of business combinations and asset purchasing transactions with a purchase date of January 1, 2020 or thereafter.

The initial adoption of the amendment had no significant impact on the Company's financial statements.

Note 3 - Main Considerations, Estimates and Assumptions in the Preparation of the Financial Statements

In the process of implementing the significant accounting policies in the financial statements, the Group exercised discretion and weighed the considerations pertaining to the following matters, which have a significant impact on the amounts which were recognized in the financial statements:

A. The considerations

- Capitalization rate for lease liability

The Company cannot easily determine the interest rate implicit in the leases, and therefore uses the Company's incremental interest rate for the purpose of calculating the lease liabilities. The incremental interest rate which is determined by the Company is the interest rate which the Company should have paid on a loan for a period similar to the lease period, with similar collateral, for the sake of obtaining an asset of similar value to the right-of-use asset due to the lease, in a similar economic environment.

Note 3 - Main Considerations, Estimates and Assumptions in the Preparation of the Financial Statements (Cont.)

A. The considerations (Cont.)

- Development costs

  Company management is required to evaluate whether the conditions for recognizing costs in respect of development projects as intangible assets have been met.

  The Company discounts costs in respect of development projects. The initial date of the cost discounting is based, inter alia, on, on the discretion of management regarding the existence of technological and economic feasibility, mostly when the development of the project has reached a milestone which has been defined by Company management. In its determination of the amount to be discounted, management makes estimates pertaining to the project's projected future cash flows, the discount rate, and the period during which benefits are expected to arise from the project.

B. Estimates and assumptions

In the preparation of the financial statements, management is required to make use of estimates, approximations and assumptions, which affect the implementation of the accounting policy and the reported amounts of assets, liabilities, income and expenses. Changes in accounting estimates are carried in the period when the change in estimate was made.
Presented below are the main assumptions which were made in the financial statements in connection with the uncertainty regarding the reporting date, and the critical estimates which were calculated by the Group, and where a significant change in the estimates and assumptions could change the value of assets and liabilities in the financial statements during the subsequent year:

- Lawsuits

  In estimating the chances of legal claims which were filed against the Company and its investees, the companies relied on the opinions of their legal advisors. These estimates of the legal advisors are based on their best professional judgment, in consideration of the stage of the proceedings, and based on their accumulated legal experience on the various issues. Due to the fact that the results of the claims will be determined in the courts, the eventual results may differ from these estimates.

Note 3 - Main Considerations, Estimates and Assumptions in the Preparation of the Financial Statements (Cont.)

B. Estimates and assumptions (Cont.)

- Deferred tax assets

Deferred tax assets are recognized in respect of carryforward tax losses and in respect of unused deductible temporary differences, if taxable income is expected in the future against which they can be used. An estimate of management is required in order to determine the amount of the deferred tax asset which can be recognized based on the timing, the amount of expected taxable income, its source, and the tax planning strategy.

- Pension benefits and other post-employment benefits

The liability for defined post-employment benefit plans is determined using actuarial estimation techniques. The calculation of the liability involves the determination of assumptions, inter alia, regarding discount rates, the rate of salary increase, and the employee turnover rates. The balance of the liability may be significantly affected by changes in these estimates.

- Determination of fair value of share-based payment transactions

The fair value of shared-based payment transactions is determined upon initial recognition through the use of a generally accepted options pricing model. The model is based on data regarding share price and exercise price, and on assumptions regarding expected volatility, expected lifetime and expected dividends.

- Lease transactions which include options to extend and cancel

For the purpose of estimating whether it is reasonably certain that the Company will exercise an option to extend a lease period or to cancel a lease period, the Company takes into account all of the relevant facts and circumstances which create an economic incentive for the Company to exercise or not exercise the option, such as significant amounts which have been invested in leasehold improvements, the importance of the underlying asset and its uniqueness for the purpose of the Company's activity, the Company's past experience in similar lease transactions, and others.
After the commencement date, the Company re-assesses whether it is reasonably certain that it will exercise or will not exercise an option upon the occurrence of a significant event or a significant change in circumstances, which could affect the Company's resolutions regarding exercising the option, such as significant leasehold improvements which were performed and were not expected on the commencement date, engagement in a sublease in respect of the underlying asset for a period exceeding the end of the previously determined lease period, and more.

Note 4 - Disclosure for New IFRS During the Period Preceding Their Adoption

Amendments to IAS 1, Presentation of Financial Statements

In January 2020, the IASB published an amendment to IAS 1, regarding requirements for the classification of liabilities as current or non-current (hereinafter: the "Amendment").

The amendment clarifies the following subjects:

- The intention of an unconditional right to defer settlement;
- The right of deferral must exist as of the end of the reporting date;
- Classification must not be affected by the likelihood that the entity will exercise the right of deferral;
- Only if the embedded derivative in a convertible liability is an equity instrument, will the terms of the liability not affect its classification.

The amendment will be adopted in respect of annual reporting periods beginning on or after January 1, 2023. The amendment will be adopted retrospectively.

The Company is evaluating the impact of the amendment on its current loan agreements.

Note 5: Business combinations

On June 10, 2020, the Company entered into an agreement with BWT Wassertechnik GmbH for the acquisition of all of the shares of Bunger & Frese GmbH (hereinafter: "BF GmbH"). BF GmbH is a distributor for the Company in the German market, which specializes in sales to pool builders and e-commerce sales, and is engaged in two main operating segments: sales of robotic pool cleaners and sales of a wide variety of pool equipment, including, inter alia, pumps, filters, pool covers, manual pool cleaning tools, water heaters, water cleaning chemicals, etc. The business takeover date was set as June 30, 2020.

Fair value of the identifiable assets and identifiable liabilities of BF GmbH on the acquisition date:	Fair value NIS thousands
Cash and cash equivalents	6,294
Trade receivables, net	4,007
Other accounts receivable	881
Inventory	7,361
Long term accounts receivable	101
Fixed assets	233
Intangible assets	15,492
Trade payables	(2,054)
Other accounts payable	(2,584)
Taxes payable	(2,120)
Loans from others	(3,883)
Deferred taxes	(4,054)
Identifiable assets, net	19,674
Goodwill from the acquisition	28,919
Total acquisition cost	48,593

The total cost of the business combination amounted to a total of NIS 48,593 thousand. On the date of the business combination, a total of around NIS 3,883 thousand was paid in cash, and a total of around NIS 11,821 thousand (EUR 3 million) was paid on December 31, 2020. The remainder will be paid in three additional payments of around NIS 17,700 thousand (EUR 4.5 million) each, which will be paid on December 31 of the years 2021 and 2022, respectively. The deferred payments were discounted according to an annual interest rate of 2.6%.

Acquisition costs directly attributable to the transaction in the amount of around NIS 1,078 thousand were carried as an expense and included under the item for general and administrative expenses.

Note 5: Business combinations (Cont.)

Acquisition cost

	NIS thousands
Cash paid	3,883
Deferred liability	44,710
Total acquisition cost	48,593

Cash due to the acquisition

	NIS thousands
Cash and cash equivalents in the acquired company as of the acquisition date	6,294
Cash paid in consideration of the acquisition	(3,883)
Cash, net	2,411

The goodwill which was created in the acquisition was attributable to the projected benefits due to the synergy of integrating the activities of the Company and the acquired company. The recognized goodwill is not expected to be deductible for income tax purposes.

Note 6 - Cash and Cash Equivalents

	December 31,	
	2020	2019
	NIS thousands	
Cash and deposits available for immediate withdrawal	226,517	78,548

Note 7 - Short Term Investments

	December 31,	
	2020	2019
	NIS thousands	
Marketable securities held for trading		
Shares	1,603	1,553
ETF's and participation units in mutual funds	1,157	1,129
Government bonds and loans	15,543	15,536
	18,303	18,218

Note 8 - Trade Receivables, Net

	December 31,	
	2020	2019
	NIS thousands	
Open accounts (1)	77,063	76,747
Checks receivable	4,934	2,623
Trade receivables, net	81,997	79,370

(1) Trade receivables do not bear interest. The average number of trade receivable days in 2020 was 71.

Impairment of trade receivables is accounted for by recoding a provision for doubtful debts.

Presented below are the changes in the provision for doubtful debts:

	NIS thousands
Balance as of January 1, 2019	1,560
Provision during the year	187
Recognition of lost debts	(25)
Reversal in respect of collected doubtful accounts	(202)
Adjustments arising from translation of financial statements of foreign operations	(69)
Balance as of December 31, 2019	1,451
provision during the year	4
Recognition of lost debts	(687)
Reversal in respect of collected doubtful accounts	(220)
Initially consolidated subsidiary	71
Adjustments arising from translation of financial statements of foreign operations	16
Balance as of December 31, 2020	635

Note 8 - Trade Receivables, Net (Cont.)

Presented below is an analysis of the balance of trade receivables for which impairment (a provision for doubtful debts) was not recognized, net trade receivables, according to the period of arrears in collection, in respect of the reporting date:

	Trade receivables which have not yet come due (no arrears in collection)	Past due trade receivables				
		Up to 30 days	30-60 days	60-90 days	Over 90 days	Total
	NIS thousands					
December 31, 2020	63,414	15,231	1,517	1,033	802	81,997
December 31, 2019	59,939	12,540	4,414	1,420	1,057	79,370

As of December 31, 2020, the entire balance of the provision for doubtful debts is attributed to the balance of trade receivables which are over 90 days past due.

Note 9 - Other Accounts Receivable

	December 31,	
	2020	2019
	NIS thousands	
Government authorities	23,690	12,538
Employees	328	351
Taxes receivable	90	-
Hedging transactions	937	3,044
Advance payments to suppliers	5,790	2,066
Prepaid expenses and other receivables	5,914	6,490
	36,749	24,489

Note 10 - Inventory

	December 31,	
	2020	2019
	NIS thousands	
Raw and auxiliary materials	80,455	73,748
Goods in process	30,181	26,468
Finished goods	215,660	197,700
	326,296	297,916

Includes a provision for slow and dead inventory in the amount of around NIS 6,435 thousand (in 2019 - around NIS 3,020 thousand).

Note 11 - Long Term Deposits

Includes deposits in banks in France in the amount of NIS 114 thousand, for periods of 1-3 years, which do not bear interest, serve as collateral for the consolidated company's activities in France.

Note 12 - Acquisition of MTFR

During the fourth quarter of 2016, the Company acquired shares of MTFR. As a result, the Company's stake in MTFR increased to around 69.7% of MTFR's issued and paid-up capital, and 81.4% of its voting rights.
During the first quarter of 2017, the Company acquired shares of MTFR. As a result, the Company's stake in MTFR increased to around 70.1% of MTFR's issued and paid-up capital, and 81.9% of its voting rights.
On July 24, 2018, the subsidiary MTFR completed a process of offering rights to its shareholders, in the financial scope of EUR 2,451 thousand. As part of the above, the Company acquired all of the shares which is was entitled to acquire according to the offer, as well as the offered shares which were unclaimed by the minority shareholders, in a total financial scope of EUR 2,145 thousand. The Company's payment in respect of the foregoing allocation of rights is done by waiving the subsidiary's commercial debt towards the Company. The process of increasing capital was intended, inter alia, to support the continued accelerated growth of MTFR, and to improve its working capital and balance sheet structure. After the process was completed, the Company's stake in the subsidiary increased by around 3%, to around 73% of the Company's profit interests.

Note 13 - Property, Plant and Equipment, Net

On November 29, 2016, the Company inaugurated a new production site in Dalton Industrial Park in Northern Israel, in which the Company invested in purchasing of production facilities using molds, leasehold improvements, IT equipment, and furniture and office equipment.

Note 13 - Property, Plant and Equipment, Net (Cont.)

A. Composition and changes

2020	Leasehold improvements (1)	Machines, facilities and molds	Furniture and office equipment	Vehicles	Total
	NIS thousands				
Cost					
Balance as of January 1, 2020	62,428	126,982	21,759	2,578	213,747
Additions during the year - purchases	13,326	18,418	4,228	369	36,341
Adjustments due to the translation of financial statements of foreign operations	32	208	(275)	45	10
Initially consolidated subsidiary	47	8	8	170	233
Derecognition during the year - sale	-	(2,223)	(214)	(228)	(2,665)
Balance as of December 31, 2020	75,833	143,393	25,506	2,934	247,666
Accumulated depreciation					
Balance as of January 1, 2020	18,561	87,785	15,396	1,409	123,151
Additions during the year - depreciation	3,585	10,885	2,536	386	17,392
Adjustments due to the translation of financial statements of foreign operations	34	149	(214)	24	(7)
Derecognition during the year - sale	-	(2,223)	(143)	(161)	(2,527)
Less - investment grant	(60)	(156)	(5)	-	(221)
Balance as of December 31, 2020	22,120	96,440	17,570	1,658	137,788
Depreciated cost as of December 31, 2020	53,713	46,953	7,936	1,276	109,878

Note 13 - Property, Plant and Equipment, Net (Cont.)

2019	Leasehold improvements (1)	Machines, facilities and molds	Furniture and office equipment	Vehicles	Total
	NIS thousands				
Cost					
Balance as of January 1, 2019	54,612	119,672	19,037	2,455	195,776
Additions during the year - purchases	8,387	11,190	3,511	578	23,666
Adjustments due to the translation of financial statements of foreign operations	(427)	(1,023)	(652)	(121)	(2,223)
Derecognition during the year - sale	-	(2,539)	(113)	(334)	(2,986)
Less - investment grant	(144)	(318)	(24)	-	(486)
Balance as of December 31, 2019	62,428	126,982	21,759	2,578	213,747
Accumulated depreciation					
Balance as of January 1, 2019	15,707	81,092	13,622	1,361	111,782
Additions during the year - depreciation	3,108	10,148	2,352	342	15,950
Adjustments due to the translation of financial statements of foreign operations	(230)	(809)	(490)	(50)	(1,579)
Derecognition during the year - sale	-	(2,523)	(77)	(244)	(2,844)
Less - investment grant	(24)	(123)	(11)	-	(158)
Balance as of December 31, 2019	18,561	87,785	15,396	1,409	123,151
Depreciated cost as of December 31, 2019	43,867	39,197	6,363	1,169	90,596

(1) The improvements were partially in Israel, on leased land of Kibbutz Yizre'el (see Note 32G).

B. For details regarding charges, See Note 27.

Note 14 - Leases

The Company has lease agreements including leases of buildings, vehicles, computers and peripheral equipment, which serve both for performing the Company's operating activities, and for subleasing and collecting rent from tenants. The lease agreements in respect of the buildings are in effect for periods ranging between 3 and 15 years, while lease agreements in respect of computers, peripheral equipment and vehicles are for periods ranging between 3 and 5 years. Some of the lease agreements in which the Company has engaged include options to extend and/or cancel.

1. Details regarding lease transactions

	For the year ended December 31,	
	2020	2019
	NIS thousands	
Interest expenses in respect of lease liabilities	2,674	2,776
Expenses in respect of short-term leases	212	339
Expenses in respect of leases of low value properties	51	50
Income from sublease of right-of-use assets	-	24
Total cash outflows in respect of leases	(19,504)	(17,529)

2. Extension and cancellation options

The Company has lease agreements which include both extension options and cancellation options. These options give the Company flexibility in managing the lease transactions, and correspondence to the Company's business needs.
The Company exercises significant judgment when evaluating whether the extension and cancellation options are reasonably certain to be exercised.
In lease agreements in which the Company usually exercises the extension options which are available under the agreements, the Company included in the lease period also the exercise of these extension options, since if an alternative property is not immediately available at the end of the non-cancellable lease period, the Company's operating activities will suffer substantial harm.
The Company does not include in the lease period the exercise of extension options in cases where it does not consider it reasonably certain likely that it will exercise such options.
Additionally, in lease agreements in respect of vehicles, the Company does not include in the lease period the exercise of extension options, since the Company's does not usually exercise such options.
Furthermore, lease periods which are under the lease cancellation option are included as part of the lease period when it is reasonably certain that such options will not be exercised.

Presented below are details regarding the future lease payments which are attributed to periods under extension options which were not taken into account as part of the Company's lease liabilities:

Note 14 - Leases (Cont.)

2. Extension and cancellation options (Cont.)

As of December 31, 2020:	Up to 5 years	Over 5 years
	NIS thousands	
Lease payments which apply in periods under the extension options which the Company believes are unlikely to be exercised as of the date of the financial statements	1,560	240

As of December 31, 2019:	Up to 5 years	Over 5 years
	NIS thousands	
Lease payments which apply in periods under the extension options which the Company believes are unlikely to be exercised as of the date of the financial statements	2,969	608

3. Disclosures regarding right-of-use assets

2020	Land	Vehicles	Computers and peripheral equipment	Total
	NIS thousands			
Cost				
Balance as of January 1, 2020	90,173	15,455	927	106,555
Additions in respect of new leases	17,724	7,079	-	24,803
Adjustments in respect of linkage to the CPI	(116)	(25)	-	(141)
Adjustments due to the translation of financial statements of foreign operations	(67)	(82)	11	(138)
Derecognition during the year in respect of discontinued leases	(865)	(2,883)	-	(3,748)
Balance as of December 31, 2020	106,849	19,544	938	127,331
Accumulated depreciation				
Balance as of January 1, 2020	10,762	5,164	193	16,119
Depreciation and amortization	11,429	6,752	195	18,376
Adjustments due to the translation of financial statements of foreign operations	(3)	(40)	4	(39)
Derecognition during the year in respect of discontinued leases	(865)	(2,390)	-	(3,255)
Balance as of December 31, 2020	21,323	9,486	392	31,201
Depreciated cost as of December 31, 2020	85,526	10,058	546	96,130

Note 14 - Leases (Cont.)

3. Disclosures regarding right-of-use assets (Cont.)

2019	Land	Vehicles	Computers and peripheral equipment	Total
	NIS thousands			
Cost				
Balance as of January 1, 2019	-	-	-	-
Additions in respect of new leases	92,056	15,525	987	108,568
Adjustments in respect of linkage to the CPI	161	27	-	188
Adjustments due to the translation of financial statements of foreign operations	(1,656)	56	(60)	(1,660)
Derecognition during the year in respect of discontinued leases	(388)	(153)	-	(541)
Balance as of December 31, 2019	90,173	15,455	927	106,555
Accumulated depreciation				
Balance as of January 1, 2019	-	-	-	-
Depreciation and amortization	10,912	5,232	199	16,343
Adjustments due to the translation of financial statements of foreign operations	(95)	(23)	(6)	(124)
Derecognition during the year in respect of discontinued leases	(55)	(45)	-	(100)
Balance as of December 31, 2019	10,762	5,164	193	16,119
Depreciated cost as of December 31, 2019	79,411	10,291	734	90,436

Note 15 - Intangible Assets, Net

	Customer relations	Brands	Technology	Software programs	Development costs	Goodwill	Total
	NIS thousands						
Cost							
Balance as of January 1, 2019	898	5,512	8,666	8,629	97,742	-	121,447
Additions - internally generated	-	-	-	-	19,958	-	19,958
Additions - purchased separately	-	-	-	3,348	332	-	3,680
Adjustments due to the translation of financial statements of foreign operations	(86)	(531)	(835)	(287)	(1,034)	-	(2,773)
Less - investment grant	-	-	-	(3)	-	-	(3)
Balance as of December 31, 2019	812	4,981	7,831	11,687	116,998	-	142,309
Additions - internally generated	-	-	-	-	27,825	-	27,825
Additions - purchased separately	-	60	4,796	3,359	444	-	8,659
Initially consolidated subsidiary	6,262	9,193	-	37	-	28,919	44,411
Realization	(812)	(4,981)	(7,831)	-	-	-	(13,624)
Adjustments due to the translation of financial statements of foreign operations	100	142	373	50	152	457	1,274
Balance as of December 31, 2020	6,362	9,395	5,169	15,133	145,419	29,376	210,854

	Customer relations	Brands	Technology	Software programs Computer	Costs Development	Goodwill	Total
	NIS thousands						
Accumulated amortization							
Balance as of January 1, 2019	898	5,512	8,666	5,375	43,731	-	64,182
Amortization recognized during the year	-	-	-	1,071	7,384	-	8,455
Adjustments due to the translation of financial statements of foreign operations	(86)	(531)	(835)	(209)	(649)	-	(2,310)
Less - investment grant	-	-	-	(13)	-	-	(13)
Balance as of December 31, 2019	812	4,981	7,831	6,224	50,466	-	70,314
Amortization recognized during the year	462	677	463	1,914	7,727	-	11,243
Realization	(812)	(4,981)	(7,831)	-	-	-	(13,624)
Adjustments due to the translation of financial statements of foreign operations	(5)	(9)	22	27	112	-	147
Balance as of December 31, 2020	457	668	485	8,165	58,305	-	68,080
Balance, net							
As of December 31, 2020	5,905	8,727	4,684	6,968	87,114	29,376	142,774
As of December 31, 2019	-	-	-	5,463	66,532	-	71,995

Note 15 - Intangible Assets, Net (Cont.)

Amortization expenses

Expenses in respect of the amortization of intangible assets are classified in the statement of income as follows:

	For the year ended December 31,		
	2020	2019	2018
	NIS thousands		
Cost of sales	8,573	7,514	7,208
Sales and marketing expenses	996	-	-
General and administrative expenses	1,674	928	894
	11,243	8,442	8,102

Note 16 - Credit from Banks

	In or linked to foreign currency	Unlinked	Total
		NIS thousands	
December 31, 2020			
Short term credit from banking corporations	52,025	58,995	111,020
Current maturities of long term loans	6,117	15,814	21,931
	58,142	74,809	132,951
December 31, 2019			
Short term credit from banking corporations	34,132	51,403	85,535
Current maturities of long term loans	3,106	-	3,106
	37,238	51,403	88,641

As of December 31, 2020, NIS loans in the amount of NIS 59 million are subject to interest rates of Prime plus a margin of -0.4%; USD loans in the amount of NIS 36.6 million are subject to interest rates of LIBOR plus a margin of 1.2% to 1.35%; EUR loans in the amount of NIS 15.4 million which were received by a subsidiary in France including government subsidies which are not subject to interest rates.

As of December 31, 2020, the Group has a total of NIS 254 million in unused credit facilities.

Note 17 - Trade Payables

	December 31,	
	2020	2019
	NIS thousands	
Accounts payable	130,526	92,515
Notes payable	466	1,079
	130,992	93,594

Trade payables do not bear interest. The average number of trade payable days in 2020 was 72 days.

Note 18 - Other Accounts Payable

	December 31,	
	2020	2019
	NIS thousands	
Employees and payroll accruals	29,419	24,974
Advance payments from customers and deferred revenue	3,958	9,088
Institutions	1,925	1,076
Purchasing organizations	3,450	1,170
Controlling shareholder (1)	1,039	1,686
Expenses payable	52,193	26,056
	91,984	64,050

(1) See Note 32.

Note 19 - Non-Current Liabilities

	December 31,	
	2020	2019
	NIS thousands	
Loans from banking corporation (1), (2)	58,591	6,465

(1) In May 2017 the subsidiary in France took out a five year loan in the amount of EUR 2 million from a banking corporation, at a fixed interest rate of 1.45%. In August 2018 the subsidiary in France took out an additional loan in the amount of EUR 2 million, from a banking corporation, for five years, at a fixed interest rate of 1.5%.

(2) In March 2020 the Company took out two loans in the amount of NIS 30 and 25 million, from banking corporations, for from banking corporations, at an annual interest rate of with the addition of plus 0.9%. In May 2020 the Company took out an additional loan in the amount of NIS 25 million, from a banking corporation, for five years, at an annual interest rate of Prime plus 0.9%.

Note 20 - Employee Benefits liabilites, Net

Employee benefits include post-employment benefits, severance benefits, other long term benefits and short term benefits, as well as share-based payments.

Post-employment benefits

Labor laws and the Severance Pay Law in Israel require the Group to pay severance to employees upon termination of employment, or upon retirement, or to make regular contributions to defined contribution plans in accordance with section 14 of the Severance Pay Law, as described below. The Company's undertaking on the matter was treated as a post-employment benefit. The Group's liability in respect of employee benefits is calculated according to a valid employment agreement, and is based on the salary of an employee which, in management's opinion, creates the right to receive severance pay.

Post-employment employee benefits are generally financed by contributions which are classified as defined contribution plan or as defined benefit plans, as specified below:

1. Defined contribution plans

Some severance payments are subject to the terms of section 14 of the Severance Pay Law, 1963, according to which the Group's current contributions to pension funds and/or in policies in insurance companies exempt it from any additional undertaking towards the employees for whom the aforementioned amounts were contributed. These contributions, and contributions in respect of compensation, constitute defined contribution plans.

	For the year ended December 31,		
	2020	2019	2018
	NIS thousands		
Expenses in respect of defined contribution plans	6,558	5,289	4,227

2. Defined benefit plans

The part of the severance payments which is not covered by contributions to defined contribution plans, as stated above, is treated by the Group as a defined benefit plan, under which a liability is recognized in respect of employee benefits, for which the Group contributes amounts in central severance pay funds and in appropriate insurance policies.

Note 21 - Taxes on Income

A. Tax rates applicable to the Group's member companies

The Income Tax Law (Inflationary Adjustments), 5745-1985

Pursuant to the law, until the end of 2007 results for tax purposes in Israel were measured including adjustments to changes in the consumer price index.

In February 2008 the Knesset passed an amendment to the Income Tax Law (Inflationary Adjustments), 5745-1985, which restricted the application of the Adjustments Law from 2008 and thereafter. Beginning in 2008, results for tax purposes are measured at nominal values, excluding certain adjustments in respect of changes in the consumer price index during the period until December 31, 2007. Adjustments pertaining to capital gains, such as realization of real estate (betterment) and securities, continue to apply until the realization date. The legislative amendment includes, inter alia, the cancellation of the adjustment to the addition and deduction in respect of inflation, and the additional deduction for depreciation (for depreciable assets which were acquired after tax year 2007), beginning in 2008.

The Encouragement of Capital Investments Law, 5719-1959

According to the law, the Company is entitled to various tax benefits, by virtue of the status of "approved enterprise" which was given for some enterprises, as defined in that law. The main benefits by virtue of the law are the following:

Grant track

The Company is entitled to an investment grant in development region A, which is eligible for investment grants at a rate of 20%.

Accelerated depreciation

In respect of machines and equipment which are used by the approved enterprise, the Company is entitled to deduct accelerated depreciation during the first five years of the use of those assets, beginning from the operation year of each asset.

Conditions for the application of benefits

The foregoing benefits are conditional upon the fulfillment of the conditions prescribed in the law, in regulations enacted pursuant thereto, and in the letters of authorization by virtue of which the investments in the approved enterprises were made, as stated above. Non-fulfillment of the conditions may lead to the cancellation of all or some of the benefits, and to a demand to repay the grant amounts, plus interest. According to the assessment of management, the Company is fulfilling the aforementioned conditions.

Note 21 - Taxes on Income (Cont.)

A. Tax rates applicable to the Group's member companies (Cont.)

Amendment to The Encouragement of Capital Investments Law, 5719-1959 (Amendment 68)

In January 2011, the Economic Policy Law For the Years 2011 and 2012 (Legislative Amendments), 5771-2011, was published, which prescribed, inter alia, amendments to the Encouragement of Capital Investments Law, 5719-1959 (hereinafter: the "Law"). The amendment changed the benefit tracks according to the law, and applied a uniform tax rate to all of the Company's preferred income, which will be considered a preferred company with a preferred enterprise. Beginning in tax year 2011, the Company chose to transition under the coverage of this amendment, and since that tax year it has been subject to the amended tax rates, as specified below.

Amendment to The Encouragement of Capital Investments Law, 5719-1959 (Amendment 73)

In December 2016 the Economic Efficiency Law (Legislative Amendments to Implement the Economic Policy for Budget Years 2017 and 2018), 5777-2016 was published, which includes Amendment 73 to the Encouragement of Capital Investments Law (hereinafter: the "Amendment"). The amendment prescribes that the tax rate which will apply as from January 1, 2017 to a preferred enterprise which is located in development region A will be 7.5%, instead of 9% (the tax rate for preferred enterprises which are located outside of development region A remains 16%).

The Company chose to transition to the preferred enterprise track beginning in tax year 2011, and submitted its final decision to the tax authorities. The deferred tax balances were updated on the foregoing date.

The Encouragement of Industry (Taxes) Law, 5729-1969

The Company has the status of an "industrial company", as defined in this law. In accordance with this status, and by virtue of the regulations which were published, the Company is entitled to claim the deduction of depreciation at increased rates in respect of equipment which is used in industry activity, as determined in the regulations enacted pursuant to the Adjustments Law. The Company is also entitled to depreciation in respect of patents or usage rights in respect of patents or knowledge, which are used in the development or promotion of the enterprise, to deduct expenses in respect of an issuance of shares listed on the stock exchange, and to submit a consolidated report, under certain conditions.

Note 21 - Taxes on Income (Cont.)

B. Tax rates applicable to the Group's member companies

1. In December 2016 the Economic Efficiency Law (Legislative Amendments to Implement the Economic Policy for Budget Years 2017 and 2018), 5777-2016, was published, which includes a reduction of the corporate tax rate beginning on January 1, 2017, to a rate of 24% (instead of 25%), and beginning on January 1, 2018, to a rate of 23%.

   The corporate tax rate in Israel in 2020, 2019 and 2018 was 23%.

   A body of persons is subject to real capital gains tax according to the corporate tax rate which applies beginning from the date of the sale.

   In August 2013, The Law for the Change of National Priorities (Legislation Amendments for Achieving the Budgetary Targets for the Years 2013 and 2014), 5773-2013 was published (the "Budget Law"). The law includes, inter alia, provisions in respect of the taxation of revaluation gains, beginning on August 1, 2013; however, the entry into effect of the aforementioned provisions in respect of revaluation gains is conditional upon the publication of regulations defining "surpluses not subject to corporate tax", and regulations which will prescribe provisions to prevent double taxation, which may apply to assets outside of Israel. As of the approval date of these financial statements, the foregoing regulations have not yet been published.

2. The main tax rates which apply to the consolidated companies incorporated outside of Israel are:

   Companies incorporated in the United States - weighted tax rate of around 25% (federal tax, and the Company's applicable state tax and local tax).
   On December 22, 2017, a tax reform was enacted in the United States, which includes a reduction of the federal corporate tax rate to 21% (instead of 35%), and for certain types of export income, to 13.125%.
   Companies incorporated in France - the corporate tax rate which applied in the years 2018 and 2019 up to total income of EUR 500 thousand was 28%; above that income level, tax rates of 31% and 33.34% apply, respectively. The corporate tax rate which applied in 2020 was 28%. The corporate tax rate which will apply in 2021 is 26.5%, and in 2022 and thereafter - 25%. A body of persons is subject to real capital gains tax according to the corporate tax rate which applies beginning from the date of the sale.
   Companies incorporated in Australia - tax rate of 30%.
   Companies incorporated in Germany - tax rate of 30%.

Note 21 - Taxes on Income (Cont.)

C. Final tax assessments

Final tax assessments have been issued for the Company up to and including tax year 2018. Tax assessments which are considered final have been issued for MTFR up to and including tax year 2017. Tax assessments which are considered final have been issued for MTUS up to and including tax year 2016. A tax assessment which is considered final was issued for MTAU for tax year 2015. A tax assessment which is considered final was issued for BF for tax year 2017.

D. Deferred taxes

Composition and changes:

	Statements of financial position	
	December 31,	
	2020	2019
	NIS thousands	
Deferred tax assets (liabilities)		
fixed assets and right-of-use assets	2,621	2,337
Carryforward tax losses in subsidiary	13,125	8,845
Employee benefits	2,304	1,787
Intangible assets (including excess purchase price allocation)	(8,296)	(3,049)
Others (mostly in respect of unrealized profit)	12,744	7,894
	22,498	17,814

	Statement of comprehensive income (loss)		
	For the year ended December 31,		
	2020	2019	2018
	NIS thousands		
Deferred tax income (expenses)			
fixed assets	276	191	109
Carryforward tax losses	4,390	-	757
Employee benefits	436	208	114
Others (mostly in respect of unrealized profit)	3,737	(2,918)	382
Total deferred tax income (expenses) in the statement of income	8,839	(2,519)	1,362
Gain (loss) on remeasurement in respect of defined benefit plans	68	202	(39)
Total deferred tax income (expenses) in the statement of comprehensive income	8,907	(2,317)	1,323

*) In respect of the impact of exchange rates of foreign operations on deferred tax balances in 2020, a total of around NIS (169) thousand was carried to the reserve for translation differences, net. (2019 - NIS 902 thousand).

Note 21 - Taxes on Income (Cont.)

D. Deferred taxes (Cont.)

Deferred taxes are presented in the statement of financial position as follows:

	December 31,	
	2020	2019
	NIS thousands	
Non-current assets	26,147	23,795
Non-current liabilities	3,649	5,981

E. Income tax expenses (income) which are included in the statement of income

	For the year ended December 31,		
	2020	2019	2018
	NIS thousands		
Current taxes	37,667	24,291	23,468
Deferred taxes, see also D above	(8,839)	2,519	(1,362)
Taxes in respect of previous years	(2,477)	(901)	(1,269)
	26,351	25,909	20,837

Current taxes in Israel are calculated according to an average tax rate of 13.2% of the taxable profit.

F. Theoretical tax

Presented below is the reconciliation between the tax amount which would have applied had all of the income and expenses, profits and losses in the statements of income and other comprehensive income been taxable according to the statutory tax rate, and the amount of income taxes carried in the statement of income:

Note 21 - Taxes on Income (Cont.)

	For the year ended December 31,		
	2020	2019	2018
	NIS thousands		
Income before income tax	194,799	143,848	126,924
Statutory tax rate	23%	23%	23%
Tax calculated according to the statutory tax rate:	44,804	33,085	29,193
Decrease in income taxes due to the following factors:			
Tax benefit arising from preferred income tax rates by virtue of the Encouragement Law	(11,588)	(8,217)	(8,127)
Non-deductible expenses for tax purposes and exempt income (including, inter alia, the cost of share-based payment)	905	632	1,188
Taxes due to different tax rates in consolidated companies outside of Israel	(1,144)	1,196	(2)
Update to deferred tax balances in respect of changes in tax rates	23	188	(368)
Update to deferred tax balances in respect of losses carryforward tax losses	(4,280)	-	-
Tax refunds in respect of previous years	(2,477)	(901)	(1,269)
Others	108	(74)	222
Taxes on income	26,351	25,909	20,837

In 2020, the average tax rate amounted to 13.5%; and in the years 2019 and 2018, the average tax rate amounted to 18% and 16.4%, respectively.

Note 22 - Deferred Liabilities and Commitments

A. Deferred liabilities

As of December 31, 2020, the Company has no material deferred liabilities.

B. Commitments

1. Lease agreements in respect of buildings

A. For details regarding the lease agreement in respect of buildings between the Group and the Kibbutz, see Note 32G.

B. In December 2015, an agreement was signed in respect of the lease of buildings on which the additional production site in Dalton Industrial Park is operated. The production site covers a built area of around 4,000 square meters. The monthly rent is around NIS 120 thousand, CPI-linked, and the rent will be increased by 10% once every 5 years. The lease period is 15 years, and after the end of a 5 year period, and every two years until the end of the lease period, the Company will be entitled to terminate the lease provided that it has given written notice at least 6 months in advance.

In July 2016, an agreement was signed for the lease of a warehouse located near the production site in Dalton Industrial Park, on a built area of 1,000 square meters, and another 3,500 square meters of outdoor areas. The monthly rent is around NIS 30 thousand. The lease period is 5 years, with an option for early termination, subject to payment of the compensation specified in the agreement, and the provision of written notice at least 6 months in advance. In January 2020, the Company notified the lessors of the termination of the lease in the fourth quarter of 2020.

In December 2017, an agreement was signed for the lease of a warehouse located near the production site in Dalton Industrial Park, on a built area of 1,570 square meters. The monthly rent is around NIS 42 thousand. In December 2019 the Company extended the lease agreement for an additional year, until December 2020, under the same conditions. The Company did not extend the agreement for an additional period.

Note 22 - Deferred Liabilities and Commitments (Cont.)

B. Commitments (Cont.)

1. Lease agreements in respect of buildings (Cont.)

In accordance with the Company's right to lease additional areas in Dalton Industrial Park, on December 31, 2018, the Company engaged in an agreement for the lease of a warehouse and acceptance testing area, with an area of 3,000 square meters. This agreement was unified with the renewed agreement, which was signed in 2020, which includes the lease of an additional building in respect of production areas with an area of 3,000 square meters. the monthly rent for each of the buildings is around NIS 102 thousand. The lease period is 15 years, beginning on April 1, 2020, in respect of a warehouse and acceptance testing area, and in respect of a building to house production areas, beginning on January 1, 2021, upon the completion date of construction, and the delivery of the buildings. The agreement provides that the payment of rent will begin 6 months after the delivery date, and will include only the management fee component during that period. The Company is entitled to terminate the agreement after 10 years.

C. On December 20, 2016 the consolidated company in France signed a lease agreement in respect of an office space with of 800 square meters, and warehouse areas of 4,100 square meters, in consideration of monthly rent in the amount of EUR 30 thousand. The period of the agreement is 9 years, beginning on January 1, 2017. The lease agreement allows full or partial termination of the engagement beginning in January 2019, with payment of agreed-upon compensation ranging from EUR 60 thousand to EUR 80 thousand, depending on the date of termination of the engagement, and the size of the area.

In April 2015, the consolidated company in France signed a lease agreement in respect of office areas of 300 square meters. The monthly rent is around EUR 7 thousand. The lease agreement will conclude in March 2024.

In July 2016, the consolidated company in France signed a lease agreement in respect of an office space of 110 square meters. The monthly rent is around EUR 1 thousand. The lease agreement will conclude in July 2025.

In October 2018, the consolidated company in France signed a lease agreement in respect of warehouse areas of 1,533 square meters. The monthly rent is around EUR 10 thousand. The lease agreement will conclude in October 2028, but includes an option to terminate the agreement in October 2024 or in October 2027, without payment of compensation, or alternatively, to terminate the engagement at any time, with payment of compensation in the amount of 6 months' rent.

Note 22 - Deferred Liabilities and Commitments (Cont.)

B. Commitments (Cont.)

2. Lease agreements in respect of buildings (Cont.)

D. In September 2012, the consolidated company in the United States signed a lease agreement in respect of an office space of around 2,100 square meters. The monthly rent is around USD 11 thousand. The lease agreement concluded in May 2018.

In December 2017, the consolidated company in the United States signed a lease agreement in respect of an office space and warehouse areas of around 4,000 square meters, instead of the lease agreement which concluded on May 31, 2018. The monthly rent is around USD 26 thousand. The lease agreement will conclude in April 2028.

E. The Company in Australia has 5 lease agreements in respect of office areas and warehouses with a total area of around 3,100 square meters. The total monthly rent is around AUD 32 thousand, and the agreements will conclude in 2021 and 2022.

F. The Company in Germany has a lease agreement in respect of office and warehouse spaces with a total area of around 8,250 square meters. The monthly rent is around EUR 11.4 thousand. The lease agreement will conclude in December 2021, but includes an option of early termination subject to 6 months' advance notice.

3. The Group has operating lease agreements in respect of 195 vehicles, for periods ending until 2023. The total annual lease fees in respect of the leases of these vehicles is around NIS 7,035 thousand.

Note 23 - Other Liabilities

Composition:

	December 31,	
	2020	2019
	NIS thousands	
Options in respect of kibbutz members - see Note 25G	3,009	1,508
Provisions - see Note 26	2,312	-
Other liabilities	1,121	888
	6,442	2,396

Note 24 - Equity

A. Composition of share capital

	December 31,		
	2020 and 2019	2020	2019
	Registered	Issued and paid-up	
	Number of shares in thousands		
Ordinary shares with a par value of NIS 0.1 each	120,000	108,385	107,744

B. Rights associated with shares

1. The rights available to holders of ordinary shares include the right to participate in general meetings, the right to receive profits, the right to participate in the distribution of the Company's assets, and any other right associated with shares.

2. listed on the Tel Aviv Stock Exchange.

C. Treasury shares - Company shares which are held by the Company

The interests of the Company in the Company's shares are as follows:

	December 31, 2019 and 2020
Shares	80,372
Rate of issued capital (in %)	0.07
Cost (NIS thousands)	500

D. Capital reserve from transactions with controlling shareholder

Assets and liabilities for which a transaction was executed between the Company and its controlling shareholder, or between companies under common control, are recognized on the transaction date at fair value. The difference between the fair value and the consideration which was determined in the transaction is carried to equity. A positive difference essentially constitutes a dividend, and therefore reduces retained earnings. A positive difference essentially constitutes an owner's investment, and is therefore presented in a separate item under equity, "capital reserve in respect of transactions with controlling shareholder".

E. Dividend

1. On April 18, 2019, the Company distributed a dividend to its shareholders in the amount of NIS 24 million, gross, and in the amount of NIS 0.2229 per share.
2. On September 24, 2019, the Company distributed a dividend to its shareholders in the amount of NIS 48 million, gross, and in the amount of NIS 0.4458 per share.
3. On May 14, 2020, the Company distributed a dividend to its shareholders in the amount of NIS 14 million, gross, and in the amount of NIS 0.1295 per share.
4. On August 13, 2020, the Company distributed a dividend to its shareholders in the amount of NIS 14 million, gross, and in the amount of NIS 0.1295 per share.
5. On September 23, 2020, the Company distributed a dividend to its shareholders in the amount of NIS 55 million, gross, and in the amount of NIS 0.5083 per share.

F. Adjustments arising from translation of financial statements

The reserve is used to record changes in the exchange rates of foreign currencies, due to the translation of the financial statements of subsidiaries which constitute foreign operations.

G. Capital management in the Company

The Company's objective in managing its capital is:
To ensure the Group's ability to ensure the continuity of its business, and thereby to generate returns for its shareholders, investors and other interested parties.
The Company strives to achieve return on equity at the standard level for the industry and field of activity in the markets where the Company is engaged. These returns are subject to changes in accordance with the market factors which apply in the Company's sector of activity and business environment. The Company is not subject to any requirements regarding minimum required capital, or achieving a certain level of return on equity.

H. Bonus shares

On March 30, 2017 , the Company's Board of Directors resolved to distribute 5 million bonus shares with a par value of NIS 0.1 each, for the purpose of complying with the terms of the Investment Center's approval letter. The distribution of bonus shares is at a rate of 4.87% of issued and paid-up capital. The bonus shares were distributed on April 19, 2017.

Note 25 - Share-Based Payment Transactions

A. Expense which was recognized in the financial statements

The expenses which were recognized in the financial statements in respect of services which were received from employees are presented in the following table:

	For the year ended December 31,	
	2020	2019
	NIS thousands	
Equity-settled share-based payment plans	4,350	4,615
Cash-settled share-based payment plans	4,196	1,047
Total expense recognized from share-based payment transactions	8,546	5,662

B. On February 6, 2018, the Company's Compensation Committee decided to adopt an options plan for the allocation of up to 4,000,000 options to the Company's employees and managers. Once they have been fully exercised into Company shares, they will constitute around 3.7% of the Company's issued and paid-up share capital. The plan is based on a cashless exercise mechanism, based on the benefit component only, meaning that the actual number of shares is expected to less than that stated above.

On February 13, 2018, the Company's Board of Directors approved the granting of options to Company employees, as specified below.

C. Equity-settled share-based payment plan for the Company's CEO and the Company's executives

On February 13, 2018, 2,682,000 options were granted to the Company's managers who are not kibbutz members. The grant to managers also included the allocation of 313,000 options to the Company's CEO, Mr. Eyal Tryber. The exercise price of the options was set as NIS 18.47 per share.
The options will each be exercisable into one ordinary share of the Company with a par value of NIS 0.1.
The options will vest in three annual tranches of 25% after one year, 25% after two years, and 50% after three years. All of the options will be exercised on a cashless exercise basis.

The benefit associated with the granted options was calculated according to the principles which were determined in IFRS 2, according to the calculation formula which is based on the binomial model, with an annual standard deviation of 24.2%, based on the share price on the grant date of NIS 17.38 per share, a risk-free interest rate of 1%, an early exercise factor of

220%/280%, and a forfeiture rate of 6.7%. The overall economic value of the fair value of the options which were allocated as of the grant date was set as around NIS 11,045 thousand.

On March 20, 2019, 523,000 additional options were allocated to the Company's managers who are not kibbutz members. The exercise price of the options was set as a total of NIS 23.97 per share.
The options will each be exercisable into one ordinary share of the Company with a par value of NIS 0.1.
The options will vest in three annual tranches of 25% after one year, 25% after two years, and 50% after three years. All of the options will be exercised on a cashless exercise basis.
The benefit associated with the granted options was calculated according to the principles which were determined in IFRS 2, according to the calculation formula which is based on the Black & Scholes model, with an annual standard deviation of 24.8%, based on the share price on the grant date of NIS 23.97 per share, and a risk-free interest rate of 1.2%. The overall economic value of the fair value of the options which were allocated as of the grant date was set as around NIS 3 million.

On May 25, 2020, the Company's Board of Directors resolved to grant another 833,000 options to Company managers and service providers. The options are convertible into ordinary Company shares with a par value of 0.1 each. The exercise price of the options was set as a total of NIS 29.75 per share. The vesting terms of the granted options are: 25% after one year, 25% after two years, and 50% after three years. All of the options will be exercised on a cashless exercise basis. The benefit associated with the granted options was calculated according to the principles which were determined in IFRS 2, according to the calculation formula which is based on the Black & Scholes model, with an annual standard deviation of 36.9%, based on the share price on the grant date of NIS 29.75 per share, a risk-free interest rate of 0.5%. The overall economic value of the fair value of the options which were allocated as of the grant date was set as around NIS 6 million.

Note 25 - Share-Based Payment Transactions (Cont.)

C. Changes during the year

Presented below is a table which includes changes in the number of share options, and their weighted average exercise prices:

	2020		2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		NIS		NIS
Share options at beginning of year	3,443,000	19.23	2,965,000	18.47
Share options which were granted during the year	833,000	29.75	523,000	23.97
Share options which were forfeited during the year	(216,000)	24.16	(45,000)	23.97
Share options which were exercised during the year	(1,463,501)	18.57	-	-
Share options at end of year	2,596,499	22.57	3,443,000	19.23
Share options which were exercisable at end of year	128,500	22.00	741,250	18.47

D. During the reporting period, employees, service providers and executives of the Company exercised 1,463,501 options for the purchase of ordinary Company shares, through a cashless exercise mechanism. 640,998 ordinary Company shares were issued to employees, service providers and officers of the Company as a result of the exercised options.

E. The range of exercise prices for the share options as of December 31, 2020 amounted to NIS 18.47-29.75.

Note 25 - Share-Based Payment Transactions (Cont.)

F. Cash-settled share-based payment transactions

1. On February 13, 2018, Kibbutz Yizre'el - Workers Cooperative Association Ltd. (hereinafter: the "Kibbutz"), which is the Company's controlling shareholder, received a monetary benefit which is equivalent to warrants granted to the Company's senior employees - phantom options, in respect of the Kibbutz employees who serve in senior positions in the Company (hereinafter: "Executives on Behalf of the Kibbutz"). The monetary benefit is based on the theoretical allocation of 145,000 options, which provide a monetary right equivalent to the purchase of 145,000 ordinary Company shares.
   The exercise price of each option is NIS 18.47, linked to the consumer price index (see section C above). The options are exercisable in three annual tranches of 25% after one year, 25% after two years, and 50% after three years.

2. On March 20, 2019, the Kibbutz, which is the Company's controlling shareholder, received a monetary benefit which is equivalent to warrants granted to the Company's senior employees - phantom options, in respect of the Kibbutz employees who serve in senior positions in the Company (hereinafter: "Executives on Behalf of the Kibbutz"). The monetary benefit is based on the theoretical allocation of 45,000 options, which provide a monetary right equivalent to the purchase of 45,000 ordinary Company shares.
   The exercise price of each option is NIS 23.97, linked to the consumer price index (see section C above). The options are exercisable in three annual tranches of 25% after one year, 25% after two years, and 50% after three years.

3. On May 25, 2020, the Kibbutz, which is the Company's controlling shareholder, received a monetary benefit which is equivalent to warrants granted to the Company's senior employees - phantom options, in respect of the Kibbutz employees who serve in senior positions in the Company (hereinafter: "Executives on Behalf of the Kibbutz"). The monetary benefit is based on the theoretical allocation of 40,000 options, which provide a monetary right equivalent to the purchase of 40,000 ordinary Company shares.
   The exercise price of each option is NIS 29.75, linked to the consumer price index (see section C above). The options are exercisable in three annual tranches of 25% after one year, 25% after two years, and 50% after three years.

4. In 2020 the Kibbutz exercised 83,750 phantom options, in consideration of NIS 2,695 thousand.

5. The benefit associated with the granted options was calculated at the end of each reporting period, based on the principles specified in IFRS 2, according to the calculation formula which is based on the binomial model.

Note 26 - Provisions

	Warranty provision	Lawsuits	Other	Total
	NIS thousands			
Balance as of January 1, 2020	8,896	275	1,222	10,393
Translation adjustments	(373)	5	21	(347)
Amounts paid	-	(180)	-	(180)
Provisions made in the year	3,734	373	169	4,276
Balance as of December 31, 2020	12,257	473	1,412	14,142

	December 31,	
	2020	2019
	NIS thousands	
Presented in the statement of financial position under:		
Current liabilities	11,830	10,393
Non-current liabilities	2,312	-
	14,142	10,393

Provision for warranty

The provision was recognized for expected warranty claims in respect of products which were purchased in the last two years, based on the Company's past experience regarding repairs and returns. The Company expects that it will bear most of these costs in the coming year, and all of the costs within two years after the reporting date. The assumptions which were used to calculate the warranty provision were based on the Company's current sale levels, and on currently available information regarding returns, based on the two year warranty which is given for all sold products.

LITIGATION

See Note 22A.

Note 27 - Charges

To secure the fulfillment of the conditions for approval as an approved enterprise, which was issued for the Company pursuant to The Encouragement of Capital Investments Law, 5719-1959, an unrestricted floating charge was recorded in favor of the State of Israel, in respect of all of the Company's machines, equipment, tools, devices, and facilities.

Note 28: Additional Details Regarding Items of Profit or Loss

		For the year ended December 31,		
		2020	2019	2018
		NIS thousands		
A.	Revenues from sales			
	In Israel	19,233	14,374	12,928
	Foreign countries	1,057,647	832,132	735,398
		1,076,880	846,506	748,326
B.	Cost of sales			
	Materials	464,815	365,486	321,972
	Work services	6,674	6,847	5,946
	Wages, salaries and related expenses	91,925	69,815	61,537
	Rent in respect of buildings	1,710	1,892	12,518
	Maintenance and operation of equipment and machines	17,929	18,338	18,837
	Depreciation and amortization	35,291	32,216	17,617
	Other manufacturing expenses	22,291	21,097	20,254
		640,635	515,691	458,681
	Increase in inventory of goods in process and finished goods	(15,103)	(21,884)	(29,494)
		625,532	493,807	429,187

Note 28: Additional Details Regarding Items of Profit or Loss (Cont.)

C. Research and development expenses

Work services	1,590	1,188	1,081
Wages, salaries and related expenses	19,215	13,631	11,673
Depreciation	1,757	1,107	-
Materials	9,874	8,602	9,697
	32,436	24,528	22,451

D. Sales and marketing expenses

Work services	2,692	2,541	2,551
Wages, salaries and related expenses	58,883	52,224	43,246
Advertising and sales promotion	37,427	39,336	38,905
Shipping costs	18,936	8,606	7,781
Depreciation and amortization	3,429	1,819	464
	121,367	104,526	92,947

E. General and administrative expenses

	For the year ended December 31,		
	2020	2019	2018
	NIS thousands		
Management fees	2,519	2,519	2,519
Work services	3,923	2,089	1,477
Wages, salaries and related expenses	43,482	38,111	32,555
Legal and consulting fees	8,885	6,589	6,722
Office expenses	12,560	8,152	8,833
Allowance for doubtful and lost debts	53	185	437
Depreciation and amortization	6,313	5,435	2,906
Overseas travel	618	1,942	1,915
Vehicles	246	672	3,032
Enterteinment	2,964	3,578	2,265
Others	7,767	9,100	7,891
	89,330	78,372	70,552

F. Finance income

Foreign currency transactions	-	17,785	-
Interest income from short term investments	381	438	415
Income in respect of exchange differences, net	-	-	2,636
Interest income from bank deposits	86	95	182
	467	18,318	3,233

G. Finance expenses

Finance expenses in respect of short term credit	4,014	2,334	959
Expenses in respect of exchange differences, net	1,347	12,919	-
Foreign currency transactions	3,470	-	5,498
Finance expenses in respect of leases	2,674	2,776	-
Fee expenses to banks and others	2,376	1,416	3,119
	13,881	19,445	9,576

Note 29 - Net Earnings per Share

	For the year ended December 31,					
	2020		2019		2018	
	Weighted number of shares	Net profit attributable to Equity holders of the Company	Amount Weighted shares	Net profit attributable to Equity holders of the Company	Weighted number of shares	Net profit attributable to Equity holders of the Company
	Thousands	NIS thousands	Thousands	NIS thousands	Thousands	NIS thousands
Number of shares and profit for the purpose of calculating basic net earnings	108,111	154,280	107,664	111,212	107,664	99,524
Impact of dilutive potential ordinary shares	1,001	-	758	-	33	-
Number of shares and profit for the purpose of calculating diluted net earnings per share	109,112	154,280	108,422	111,212	107,697	99,524

Details regarding number of shares and profit which were used to calculate net earnings per share

Note 30 - Operating Segments

A. General

The operating segments were determined based on the information which is evaluated by the Chief Operating Decision Maker (CODM) for the purpose of reaching decisions regarding the resource allocation and performance assessment. Accordingly, for management purposes, the Group is structured according to operating segments, based on the products and services of the business units, and has the following three operating segments:

Manufacturing of private pool cleaning robots	-	These products are intended for consumers who are private pool owners.
Manufacturing of public pool cleaning robots	-	These products are intended for sale to hotels, sport centers, and olympic-sized pools.
Safety products and related pool products segment	-	In this segment, the Company produces and markets private pool alarms, systems to prevent drowning in private and public pools, and is also engaged in the production and marketing of covers for private swimming pools. Related products include supplementary products for swimming pools which are made by various manufacturers, including solar heating systems, glass media for filters, and water heaters.

Management monitors the operating results of its business units separately, in order to reach decisions regarding resource allocation and performance assessment.

The performance of the segments is assessed based on gross profit. Research and development expenses, sales and marketing expenses, general and administrative expenses, and other expenses, as well as the Group's financial activities (including finance expenses and finance income) are managed on the level of the Group, and are not attributed to operating segments.

	Manufacturing of private pool cleaning robots	Manufacturing of public pool cleaning robots	Safety products and related pool products	Total
	NIS thousands			
For the year ended December 31, 2019				
Total revenues from externals	694,990	70,904	80,612	846,506
Total segmental income	285,185	37,563	29,951	352,699
Unallocated shared expenses				(207,426)
Other expenses				(298)
Finance expenses, net				(1,127)
Income before income tax				143,848

Note 30 - Operating Segments (Cont.)

B. Report regarding operating segments

	Manufacturing of private pool cleaning robots	Manufacturing of public pool cleaning robots	Safety products and related pool products	Total
	NIS thousands			
For the year ended December 31, 2020				
Total revenues from externals	911,249	64,611	101,020	1,076,880
Total segmental income	378,098	34,664	38,586	451,348
Unallocated shared expenses				(243,133)
Other expenses				(2)
Finance expenses, net				(13,414)
Income before income tax				194,799

Note 30 - Operating Segments (Cont.)

B. Report regarding operating segments (Cont.)

	Manufacturing of private pool cleaning robots	Manufacturing of public pool cleaning robots	Safety products and related pool products	Total
	NIS thousands			
For the year ended December 31, 2018				
Total revenues from externals	605,198	70,805	72,323	748,326
Total segmental income	254,780	38,577	25,782	319,139
Unallocated shared expenses				(185,950)
Other income				78
Finance expenses, net				(6,343)
Income before income tax				126,924

C. Geographical information

1. Sales by geographical markets (by customer location):

	For the year ended December 31,		
	2020	2019	2018
	NIS thousands		
Europe	461,368	377,978	353,802
North America	437,164	330,185	264,986
Oceania	128,538	94,396	84,509
Rest of the world	49,810	43,947	45,029
	1,076,880	846,506	748,326

2. Fixed assets (property, plant and equipment, net, right-of-use assets, net, and intangible assets, net), according to their geographical location:

	December 31,	
	2020	2019
	NIS thousands	
Israel	264,488	217,806
Europe	67,869	23,832
North America	7,204	7,457
Oceania	9,221	3,932
	348,782	253,027

Note 30 - Operating Segments (Cont.)

D. Main customers

9.

	For the year ended December 31,		
	2020	2019	2018
	NIS thousands		
Turnover from customer A	308,581	235,347	200,962
	Percent of total sales		
Customer A	28.7%	27.8%	26.9%

Note 31 - Financial Instruments

A. Classification of financial assets and financial liabilities

	December 31,	
	2020	2019
	NIS thousands	
Financial assets		
Cash and cash equivalents	226,517	78,548
Financial assets at fair value through profit or loss:		
Forward contracts on foreign currency	937	3,044
Financial assets classified as held for trading	18,303	18,218
Total financial assets at fair value through profit or loss	19,240	21,262
Financial assets at amortized cost:		
Trade receivables	113,774	100,960
Financial liabilities		
Interest bearing loans and current credit:		
Short-term loan from banks	132,951	88,641
Total interest bearing loans and current credit	132,951	88,641
Financial liabilities at fair value through profit or loss:		
Other financial liabilities measured at amortized cost	368,180	258,713
Interest bearing loans and non-current credit:		
Loan from banking corporation	58,591	6,465

Note 31 - Financial Instruments (Cont.)

B. Goals and policies of management in respect of the management of financial risks

The Company's main financial liabilities are comprised of loans and credit. These financial liabilities are mostly intended to finance the Company's operations, and to provide guarantees to support its operations. The Company's main assets include other accounts receivable and cash, which directly arise from the Company's activity.

The Company is exposed to market risk and credit risk. The Company's senior management oversees the management of these risks. Risk management is performed in accordance with the policy which was approved by the Board of Directors. The Board of Directors sets forth principles for overall risk management, as well as the specific policy regarding certain risk exposures, such as exchange rate risk, credit risk, as well as the use of financial instruments, and investments of liquid surpluses.

1. Market risk

Market risk is the risk that the fair value of the future cash flows from a financial asset will change as a result of changes in market prices. Market risk includes three types of risk: interest rate risk, currency risk, and other price risks such as share price risk, and commodities price risk. Financial instruments which are subject to market risk include, inter alia, loans, credit and deposits.

The sensitivity analysis in the part presented below refers specifically to the positions as of December 31, 2020 and 2019.

2. Foreign currency risk

The Group operates through international distribution, and is exposed to exchange rate risk due to the exposure to various currencies, mostly the EUR and the USD. Exchange rate risk applies to future commercial transactions, assets which have been recognized, and liabilities which have been recognized, which are denominated in foreign currency which is not the functional currency, as well as net investments in foreign operations. The Company's managers are responsible for managing the net position of each foreign currency using forward contracts on that currency.

Note 31 - Financial Instruments (Cont.)

As of December 31, 2020, the Company has an excess of financial liabilities over financial assets in the USD relative to the NIS, in the amount of NIS 13,951 thousand. (As of December 31, 2019 - NIS 6,711 thousand).

As of December 31, 2020, the Company has an excess of financial assets over financial liabilities in the AUD relative to the NIS, in the amount of NIS 43,559 thousand. (As of December 31, 2019 - NIS 34,719 thousand).

As of December 31, 2020, the Company has an excess of financial assets over financial liabilities in the EUR relative to the NIS, in the amount of NIS 79,361 thousand. (As of December 31, 2019 - NIS 13,358 thousand).

The Company manages its foreign currency risk through hedging transactions, most of which will be realized within 12 months.

The Company hedges its exposure to volatility in the translation of its foreign operations through holding net loans in foreign currency, and through forward and swap contracts on foreign currency.

On December 31, 2020 and 2019, the Company hedged 70% and 63% of its expected cash flow exposure in foreign currency, respectively. As of the reporting date, these transactions are highly probable.

Sensitivity analysis to foreign currency:

The following table demonstrates the sensitivity test to reasonably possible changes in the USD, AUD, and EUR, with all other variables remaining unchanged. The effect of the Company's pre-tax profit applies to changes in the fair value of monetary assets and liabilities. The Company's exposure to changes in foreign currency in all other currencies is immaterial.

Note 31 - Financial Instruments (Cont.)

	December 31,	
	2020	2019
	NIS thousands	
Sensitivity test to changes in the EUR exchange rate		
Profit (loss) from the change		
Exchange rate increase of 10%	11,343	1,233
Exchange rate decrease of 10%	(11,343)	(1,233)

	December 31,	
	2020	2019
	NIS thousands	
Sensitivity test to changes in the USD exchange rate		
Profit (loss) from the change		
Exchange rate increase of 10%	(1,395)	(672)
Exchange rate decrease of 10%	1,395	672

	December 31,	
	2020	2019
	NIS thousands	
Sensitivity test to changes in the AUD exchange rate		
Profit (loss) from the change		
Exchange rate increase of 10%	4,354	3,462
Exchange rate decrease of 10%	(4,354)	(3,462)

3. Share price risk

For the Company's investments in marketable financial instruments on the stock exchange for securities, stocks and bonds, and financial assets measured at fair value through profit and loss, the sensitivity to market price risk is due to uncertainties regarding the future value of these investments. The Company manages price risk by diversifying its investment portfolio, and by limiting the total investment in stocks in general.

As of the reporting date, the Group's exposure to investments in financial instruments measured at fair value amounts to NIS 18,303 thousand. An increase or decrease of 10% in the prices of marketable securities on the stock exchange could result in an effect of around NIS 1,830 thousand on profit or loss.

Note 31 - Financial Instruments (Cont.)

C. Balance of trade receivables

The Company sells to its customers on credit of 0-120 days. The Company routinely secures the debts of most of its customers, and routinely assesses the credit which is given to its unsecured customers, including an in-depth evaluation of their environmental financial conditions. Additionally, the Company sometimes requires collateral from its customers, such as letters of credit or prepayments. The Company makes a provision for doubtful debts, based on factors which affect the credit risk of certain customers, past experience, and other information.

The Company continuously monitors customer debts, and the financial statements include provisions for doubtful debts which the Company believes adequately reflect the loss represented in doubtful debts.

D. Financial instruments and deposits

The Company holds cash and cash equivalents, short term and long term investments, and other financial instruments, at various financial institutions. These financial institutions are located in Israel and in the United States, and it is the Company's policy to diversify its investments among the different institutions. In accordance with the Company's policy, the relative credit stability of the various financial institutions is assessed on an ongoing basis. The deposits are deposited in the highest rated financial corporations in Israel.

E. Sensitivity tests and main working assumptions

The selected changes to the relevant risk variables were determined according to the estimates of management regarding reasonably possible changes to these risk variables.

The Company performed a sensitivity test to the main market risk factors which could affect the operating results or the reported financial position. The sensitivity tests present the profit or loss and/or changes in equity (before tax) for each financial instrument in respect of the relevant selected risk variable, as of each reporting date. The evaluation of risk factors was done based on the materiality of the exposure on the operating results or financial position, in respect of each risk factor, with reference to the functional currency, and assuming that all other variables remain unchanged.

The risk of marketable investments for which a quoted market price is available (stock exchange price) is based on possible changes to such market prices.

Note 32 - Transactions and Balances with the Controlling Shareholder and Related Parties

A. Balances with interested parties and related parties

	Regarding conditions	As of December 31,	
		2020	2019
		NIS thousands	
	See Note	Controlling shareholder	
Trade payables		39	60
Other accounts payable	32E-H	1,926	2,478
Current maturities of lease liabilities	32G	5,381	4,746
Lease liabilities	32G	35,578	37,138

B. Transactions with related parties and interested parties

	For the year ended December 31,		
	2020	2019	2018
	NIS thousands		
Payroll and related expenses for employees of the Company or on its behalf (including share-based payment)	2,056	2,010	1,888
Fees for directors who are not employees of the Company or on its behalf	414	307	334

	For the year ended December 31,		
	2020	2019	2018
	NIS thousands		
Management fees to directors on behalf of the controlling shareholder who are not employees of the Company or on its behalf (**)	2,519	2,519	2,519

(**) Following amendment 16 to the Companies Law, including management fees, fixed compensation, for directors on behalf of the controlling shareholder who are not employed in the Company or on its behalf, in exchange for management services and the transfer of information, see Note 32F.

Note 32 - Transactions and Balances with the Controlling Shareholder and Related Parties (Cont.)

Number of people to which the salary and benefits apply			
Related parties and interested parties employed in the Company or on its behalf	1	1	1
Directors who are not employees of the Company	3	3	3
Directors on behalf of the controlling shareholder who are not employees of the Company or on its behalf	6	6	6
	10	10	10

C. Transactions with interested parties and related parties

Transactions with the controlling shareholder:

	For the year ended December 31,		
	2020	2019	2018
	NIS thousands		
Management fees (see 32F)	2,519	2,519	2,519
Work services (see 32E)	12,715	10,449	9,669
Rent in respect of buildings (see 32G)	-	-	5,428
Depreciation expenses in respect of leases (see 32G)	5,437	5,137	-
Finance expenses in respect of leases (see 32G)	1,129	1,197	-
Various other services	826	1,839	2,180
Provision of services (see 32H)	582	582	582
	23,208	21,723	20,378

D. Income and expenses from related parties and interested parties

Terms of transactions with related parties

Purchases from related parties are executed at market prices. Unpaid balances at year end are not secured, do not bear interest, and are settled in cash. No guarantees in respect of amounts receivable or payable were received or given.

Note 32 - Transactions and Balances with the Controlling Shareholder and Related Parties (Cont.)

E. Work services from members of Kibbutz Yizre'el

Since January 1, 2004, an agreement has been in effect according to which the Kibbutz provides to the Company, upon its demand, workforce services of the Kibbutz members and/or candidate members and/or Kibbutz residents.

In exchange for the services of the Kibbutz workers, the Company undertook to pay to the Kibbutz a monthly consideration which is calculated based on the number of work hours which the Kibbutz will provide, times a fixed rate per work hour (hereinafter: the "Fixed Rate"), as well as any benefit, bonus, tip, or the economic value thereof, to the Company, which will be distributed by the Company to all of its employees.

Following amendment 16 to the Companies Law, and following the Audit Committee's recommendation, the Company's Board of Directors approved, on September 27, 2011, a fixed rate per work hour in the amount of NIS 105, beginning on January 1, 2012. The agreement period was set as 5 years from that date. The Board of Directors also approved that any update to the salary which is paid to the Kibbutz will be implemented immediately, in accordance with the company-wide change to company salaries.

In January 2017 the workforce provision agreement was extended for an additional period of 5 years, beginning on January 1, 2017 (hereinafter: the "Renewed Agreement"). Under the renewed agreement, the fixed rate was reduced to a total of NIS 117 per hour. As of December 2020, the fixed hourly work rate is NIS 128.7.

According to the workforce agreement, the Kibbutz will provide to the Company, upon its demand, workforce services provided by the Kibbutz members (and candidate members) at a scope of 39 positions (186 monthly work hours per position), and according to the hourly rate specified above. If the Kibbutz workers are effectively employed additional hours beyond the aforementioned scope of 39 positions, the Company will pay to the Kibbutz an additional consideration, according to the same tariff per work hour, up to a maximum of 10% of the payment in respect of 39 positions. The Company is entitled to increase, from time to time, the number of Kibbutz workers who are employed by it at the same tariff, in accordance with its requirements and the Kibbutz's ability to provide additional suitable workforce (the Kibbutz has the right to priority in the provision of suitable workforce as stated above, and the Company has the right to refuse, on reasonable grounds).

Note 32 - Transactions and Balances with the Controlling Shareholder and Related Parties (Cont.)

E. Work services from members of Kibbutz Yizre'el (Cont.)

The Company will also provide work services given by additional Kibbutz workers in accordance with the Company's needs, as temporary workers, at a scope of up to 15% of the total number of temporary workers who are employed at that time, according to the same tariff.
The Kibbutz provides the workforce services to the Company as an independent contractor, and is not subject to an employer - employee relationship between the Company and the Kibbutz workers (whereby the Kibbutz is obligated to indemnify the Company, immediately upon its first demand, for any loss, damage in case of any claims regarding the existence of an employer - employee relationship with the Company). The Kibbutz has also undertaken to be exclusively responsible towards its employees, and to purchase, at its own expense, an employer's liability insurance policy to cover all Kibbutz employees.

It was further determined in the agreement that any significant change to the total amount of consideration which is paid to the Kibbutz in accordance with the agreement, or to the number of kibbutz members who are employed in the Company, beyond the number as of the signing date of the workforce services agreement, will require obtaining the approvals which are required by law (approval from the Audit Committee, Board of Directors and general meeting).

F. Management fees and use of information

On June 12, 2004, the Company and the Kibbutz signed an agreement regarding management fees and the use of information. The original period of the agreement was set as ten years, and in accordance with its terms, it will be extended automatically for additional periods of three years each, unless one of the parties has announced in writing, up to 3 months before the end of any period, its desire not to extend the agreement. The agreement was initially set to conclude on June 11, 2014.

However, on October 4, 2012, in accordance with the provisions of Amendment No. 16 to the Companies Law, 5759-1999 ("Amendment 16"), the Company's general meeting resolved to update and approve the renewal of the engagement in the agreement for the provision of management services and the transfer of information vis-à-vis the Kibbutz, dated June 12, 2004, for a period of three years, (beginning on January 1, 2012), and in accordance with the conditions specified in the amended transaction report, which was published on September 12, 2012.

Note 32 - Transactions and Balances with the Controlling Shareholder and Related Parties (Cont.)

F. Management fees and use of information (Cont.)

On October 20, 2014, the Company's general meeting approved the renewal of the management agreement with the Kibbutz for an additional period of three years, beginning on January 1, 2015, under the same conditions as those which applied when it concluded.

On August 7, 2018, the Company's general meeting approved the renewal of the management agreement with the Kibbutz for an additional period of three years, beginning on January 1, 2018. The main terms of the new agreement are:
Total payment of up to NIS 2,518,633 per year, distributed as follows: a total of NIS 665,833 will be paid in respect of the activities of 5 directors on behalf of the Kibbutz, as part of the work of the Board of Directors; a total of NIS 900,000 will be paid in respect of the tenure of the Chairman of the Board, and NIS 450,000 will be paid in respect of the activities of another director outside of the board meetings, where out of the payments of the latter two, a payment in the amount of NIS 618,000 is conditional upon the fulfillment of targets which will be determined for the Company's CEO each year, in the part pertaining to the Company's targets only; and a total of NIS 502,800 will be paid in respect of ensuring the availability of the means of production.

After the reporting date, on January 4, 2021, the Company's general meeting approved the renewal of the management agreement with the Kibbutz for an additional period of three years, until December 31, 2023. The main terms of the renewed agreement are:
Total payment of up to NIS 2,302,595 per year, distributed as follows: a total of NIS 637,595 will be paid in respect of the activities of 5 directors on behalf of the Kibbutz, as part of the work of the Board of Directors; a total of NIS 900,000 will be paid in respect of the tenure of the Chairman of the Board, and NIS 300,000 will be paid in respect of the activities of another directors outside of the board meetings, where out of the latter two payments, a payment in the amount of NIS 618,000 is conditional upon the fulfillment of targets which will be determined for the Company's CEO each year, in the part pertaining to the Company's targets only; and a total of NIS 465,000 will be paid in respect of ensuring the availability of the means of production.

Note 32 - Transactions and Balances with the Controlling Shareholder and Related Parties (Cont.)

G. Rent in respect of buildings

Since January 1, 2004, a lease agreement has been in effect between the Kibbutz and the Company (hereinafter: the "Lease Agreement"), under which the Kibbutz leases The Company has outdoor areas and buildings for a period of 24 years, from January 1, 2004 to December 31, 2027. The monthly rent was set as a total of NIS 3.42 per square meter of the outdoor areas, a total of NIS 12.47 per square meter of warehouses and sheds, and a total of NIS 21.51 per square meter of areas in the building, and a fixed monthly amount of NIS 25 thousand, with the amounts being linked to the consumer price index for June 2004, until the actual payment date.

Since January 1, 2010, the Company is entitled to terminate the lease agreement at any time, subject to 12 months' advance notice, provided that the resolution to terminate the agreement was passed by the Company's Board of Directors, and in accordance with the provisions of any applicable law.
The Company undertook to insure the leased property at its own expense, and to add the Kibbutz as a beneficiary under the policy.
Following amendment 16 to the Companies Law, and in accordance with the recommendations of the Audit Committee, the Company's Board of Directors approved the continuation of the agreement between the Company and the Kibbutz, in accordance with the terms of the original agreement, and for the period specified in the original agreement.
In light of the expansion of the Company's activity over the years, on May 8, 2014 the Company's general meeting approved an addendum to the lease agreement (hereinafter: the "2014 Addendum to the Lease Agreement") which included a framework transaction for the lease of additional areas and the construction of additional buildings for the Company's use, from the Kibbutz, located near the plant building, and under the same terms as those specified in the lease agreement (similarly to the rent specified below). Under the addendum to the agreement, the Company leases from the Kibbutz an additional area, on which the Kibbutz has built a building with an area of around 2,330 square meters, which is used by the Company as a warehouse, including offices, and operational areas which are used for the warehouse, with an area of 2,208 square meters, for the remainder of the lease period, and in accordance with the terms of the lease agreement and the current lease rates. The Company also has the option to expand the warehouse by another 1,800 square meters during the lease period, subject to the approval of the Company's Audit Committee - this option was exercised in 2014, to increase the area of the new warehouse by an additional 236 square meters.

In August 2017, the Company's Audit Committee and Board of Directors approved the Company's engagement with the Kibbutz in another addendum

Note 32 - Transactions and Balances with the Controlling Shareholder and Related Parties (Cont.)

G. Rent in respect of buildings (Cont.)

to the lease agreement (hereinafter: the "2017 Addendum to the Lease Agreement"), determining that the addendum corresponds to the framework transaction. In accordance with the 2017 addendum to the lease agreement, it was agreed to expand an additional area of 1,400 square meters of warehouses, to convert 1,217 square meters of shed areas into production areas, and to convert 2,111 square meters of outdoor areas to operational shed areas. It was also agreed that the Company will have the option, exercisable until February 28, 2018 (the Company notified the Kibbutz of its desire to exercise the option) to rent a two story building with an area of up to 2,000 square meters, which will be built by the lessor in the area of the production site in Yizre'el, which will be used for production and office purposes. As of the reporting date, this building is under construction, and is occupancy to be occupied in April 2021.

In March 2019, the Company's Audit Committee and Board of Directors approved the Company's engagement with the Kibbutz in an additional addendum to the lease agreement (hereinafter: the "New Addendum to the Lease Agreement"). The new addendum updates the expansion of the warehouse areas to 1,865 square meters (instead of 1,400 square meters according to the 2017 addendum to the lease agreement), and includes the leasing of an open operational area, adjacent to the expanded warehouses, including 500 square meters of sheds and 2,300 square meters of outdoor areas, as well as preparing the access road leading to that operational area. The above will apply for the remainder of the lease period, and in accordance with the terms of the lease agreement and the current lease rates. The Company and the Kibbutz bore the costs of the construction and planning works, according to an index which was determined in the 2014 addendum to the lease agreement. The building was delivered to the Company on August 1, 2020.

Additionally, in March 2019 the Audit Committee and Board of Directors approved an expansion of the office building, involving the construction of a two-story building with a total area of 960 square meters. As of the reporting date, this building is under construction, and it is expected to be occupied in August 2021.

As of December 2020, the Company leases an area of 8,681 square meters as built areas, 21,163 square meters as outdoor areas, and 13,024 square meters as warehouse and shed areas. Due to the rise of the consumer price index since March 2004, the monthly rent in respect of the built areas, outdoor areas

Note 32 - Transactions and Balances with the Controlling Shareholder and Related Parties (Cont.)

G. Rent in respect of buildings (Cont.)

and warehouse and shed areas is NIS 26.63, NIS 4.23 and NIS 15.43 per square meter, respectively.

The total monthly rent which is paid to the Kibbutz (including the fixed amount) is around NIS 603 thousand.

Following the initial adoption in these financial statements of IFRS 16, Leases, during the reporting period the Company recorded, in respect of these lease agreements, depreciation expenses and finance expenses in the amount of around NIS 5,437 and 1,129 thousand, respectively.

H. Provision of services

Since January 1, 2004, an agreement has been effect regarding the regulation of services provided by the Kibbutz which the Company requires for its activity, including maintenance and cleaning services, security services, telecommunication, emergency services, first aid, sanitation and provision of food in the Kibbutz cafeteria, for the workforce which is provided to the Company by the Kibbutz (hereinafter: the "Services").

The Kibbutz undertook to provide the services in accordance with the Company's instructions and requirements, in consideration of around NIS 39 thousand per month. The service fees will be updated once per year, in accordance with the rise of the consumer price index during the preceding year (but not in case of declines in the CPI, as stated above).

The agreement period was set as five years, until December 31, 2008, and was extended automatically in accordance with its terms, for an additional period of three years. Following Amendment 16 to the Companies Law, and in accordance with the Audit Committee's recommendation, the Company's Board of Directors approved an extension of the agreement period, under the same conditions, for an additional five year period, beginning on January 1, 2012.

In 2016, the agreement regarding the provision of services by the Kibbutz was extended for an additional period of 5 years, beginning on January 1, 2017.

As of December 2020, after linkage to the CPI, the Company pays around NIS 49 thousand per month in respect of the provision of these services.

Note 33 - Events After the Reporting Period

On March 24, 2021, the Company's Board of Directors resolved to effect a dividend distribution in cash in the gross amount of NIS 45 million. The dividend will be paid on April 22, 2021, after the balance sheet date, with the effective date set as April 8, 2021.