KETER PLASTIC LTD.

FINANCIAL STATEMENTS TO 31 DECEMBER 2019

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| --- | --- |
| **KOST FORER GABBAY & KASIERER** Tel. +972-3-6232525  144A Menahem Begin Road Fax +972-3-5622555  Tel Aviv 6492102 ey.com | לוגו של ארנסט אנד יאנג |

Report of Auditor

to the Shareholders of Keter Plastic Ltd.

We audited the attached reports on the financial condition of Keter Plastic Ltd. (hereinafter – Company) to 31 December 2019 and 2018 and the Statements of Comprehensive Income, the Statements of Changes in Equity and Cash Flows for each of the years ending on those dates. These Financial Statements are under the responsibility of the board of directors and the management of the Company. Our responsibility is to give an opinion on these Financial Statements based on our audit.

We did not audit the Financial Statements of companies shown on the basis of the book value, the investment in which came to a total of NIS 20,560 thousand and NIS 21,456 thousand to 31 December 2019 and 2018 respectively, and regarding which the share of the Company in the profits of the above-mentioned company comes to a total of NIS 184 thousand and NIS 1,223 thousand for the years ending on those dates, respectively. The Financial Statements of that company were audited by other accountants whose reports were shown to us, and our opinion, to the extent that it refers to amounts included for that company, is based on the reports of other auditors.

We conducted our audit in accordance with generally accepted auditing principles in Israel, including the standards established in the Auditors’ Regulations (Manner of Auditor’s Performance), 5733-1973. According to these standards, we are required to plan the audit and to perform it with the aim of achieving a reasonable degree of assurance that the Financial Statements do not offer material misstatements. The audit includes a sampling of supporting evidence for the amounts and information in the Financial Statements. The audit also includes an examination of the accounting principles applied and of the significant estimates made by the board of directors and the administration of the Company as well as an assessment of the correctness of what is shown in the Financial Statements as a whole. We believe that our audit provides a proper basis for our opinion.

In our opinion, on the basis of our audit and the statements of other auditors, the above-mentioned Financial Statements, from all material aspects, correctly reflect the financial condition of the Company as at 31 December 2019 and 2018 and the results of its activities, the changes in its share capital and its cashflows for each of the years ending on those dates in accordance with the Israeli GAAP.



Tel Aviv, Kost Forer Gabbay & Kasierer

28 April 2020 Accountants

**Keter Plastic Ltd.**

**Statements of Financial Condition**

To 31 December

2019 2018

Note NIS thousand

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Current Assets | |  | |  |  |
|  | |  | |  |  |
| Cash and cash equivalent | 3 | | 37,154 | | 39,394 |
| Customers | 4 | | 184,516 | | 542,639 |
| Receivables and outstanding balances | 5 | | 260,556 | | 140,290 \*) | |
| Inventory | 6 | | 285,728 | | 325,602 |
|  |  | | 767,954 | | 1,047,925 |
|  |  | |  | |  |
| Non-current assets |  | |  | |  |
|  |  | |  | |  |
| Fixed assets, net | 8 | | 247,449 | | 247,305 |
| Investment in Held Companies | 7 | | 20,560 | | 21,456 |
|  |  | | 268,009 | | 268,761 |
|  |  | | 1,035,963 | | 1,316,686 |
| Current liabilities |  | |  | |  |
| Credit from banking corporations |  | | 236,952 | | 300,656 |
| Liabilities to suppliers and service providers |  | | 323,514 | | 386,852 |
| Creditors and credit balances | 9 | | 74,862 | | 84,424 |
|  |  | | 635,328 | | 771,932 |
| Non-current liabilities |  | |  | |  |
| Liability for termination of employer-employee relationships, net | 10 | | 3,029 | | 4,033 |
| Deferred taxes | 14C | | 6,846 | | 6,988 |
|  |  | | 9,875 | | 11,021 |
| Equity | 12 | | 390,760 | | 533,733 |
|  |  | | 1,035,963 | | 1,316,686 |

\*) Reclassified

The attached notes constitute an integral part of the Financial Statements.

28 April 2020 (-) (-) Date of approval of the Financial Statements Nir Palistrant Alon Sehayek

Director CFO

**Keter Plastic Ltd.**

**Statements of Comprehensive Income**

To year ending on

31 December

2019 2018

Note NIS thousand

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| Revenues from sales and services | 15A | 1,593,326 | 1,749,569 |
| Cost of sales and services  Research and development expenses | 15B  15C | 1,262,677  19,442 | 1,370,824 \*)  13,670 \*) | |
| Gross profit |  | 311,207 | 365,075 |
| Expenses for sales, management and miscellaneous | 15D | 189,874 | 208,706 |
| Profit from ordinary activities |  | 121,333 | 156,369 |
| Financing expenses, net |  | 11,414 | 18,301 |
| Other expenses, net | 15E | 348 | 2,922 |
| Pre-tax profit on income |  | 109,571 | 135,146 |
| Taxes on income | 14D | 1,869 | 6,966 |
|  |  |  |  |
| After-tax profit on income |  | 97,702 | 128,180 |
| Share of Company in profits of Held Companies | 7 | 184 | 1,223 |
| Net profit |  | 97,886 | 129,403 |
| Other gross profit (loss) (after influence of tax): |  |  |  |
| Adjustments from translation of financial statements from currency of foreign activity |  | (1,080) | 449 |
|  |  |  |  |
| Total gross profit |  | 96,806 | 129,852 |

\*) Reclassified

The attached notes constitute an integral part of the Financial Statements.

**Keter Plastic Ltd.**

**Statements of Changes in Equity**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Share capital | Premium | Capital reserve, transactions with controlling shareholders | Capital reserve from translation differentials of financial statements in a currency of foreign activity | Reserve for share-based payment transactions | Profit balance | Total |
| NIS thousand | | | | | | | |
|  |  |  |  |  | |  |  |
| Balance to 1 January 2018 | 12 | 95,988 | 165,879 | (2,298) | - | 167,903 | 427,484 |
| Dividend distribution | - | - | - | - | - | (26,500) | (26,500) |
| Share-based payment cost | - | - | - | - | 2,897 | - | 2897 |
| Net profit  Adjustments from | - | - | - | - | - | 129,403 | 129,403 |
| translation of financial statements | - | - | - | 449 | - | - | 449 |
|  |  |  |  |  |  |  |  |
| Total other gross profit | - | - | - | 449 | - | 129,403 | 129,852 |
|  |  |  |  |  | |  |  |
| Balance to 31 December 2018 | 12 | 95,988 | 165,879 | (1,849) | 2,897 | 270,806 | 533,733 |
|  |  |  |  |  | |  |  |
| Distribution of dividend share-based payment | -  - | -  - | -  - | -  - | -  221 | (240,000)  - | (240,000)  221 |
|  |  |  |  |  |  |  |  |
| Net profit | - | - | - | - | - | 97,886 | 97,886 |
| Adjustments from translation of financial statements | - | - | - | (1,080) | - | - | (1,080) |
| Total other gross profit (loss) | - | - | - | (1,080) | - | 97,886 | 96,806 |
| Balance to 31 December 2019 | 12 | 95,988 | 165,879 | (2,929) | 3,118 | 128,692 | 390,760 |

The attached notes constitute an integral part of the Financial Statements.

**Keter Plastic Ltd.**

**Statements of Cash Flows**

To year ending on

31 December

2019 2018

Note NIS thousand

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  | |  |
| Cash flows from current activity |  |  | |  |
| Net profit |  | 97,886 | | 129,403 |
| Adjustments required to show cash flows from current activity (A) | | | 271,328 | (12,074) \*) | |
|  | | |  |  |
| Net cash from current activity | | | 369,214 | 117,329 |
|  | | |  |  |
| Cash flows from investment activity | | |  |  |
| Purchase of fixed assets | | | (74,147) | (86,489) |
| Consideration from sale of fixed assets | | | 6,397 | 10,672 |
| Net cash used for investment activity | | | (67,750) | (75,817) \*) | |
| Cash flows from financing activity | | |  |  |
| Dividend to shareholders | | | (240,000) | (26,500) |
| Short-term credit from banking corporations, net | | | (63,704) | (31,685) |
|  | | |  |  |
| Net cash used for financing activity | | | (303,704) | (58,185) |
|  | | |  |  |
| Decrease in cash and cash equivalent | | | (2,240) | (16,673) |
|  | | |  |  |
| Balance of cash and cash equivalent to start of year | | | 39,394 | 56,067 |
|  | | |  |  |
| Balance of cash and cash equivalent to end of year | | | 37,154 | 39,394 |

\*) Reclassification

The attached notes constitute an integral part of the Financial Statements.

**Keter Plastic Ltd.**

**Statements of Cash Flows**

To year ending on

31 December

2019 2018

Note NIS thousand

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | |  | |  | | | |  | |
| (A) Adjustments required for showing cash flows from current activity | | | | | | |  |  | |
| Income and expenses not involving cash flows: | |  | |  | | | |  | |
| Depreciation, reductions and provision for decline in value | | | | 67,375 | | | | 70,661 | |
| Deferred taxes | | | | (142) | | | | (713) | |
| Increase (decrease) in reserve in compensation fund, net | | | | (1,004) | | | | 1,853 | |
| Capital loss | | | | 231 | | | | 2,922 | |
| Share-based payment cost | | | | 221 | | | | 2,897 | |
| Share of the Company in profits of Held Companies | | | | (184) | | | | (1,223) | |
|  | | | | 66,497 | | | | 76,397 | |
| Changes in assets and liabilities clauses: | | | |  | | | |  | |
| Decrease (increase) in customers | | | | 358,123 | | | | (270,494) | |
| Increase in receivables and debit balances | | | | (120,266) | | | | (4,647) \*) | | |
| Decrease in inventory | | | | 39,874 | | | | 159,625 | |
| Increase (decrease) in liabilities to suppliers and service providers | | | | | (63,338) | | | 43,462 | |
| Decrease in payables and credit balances | | | | (9,562) | | | | (16,417) | |
|  | | | | 204,831 | | | | (88,471) | |
|  | | | | 271,328 | | | | (12,074) | |

\*) Reclassification.

The attached notes constitute an integral part of the Financial Statements.

**Keter Plastic Ltd.**

**Notes to the Financial Statements**

Note 1: - General

A. The Company deals in the development, manufacturing and marketing of consumer products from plastic in a wide range of items, including garden furniture, storage solutions for home and garden, tool boxes, etc. The Company is one of the world’s leaders in its field. The Company sells its products throughout the world and in the local market both by means of direct sale and by way of subsidiaries and related companies.

The Company was incorporated and registered under the Company Law as a limited liability company on 1 January 2002 with the name Keter Work Tools Ltd. In 2011, the Company changed its name to Keter Plastic Ltd. On 1 July 2011, the plastic and investment activity in the Held Companies of Keter Holdings Ltd. were transferred to the Company. The transfer was done under Clause 104 of the Income Tax Regulation.

The recording in the books to the date of the transfer was done according to cost, as required under the Israeli GAAP.

On 30 October 2016, the Company was sold to Krona Resin (2016) Ltd.

B. Definitions

In these Financial Statements:

Company - Keter Plastic Ltd.

Held Companies - Companies in which the Company has control.

Parent Company - Starting from 1 November 2016, the Parent Company is Krona Resin (2016) Ltd. Until 31 October 2016, it was Keter Holdings Ltd.

Related Parties - As they are defined in Opinion 29 of the Institute of Certified Public Accountants in Israel.

Note 2: - Principles of the accounting policy

The principles of the accounting policy which were implemented in the writing of the Financial Statements, in a consistent manner, are as follows:

A. The reporting basis of the Financial Statements

**Keter Plastic Ltd.**

**Notes to the Financial Statements**

Note 2: - Principles of the accounting policy (cont.)

1. In the past, the Company drew up its financial statements on the historical basis adjusted to the Consumer Price Index. The adjusted amounts, as stated, included in the financial statements to 31 December 2003 were used as a starting point for the nominal financial statement starting from 1 January 2004. Additions carried out after the transition date were included at nominal values.
2. Pursuant to Accounting Standard Number 12 regarding “Cessation of the Adjustment of Financial Statements”, the adjustment of the Financial Statements for inflation ended on 31 December 2003, and from that date, the Company began to report in reported amounts.
3. The amounts of the non-monetary assets do not necessarily show the realization value or the updated economic value, but only the reported amounts of those assets.
4. In the Financial Statements, “cost” means cost in a reported amount.
5. The Company does not include in its Financial Statements a note on nominal money reporting due to immateriality.

B. Currency of activity

1. Presentation currency

The presentation currency of the Company is the NIS.

1. Transactions, assets and liabilities in a foreign currency

Transactions denominated in a foreign currency (a currency other than the activity currency) are recorded with the initial recognition thereof according to the exchange rate on the date of the transaction. After the initial recognition, monetary assets and liabilities denominated in a foreign currency are translated on each reporting date to the activity currency according to the exchange rate on that date. Rate of exchange differentials are charged to the profit and loss statement. Non-monetary assets and liabilities denominated in a foreign currency and shown according to fair value are retranslated into the activity currency according to the exchange rate on the date on which the fair rate was determined. Non-monetary assets and liabilities shown according to cost are translated according to the exchange rate on the date of the transaction.

**Keter Plastic Ltd.**

**Notes to the Financial Statements**

Note 2: - Principles of the accounting policy (cont.)

1. Index-linked monetary items

Monetary assets and liabilities which are linked according to their terms to the Consumer Price Index in Israel (hereinafter – Index) are adjusted according to the relevant Index, on each reporting date, in accordance with the terms of the agreement. The linkage differentials resulting from the above-mentioned adjustment, other than those capitalized to eligible assets or charged directly to other gross profit (loss) in hedging transactions are charged to the profit and loss statement.

C. Value of cash

The value of cash is considered by the Company as investments the liquidity of which is high, including short-term deposits in banking corporations, the original period of which does not exceed three months from the date of the investment and which are not limited by an encumbrance.

D. Inventory

Inventory is measured according to cost or net realization value, whichever is lower. The cost of the inventory includes the expenses for the purchase of the inventory and bringing it to its present place and condition. Net realization value is an estimate of the sale price during an ordinary transaction, less an estimate of costs for completion and the costs required for executing the sale. The Company examines the condition of the inventory and its age periodically and makes a provision for slow inventory accordingly.

The cost of the inventory is determined as follows:

Raw materials - according to weighted moving average.

Goods being processed and finished - on the basis of average cost, including materials, work and other direct and indirect manufacturing expenses.

**Keter Plastic Ltd.**

**Notes to the Financial Statements**

Note 2: - Principles of the accounting policy (cont.)

In a given period in which no manufacturing is done in a normal period, the cost of the inventory does not include additional fixed overhead costs beyond those required during a normal period. Costs, as stated, which were not allocated, were charged as an expense to the profit and loss statement during the period in which

they were incurred. In addition, the cost of the inventory does not include exceptional amounts of costs of materials, work and other resulting from inefficiency.

E. Provision for doubtful debts

The provision for doubtful debts is determined in a specific manner for debts the collection of which in the assessment of the management of the Company is doubtful. In addition, the Company recognizes a provision for groups of customers which are estimated collectively for a decrease in value based on their risk characteristics. Debts of customers regarding the value of which a decrease has occurred are subtracted on the date on which it was determined that these debts were uncollectable.

F. Fixed assets

Fixed asset items are shown according to cost plus direct purchase costs, less cumulative depreciation, less cumulative losses from a decrease in value and less investment grants received for them which are not included in current maintenance expenses. The cost includes replacement parts and auxiliary materials which may be used only in the context of machinery and equipment.

The depreciation has been calculated at equal annual rates on the basis of the straight line method for the useful life of the asset, as follows:

% Principally %

Molds 20 20

Vehicles 16.67 16.67

Machines and equipment 10-16.67 10

Improvements in the rental 10 10

Furniture and computers 6-16.67 6

Components of fixed asset items with a significant value with regard to the total cost of the item are depreciated separately according to the component method. The depreciation is calculated according to the equal depreciation method at annual rates calculated as sufficient for the depreciation of the assets over their estimated useful period.

**Keter Plastic Ltd.**

**Notes to the Financial Statements**

Note 2: - Principles of the accounting policy (cont.)

The useful lifespan, the depreciation method and the residual value of each asset is examined at least at the end of each year, and the changes are handled as an accounting estimate change from this time forward.

An asset is subtracted from the Financial Statements on the date of sale or when no economic benefits are anticipated from the use of the asset. Profit or loss from the subtraction of the asset (calculated as a differential between the net consideration from the subtraction and the depreciated cost in the Financial Statements) is included in the Profit and Loss Statement in the period in which the asset was subtracted.

G. Taxes on income

Taxes on income in the Profit and Loss Statement include current taxes and deferred taxes. The tax expense for current or deferred taxes are charged to the Profit and Loss Statement, unless they refer to items charged to profit (loss), including other, or to equity. In these cases, the influence of the tax is also charged to the clause referring to other gross profit or equity.

1. Current taxes

A liability for current taxes is determined by making use of the tax rates and the tax laws which have been legislated or the legislation of which has in effect been completed up to the date of the statement, as well as the adjustment required in connection with the tax liability for payment for previous years.

2. Deferred taxes

Deferred taxes have been calculated for the temporary differentials between the amounts included in the Financial Statements and the amounts taken into account for tax purposes, other than a small number of exceptions.

The balances of the deferred taxes have been calculated according to the tax rates expected to be applied when the asset is realized or the liability is paid off, based on the tax laws which have been legislated or the legislation of which has in effect been completed up to the date of the statement.

On each reporting date, deferred tax assets are examined, and if their utilization is not anticipated, they are depreciated. At the same time, temporary differentials (such as losses transferred for tax purposes) for

**Keter Plastic Ltd.**

**Notes to the Financial Statements**

Note 2: - Principles of the accounting policy (cont.)

which no tax assets have been recognized are examined, and if their utilization is anticipated, a suitable deferred tax asset is recognized. Every depreciation and recognition as stated is charged to the tax clause on the income.

In the calculation of the deferred taxes, the taxes which were to have applied in the event of the realization of the investment in Held Companies were not taken into account, if the investment in the Held Companies is not anticipated in the foreseeable future. In addition, deferred taxes for the distribution of profits by Held Companies as dividends have not been taken into account, since the distribution of the dividend does not involve an additional tax liability, or due to the policy of the Company not to initiate a dividend distribution which causes an additional tax liability.

Deferred taxes are deducted if there is an enforceable legal right which permits the deduction of a current tax asset against a current tax liability and the deferred taxes refer to that entity which owes the tax and that same tax authority.

In December 2017, the Israeli Accounting Standards Board published an amendment to Accounting Standard 3 Presentation of Financial Statements in order to adjust this standard to the accepted international standard. Pursuant to the provisions of the amendment, asset and liability balances for deferred taxes will be categorized in full as non-current assets or as non-current liabilities.

H. Recognition of income

Income is recognized in the Profit and Loss Statement when it is measurable in a reliable manner, it is anticipated that the financial benefits connected with the transaction will flow to the Company and the costs which have accrued for the transaction are measurable in a reliable manner. The income is measured according to the fair value of the consideration in the transaction less commercial discounts, discounts for quantity and returns.

Below are the specific criteria in the matter of recognition of income with regard to the following types of income:

1. Income from the sale of goods

**Keter Plastic Ltd.**

**Notes to the Financial Statements**

Note 2: - Principles of the accounting policy (cont.)

Income from the sale of goods is recognized when all the significant risks and yields deriving from the ownership of the goods have been transferred to the customer, and the seller does not preserve extended administrative involvement. Generally, the date of delivery is the date on which the ownership has been transferred.

1. Interest income

Interest income is recognized on a cumulative basis with the effective interest method.

1. Income from royalties

Income from royalties is recognized on a cumulative basis according to the nature of the agreement and its terms and conditions.

1. Discounts to customers

Current discounts to customers are included in the Financial Statements upon their being granted and are charged to the sales clause.

Discounts given to customers at the end of the year with regard to which the customer is not obligated to meet certain targets are included in the Financial Statements upon execution of the relative sales entitling the customer to the above-mentioned discounts.

Discounts to customers where their receipt is stipulated on the customer meeting certain targets, such as complying with a minimum annual scope of purchases (quantitative or monetary), increase in the scope of the purchases in comparison to previous periods, etc., are included in the Financial Statements proportionally according to the scope of purchases made by the customer during the reported period which advance it toward meeting the targets, only when it is expected that the targets will be met and it is possible reasonably to estimate the discount amounts. The estimation of the meeting of the targets is based, inter alia, on past experience and the relationship of the Company with the customers and on the scope of the purchases by the customers expected during the balance of the period.

1. Provision for liability for the quality of the products and a provision for returns

**Keter Plastic Ltd.**

**Notes to the Financial Statements**

Note 2: - Principles of the accounting policy (cont.)

A provision for liability for the quality of the products is calculated according to an estimate of the management of the Company and based on past experience.

The provision for returns of goods from customers is calculated according to an estimate of the management and based on past experience.

I. Use of estimates in drawing up the Financial Statements

When preparing the Financial Statements, the management needed to make use of estimates, assessments and assumptions which influence the implementation of the accounting policy and the reported amounts of assets, liabilities, income and expenses. Changes in the accounting estimates have been charged to the period in which the change in the estimate was made.

Below are the principal assumptions made in the Financial Statements in connection with the uncertainty to the date of the report and critical estimates calculated by the group and regarding which material changes in the estimates and the assumptions are liable to change the value of assets and liabilities in the Financial Statements in the following year:

Legal claims

In assessments of the chances of results of the legal claims filed against the Company and companies held by it, the companies relied on expert opinions and their legal consultants. These assessments of the legal consultants are based on their best professional judgment, taking into consideration the stage in which the

procedures are found as well as the legal experience accumulated in the various subjects. Since the results of the claims will be determined in the courts, these results are liable to be different from these assessments.

Deferred tax assets

Deferred tax assets are recognized for losses transferred for tax purposes and for temporary differentials which are deductible prior to being utilized, if it is expected that there will be future taxable income against which it will be possible to utilize them. An estimate by the management is required in order to determine the amount of the deferred tax asset which can be recognized based on the timing, the expected amount of the taxable income, its source and the tax planning strategy.

**Keter Plastic Ltd.**

**Notes to the Financial Statements**

Note 2: - Principles of the accounting policy (cont.)

J. Advertising expenses

Expenses for advertising, sales promotion and marketing activity, such as the issuing of catalogs and advertising sheets, are recognized as an expense at the time the Company has access to the advertising products or when the service for these actions is given to the Company.

K. Derivative financial instruments

Expenses from hedging transactions which are intended to protect the assets and liabilities in foreign currency are recorded in the Statements on the Financial Position against the exposure to changes in the exchange rates of these foreign currencies are charged to the Profit and Loss Statement in parallel with the charging of the exchange rate differentials from said assets and liabilities.

The results from hedging transactions for a future purchase or sale of foreign currency intended to ensure export considerations and importing costs against changes in exchange rates are included in the Profit and Loss Statement in parallel with the recording of the expenses from the transactions which they are intended to hedge.

Derivative financial instruments which are not the result of said protection transactions are shown in the Statement on the Financial Position according to their fair value. Changes in the fair value are charged to the financing clause, net, in the Profit and Loss Statement in the period in which they were created. The fair value of derivative financial instruments was determined in accordance with their market prices, and in the absence of such a price, the fair value is determined according to the valuation model.

L. Share-based payment transactions

Employees of the Company are entitled to bonuses by way of a share-based payment paid off with capital instruments, and some of the employees are entitled to bonuses by way of share-based payments paid off in cash and measured on the basis of the increase in the value of Company shares.

Transactions paid off with capital instruments

The cost of transactions with employees paid off with capital instruments is measured according to the fair value of the capital instruments on the date of the grant. The fair value is determined using the customary option pricing model.

**Keter Plastic Ltd.**

**Notes to the Financial Statements**

Note 2: - Principles of the accounting policy (cont.)

The cost of the transactions paid off with capital instruments is recognized in the Profit and Loss Statement together with a parallel increase in capital over the period during which the terms of the execution and/or the service exist and end on the date on which the relevant employees are entitled to the compensation (hereinafter – Vesting Period). The accumulated expense recognized for the paying off transactions with capital instruments at the end of each reporting date until the vesting date reflects the degree of expiration of the Vesting Period and the best estimate of the group regarding the number of capital instruments which have been vested in the end.

An expense for grants which were not vested in the end is not recognized, other than grants whose vesting depends on market conditions, which are handled as grants which have been vested without any connection with the existence of the market conditions, on the assumption that all the other vesting conditions existed.

When the Company makes changes in the conditions for a grant paid off with capital instruments, an additional expense is recognized beyond the original expense which was calculated for each change which increases the total fair value of the compensation granted or which benefits the employee according to the fair value on the date of the change.

The cancellation of a grant paid off with a capital instrument is handled as if it was vested to the date of the cancellation, and the expense which has not yet been recognized for the grant is recognized immediately. However, if the grant which was cancelled is replaced by a new grant and intended as an alternate grant to the date on which it was granted, the cancelled grant and the new grant will be handled together as a change of the original grant as described above.

M. Liabilities for bonuses to employees

1. In August 2017, the Israel Accounting Standards Board published Accounting Standard 39, *Employee Benefits* (hereinafter: “Standard”). This Standard is based (with certain adjustments) on International Accounting Standard 19, *Employee Benefits*, which replaces Opinion 19, *The Accounting Treatment and Reporting Rules for the Entitlement of Employees to a Vacation*, and Opinion 20, *The Accounting Treatment and Reporting Rules for Severance Pay, Retirement Benefits and Pensions*, and determines the accounting treatment for employee benefits.

The Standard handles four types of employee benefits:

**Keter Plastic Ltd.**

**Notes to the Financial Statements**

Note 2: - Principles of the accounting policy (cont.)

A) Short-term employee benefits – an entity will recognize short-term employee benefits where the employee has provided services to the entity during the reporting period and will measure them at a non-capitalized amount.

B) Benefits after the termination of the employment, including benefits for retirement compensation – an entity will categorize arrangements according to which an entity provides benefits after the termination of employment as defined deposit plans or as defined benefit plans. In defined deposit plans, an entity recognizes the amounts to be deposited for the period as an expense and as a liability if the amounts have not yet been deposited. In defined benefit plans, other than benefits for retirement compensation, an entity will implement the actuarial model while making use of the projected unit credit approach. With regard to benefits for retirement compensation, the Standard permits the entity to choose between implementation of the actuarial model as other benefits are handled according to a defined benefit model and implementation of the shut-down method, a method implemented at present according to Opinion 20.

C) Other long-term employee benefits – an entity will recognize a liability for other long-term employee benefits which is measured at the present value of the obligation for the benefit on the reporting date.

D) Surplus benefits for the termination of employment under special circumstances – these are benefits which are added to benefits for retirement compensation. The entity will measure these benefits according to the best estimation of the exit which will be required in order to pay off the obligation on the reporting date. If these benefits are payable after more than 12 months after the end of the reporting period, they will be measured at their present value.

The Company has chosen to measure the benefits for retirement compensation according to the shut-down method.

**Keter Plastic Ltd.**

**Notes to the Financial Statements**

Note 3: - Cash and cash equivalent

31 December

2019 2018

Note NIS thousand

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | |  | |  |  |
| In New Israeli Shekels |  | | 7,587 | | 7,298 |
| In foreign currency |  | | 29,567 | | 32,096 |
|  |  | |  | |  |
|  |  | | 37,154 | | 39,394 |

Note 4: - Customers

31 December

2019 2018

Note NIS thousand

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | |  | |  |  |
| Open debts 1) 2) 3) |  | | 174,751 | | 534,261 |
| Checks for collection |  | | 9,765 | | 8,378 |
|  |  | |  | |  |
|  |  | | 184,516 | | 542,639 |

1) Less provision for doubtful debts

2) Regarding the balance with Related Parties, see Note 16.

3) During 2019, the Company signed a factoring agreement with Bank Leumi. Pursuant to the agreement, the bank purchases customer debts from the Company, and the Company assigns in favor of the bank, in an irrevocable assignment by way of the sale, revenues owed to it by customers. As of 31 December 2019, the factoring amount came to a total of about NIS 40.4 million.

Note 5: - Receivables and debt balances

31 December

2019 2018

Note NIS thousand

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | |  | |  |  |
| Advance expenses |  | | 2,081 | | 1,671 |
| Advances to suppliers |  | | 3,494 | | 3,321 |
| Reserve for sick pay 1) |  | | 4,010 | | 3,623 |
| Governmental institutions |  | | 80,397 | | 77,493 |
| Related Parties 2) |  | | 159,832 | | 44,165 \*) | |
| Other receivables |  | | 10,742 | | 10,017 |
|  |  | |  | |  |
|  |  | | 260,556 | | 140,290 |

**Keter Plastic Ltd.**

**Notes to the Financial Statements**

1) The balance of the reserve fund for sick pay is recorded in the name of Keter Holdings Ltd., the former Parent Company. After the date of reporting, the fund was transferred by the Company, and the whole balance of the reserve which existed on the date of the withdrawal was withdrawn.

2) In 2019, short-term loans, linked to the Euro and bearing annual interest at the rate of 4%; the loans were paid off in full up to 1 April 2020; see also Note 16.

\*) Reclassified.

Note 6: - Inventory

31 December

2019 2018

Note NIS thousand

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | |  | |  |  |
| Raw materials |  | | 60,765 | | 58,191 |
| Goods being processed and finished |  | | 192,417 | | 237,222 |
| Inventory in transit |  | | 32,546 | | 30,189 |
|  |  | |  | |  |
|  |  | | 285,728 | | 325,602 |

Note 7: - Investments in Held Companies

A. Composition

31 December .

2019 2018

Note NIS thousand

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | |  | | |  |  |
| Cost of shares and profits accumulated from purchase date, net | | | | 20,560 | | 21,456 |
|  |  | |  | | |  |

|  |
| --- |
| **Keter Plastic Ltd.**  **Notes to the Financial Statements**  Note 7: - Investments in Held Companies (cont.). |

B. Movements in investments in 2019

31 December

2019

NIS thousand

Investment in Keter (U.K.) Ltd.

The rate of holding is 100%

|  |  |  |
| --- | --- | --- |
| Balance to beginning of year | 20,560 | |
| Share of the Company in profits of Held Company | - | |
| Translation differential capital fund | (989) | |
| Balance to end of year | 19,571 | |
| Investment in Keter Europe Gardening B.V. | |  |
| The rate of holding is 100% |  | |
| Balance to start of year | 896 | |
| Share of the Company in profits of Held Company | 184 | |
| Translation differential capital fund | (91) | |
| Balance to end of year | 989 | |

Investment in Keter North America LLC

The rate of holding is 100%

|  |  |  |
| --- | --- | --- |
| Balance to beginning of year | - | |
| Share of the Company in profits of Held Company | - | |
|  |  | |
| Balance to end of year | - | |
|  |  | |
| Balance of investment in Held Companies to end of year | | 20,560 |

**Keter Plastic Ltd.**

**Notes to the Financial**

Note 8: - Fixed assets

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | Molds | | | | Machines and equipment | | Vehicles | | Furniture and computers | Advances for fixed assets | Total |
|  | NIS thousand | | | | | | | | | | | | |
|  | |  | | | |  | | |  |  | |  |  |
| Cost | | | |  | | | |  |  |  | |  |  |
| Balance to 1 January 2019 | | | | 424,130 | | | | 444,808 | 12,040 | 37,277 | | 409 | 918,664 |
| Additions during year | | | | 47,021 | | | | 18,820 | - | 8,095 | | 211 | 74,147 |
| Decreases during year | | | | (27,853) | | | | (834) | (5,505) | - | | - | (34,192) |
| Balance to 31 December 2019 | | | | 443,298 | | | | 462,794 | 6,535 | 45,372 | | 620 | 958,619 |
|  | | | |  | | | |  |  |  | |  |  |
| Cumulative depreciation | | | |  | | | |  |  |  | |  |  |
|  | | | |  | | | |  |  |  | |  |  |
| Balance to 1 January 2019 | | | | 326,703 | | | | 309,122 | 8,721 | 26,813 | | - | 671,359 |
| Additions during year | | | | 31,269 | | | | 23,800 | 585 | 4,094 | | - | 59,748 |
| Provision for decrease in value | | | | | 7,373 | | | - | - | - | | 254 | 7,627 |
| Decreases during year | | | | (22,212) | | | | (484) | (4,868) | - | | - | (27,564) |
|  | | | |  | | | |  |  |  | |  |  |
| Balance to 31 December 2019 | | | | 343,133 | | | | 332,438 | 4,438 | 30,907 | | 254 | 711,170 |
|  | | | |  | | | |  |  |  | |  |  |
| Depreciated cost to 31 December 2019 | | | | 100,165 | | | | 130,356 | 2,097 | 14,465 | | 366 | 247,499 |
| Depreciated cost to 31 December 2018 | | | | 97,427 | | | | 135,686 | 3,319 | 10,464 | | 409 | 247,305 |

**Keter Plastic Ltd.**

**Notes to the Financial Statements**

Note 9: - Payables and credit balances

31 December

2019 2018

Note NIS thousand

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | | |  | |  |  |
| Provision for vacation and recuperation |  | | | 18,745 | | 18,901 |
| Employees and institutions for salary |  | | | 34,666 | | 28,516 |
| Expenses to pay and provision for liability | |  | | 15,486 | | 34,337 |
| Financial derivatives |  | | | 3,393 | | 2,084 |
| Advances from customers |  | | | 2,499 | | 512 |
| Other |  | | | 73 | | 73 |
|  |  | | |  | |  |
|  |  | | | 74,862 | | 84,424 |

Note 10: - Liability for termination of employee-employer relationships, net

31 December

2019 2018

Note NIS thousand

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | |  | | |  | |
| Liability due to termination of employee-employer relationships | | | | | 55,669 | | 72,310 |
| Less – reserve deposited in personal compensation funds | |  | | (47,150) | | | (54,557) |
| Less – reserve deposited in central compensation funds (B) | | | | | | (5,490) | | (13,720) |
| Surplus liability for termination of employee-employer relationship | | | | | 3,029 | | 4,033 |

A. The Company liabilities for the termination of employee-employer relationships has been calculated on the basis of the last salary of the employees to the date of the report and in accordance with the Severance Compensation Law and are fully covered by current payments to insurance companies for managers’ insurance policies and provident funds as well as by means of the balance of the liabilities due to the termination of employee-employer relationships shown in the balance sheet.

**Keter Plastic Ltd.**

**Notes to the Financial Statements**

Note 10: - Liability for termination of employee-employer relationships, net (cont.)

The reserve deposited in compensation funds includes profits which have accumulated to the date of the report. The money deposited can be withdrawn only after the undertakings under the Severance Compensation Law or under work agreements have been complied with.

As of 31 December 2018, a sum of about NIS 7,364 thousand from the compensation funds is recorded in the name of the former Parent Company, Keter Holdings Ltd.; the Company worked to transfer the funds to personal funds of the employees. The former Parent Company endorsed the rights and obligations resulting from the central funds for compensation to the Company. During 2019, all the compensation funds were transferred to the name of the Company, and the Company is continuing to work for their liquidation to the personal funds of the employees.

B. In 2016, new salary agreements were signed with the managers in the Company, which include adaptation grants in the event of the termination of employee-employer relationships. The Company included a provision in its Financial Statements in accordance with the terms and conditions in these agreements.

Note 11: - Contingent liabilities, commitments, guarantees and encumbrances

A. Contingent liabilities and commitments

1. There exist a number of claims against the Company for liability for damage from use of its products. Claims of sums in excess of NIS 1.2 million are insured under the Company insurance, and claims of sums lower than this are being handled directly by the Company. As of 31 December 2019, on the basis of the expert opinion of the legal consultants of the Company, the Company has included in its Financial Statements a sufficient provision for those claims.
2. In 2013, a company competing with the Company filed a claim against an agent of the Company in France (hereinafter – “Agent”). The Company, *ex gratia*, is willing to indemnify the Agent for half of the amount ruled against him, for a sum of about 0.5 million Euros, for which a provision was included in the Financial Statements to 31 December 2015. Both parties to the claim filed an appeal against the ruling of the court. In 2016, the Company and the Agent of the Company reached an agreement that each party would bear 50% of the cost to be ruled by the court, and the Company transferred said amount to the attorney of the Agent in trust.

**Keter Plastic Ltd.**

**Notes to the Financial Statements**

Note 11: - Contingent liabilities, commitments, guarantees and encumbrances (cont.)

In January 2017, the appeal of the Agent was accepted in full by the appeals court in France, and the money was repaid to the Company.

In December 2017, the competing company filed an appeal to the supreme court in France. In January 2019, the supreme court in France accepted the appeal of the competing company. In March 2019, the parties reached a compromise in the framework of which the sum of about 450 thousand Euros was paid. The Company and the Agent reached an agreement that the Company would participate with an amount of about 200 thousand Euros, which was paid during 2019.

1. In April 2017, an indictment was filed in the traffic court in Acre against the former Parent Company of the Company and against nine employees of Keter Plastic Ltd., including the CEO of the Company. The background to the filing of the indictment is the identification of faults in trucks registered in the name of the former Parent Company which, according to the contention of the accuser, are contrary to the traffic ordinance and the relevant regulations while endangering human life.

These trucks were supposed to be moved in the framework of the sale of the Keter Group to the BC Partners Fund, but for technical reasons, the ownership was not transferred, and on the date on which the faults were discovered in a police check, the trucks were still registered in the name of the former Parent Company.

Following an application by the Company, the court removed the charge against the Company managers, and at present, the accused in the claim are a number of Company drivers and the safety officers of its fleet of vehicles.

During 2019, the Company reached a compromise in the framework of which the sum of NIS 16 thousand was paid and an undertaking was signed according to which the Company would avoid committing similar offenses for a period of two years at a sum of NIS 15 thousand; in addition, the safety officer and the drivers were convicted of light offenses and to a monetary fine.

1. In September 2017, a lessor of one of the properties being leased by the Company filed a claim against it. According to the contention of the lessor, the Company owes the lessor the sum of about NIS 2.6 million for amounts which, according to its contention, were not paid in accordance with the leasing agreement.

**Keter Plastic Ltd.**

**Notes to the Financial Statements**

Note 11: - Contingent liabilities, commitments, guarantees and encumbrances (cont.)

In January 2018, the Company submitted a statement of defense and a counter-claim in which the Company contended, *inter alia*, that it does not owe amounts to the lessor, but rather is entitled to the sum of about NIS 1.8 million from the lessor.

In April 2018, the lessor supplied an affidavit and responded to the claim of the Company, and in the statement of defense rejected the contentions of the Company.

During July 2018, the Company submitted an affidavit according to which the lessor owes it an amount higher than the amount written in the original statement of defense. In October 2018, the lessor submitted his objection. The mediator has not yet given his decision regarding this demand. During that same month, the lessor transmitted transcripts following the application of the Company for the submission of the original recordings and transcripts. The Company also submitted the original recordings, which had not been submitted.

During March 2019, the lessor filed an application for the discovery of documents regarding the electric bills paid by the Company during the period relevant to the claim. The Company submitted its response to the application during the month of May 2019, and in June 2019, the mediator gave his decision in the matter, ordering the delivery of the information to the lessor directly from the Electric Company.

As of 31 December 2019, in accordance with the recommendation of its legal consultants, the Company included the provision for this claim.

1. In August 2015, the Investment Authority Administration decided retroactively to cancel the investment plan of the Company under the Encouragement of Capital Investments Law, 5719-1959 (“Law”) and demanded that the Company return 5/7 of the amount of the grants given to it plus linkage differentials to the Consumer Price Index and interest; the amount of the demand came to about NIS 5.5 million. The above-mentioned investment plan had been approved in March 2005.

On 29 October 2017, the Company filed an administrative appeal against the Ministry of Economy and Industry in the Jerusalem District Court. It was agreed between the parties that the Company would not be required to return the money until after the first hearing in the appeal, which would take place on 30 April 2018. With the consent of both parties at the hearing, it was decided that the appeals committee of the Investment Authority would be required to re-hear the application of the Company and decide

**Keter Plastic Ltd.**

**Notes to the Financial Statements**

Note 11: - Contingent liabilities, commitments, guarantees and encumbrances (cont.)

what portion of the grants given to the Company the Company would be required to return.

On 22 January 2019, the appeals committee of the Investment Authority decided that the Company must return the amount fixed in the claim. In April 2019, the Company filed an appeal against the decision on the contention that it was received after the date fixed by law and therefore was invalid.

On 8 August 2019, the Company filed an appeal with the Supreme Court against the ruling of the Administrative Court in Jerusalem. In the ruling, the court annulled the decision of the appeals committee and returned the hearing of the appeal on the decision of the Authority to the appeals committee. The Company appealed the decision, *inter alia*, in light of the explicit provisions of Claus 24A of the Capital Investment Encouragement Law 5719-1959 that since the decision of the committee was not reached on the date fixed by law, the appeal should be viewed as an appeal which was received. The Company filed an application to delay the ruling of the district court dealing with the return of the case to the appeals committee; the application of Keter was dismissed.

In February 2020, the committee returned its decision, according to which the Company must return about 50% of the grant – about NIS 3.7 million; the Company filed an application for an extension of the date for filing an administrative appeal on the decision of the committee, and the court accepted the application of the Company.

As of 31 December 2019, the Company included a provision for this claim in accordance with the opinion of its legal consultants.

6. The Haifa municipality issued two payment demands for city tax differentials for properties located in Haifa Port. The parties reached a compromise in the framework of which Keter paid the Haifa municipality NIS 4,900 thousand for a final settlement of all the disputes over the properties.

7. On 13 December 2013, the Company sold its activity in the Barkan Lerd Karol Ltd. plant. In the framework of the agreement, the Company undertook to bear the legal exposure connected with claims of Palestinian employees who began to work in the company prior to the date of its sale.

**Keter Plastic Ltd.**

**Notes to the Financial Statements**

Note 11: - Contingent liabilities, commitments, guarantees and encumbrances (cont.)

On 12 February 2019, a statement of claim was filed in the name of fifty-one Palestinian employees for the sum of NIS 294 thousand. The parties reached a compromise agreement in the framework of which, Keter paid the plaintiffs the sum of NIS 175 thousand.

As of 31 December 2019, after the above-mentioned claim, the Company remained exposed to claims on the part of 3 Palestinian employees for a total of about NIS 8 thousand. The exposure amounts are declining in the light of the statute of limitation period. However, according to past experience, a compromise has been submitted at a cost of about 75% of the maximum amount of exposure.

8. The National Insurance Institute filed a subrogation claim against the Company for a work accident which happened to a female worker who was employed by a manpower company in the kitchen of the Company plant in Carmiel. As a result of the accident, the National Insurance Institute fixed a permanent disability for the manpower worker at the rate of 53%. The damage was estimated at a sum of NIS 440 thousand. A statement of defense was submitted on behalf of the Company as well as a third-party notice against the catering company which employed the worker via the manpower company.

As of 31 December 2019, the Company included a provision according to the opinion of its legal consultants, for a grand total of about NIS 500 thousand.

9. On 26 October 2018, a former employee in the Company submitted a demand letter for NIS 546 thousand for unlawful dismissal, a sales bonus, annual bonuses, compensation for a worsening of conditions and compensation for nonpayment for standby hours. On 12 December 2018, the Company replied to the demand letter and rejected all the contentions of the former employee. No response has been received from the plaintiff. In the opinion of the legal consultants of the Company, the chances of the claim are poor, and therefore no provision was included for this claim.

10. On 1 November 2018, a former service provider of the Company filed a claim against the Company for the sum of NIS 1,622 thousand on the contention of the existence of an employee-employer relationship between the parties despite the fact that he was employed as an independent contractor, for unlawful dismissal and for aggravation. During 2019, the claim was clarified, and the Company paid the plaintiff the sum of about NIS 180 thousand.

**Keter Plastic Ltd.**

**Notes to the Financial Statements**

Note 11: - Contingent liabilities, commitments, guarantees and encumbrances (cont.)

11. On 10 September 2018, a translation service provider of the Company filed a claim against the Company for the sum of about NIS 94 thousand for money it contended was owed to it for document translation services.

On 12 November 2019, it was clarified that the statement of claim had been filed against another company, and therefore the provider filed an application for the amendment of the statement of claim, an application which was approved by the court on 24 November 2019.

As of 31 December 2019, in accordance with the recommendation of its legal consultants, the Company included a provision for this claim.

12. During 2019, a former female employee of the Company submitted a letter of demand for the completion of severance pay and provisions for compensation for the sum of about NIS 66 thousand. The Company submitted to the former employee a compromise offer; her response has not yet been received.

As of 31 December 2019, in accordance with the recommendation of its legal consultants, the Company included a provision for this claim.

13. The National Insurance Institute filed a subrogation claim against the Company for a work accident which happened to a worker who was employed by a manpower company.

As of 31 December 2019, the Company included a provision, in accordance with the recommendation of its legal consultants, at a grand total of about NIS 55 thousand.

14. During May 2019, a company in competition with the Company sent a letter to a marketer of the Company in the United States (hereinafter – “Marketer”), in which it was contended that one of the products made by the Company and sold under the label of the Marketer was in breach of a patent of the competing company. There are indemnification agreements between the Company and the Marketer for third party claims. However, the Company and the Marketer are in dispute regarding the question of whether the Marketer must bear half of the legal expenses.

As of 31 December 2019, the Company and the competing company were conducting negotiations in order to end the dispute in a compromise. Therefore, the Company included a provision in the Financial Statements, in accordance with the opinion of its legal consultants.

**Keter Plastic Ltd.**

**Notes to the Financial Statements**

Note 11: - Contingent liabilities, commitments, guarantees and encumbrances (cont.)

15. A number of claims have been filed against the Company for employer liability. The Company included in the Financial Statements a provision in accordance with the opinion of its legal consultants.

B. Guarantees

The Company has guarantees in the framework of its work with suppliers. As of 31 December 2019, the guarantees come to a grand total of about NIS 4.6 million.

After the date of the report, the Company undertook to grant financial and monetary support as required to a Related Company for a period of 12 months starting from 31 December 2019.

C. Encumbrances

1. In accordance with the Encouragement of Capital Investments Law, 5719-1959, the former Parent Company received grants from the State for investments in fixed assets carried out in the framework of plans for the enlargement of the plants which were approved by the investment center. As a part of the transfer of the Company activity from the former Parent Company (see Note 1B), the Company received approvals from the Investment Center in the Ministry of Industry and Trade for the transfer of the rights and obligations under the written approval for the investment grants from the former Parent Company to the Company. The receipt of said grants was stipulated on compliance with the terms and conditions of the written approval; if the Company did not comply with the required terms and conditions, it would have to return the grants plus arrears interest from the date of their receipt. In the opinion of the management, the Company complied with the terms and conditions of the written approval.

In the framework of the transfer of rights and obligations, the Company recorded encumbrances on all the fixed assets without limitation of amount in favor of the State of Israel.

During 2017, the encumbrance was replaced by a guarantee of NIS 5.8 million, which will expire on 31 December 2018.

1. For the guarantee of the undertaking of Keter Group B.V., a company incorporated in Holland, which holds 100% of the Parent Company, to banking corporations abroad, together with additional Related Companies, the Company placed a floating charge on its tangible and intangible assets of every kind whatsoever and a first degree fixed charge for the banking corporation.

**Keter Plastic Ltd.**

**Notes to the Financial Statements**

Note 11: - Contingent liabilities, commitments, guarantees and encumbrances (cont.)

D. Contractual engagements

During 2019, the Company was incorporated in Magnet (Hebrew acronym for: generic technological research and development) circle programs of the Israel Innovation Authority together with additional industrial corporations and research institutions; their aim is to encourage research and development of innovative technologies.

The first circle is a circle the purpose of which is the development of recycling technologies and use of recycled materials in the plastics industry in Israel. In this framework, the Company will be entitled to grants for one and a half years starting from July 2019 according to an approved budget and execution reports.

The second is a robotics circle the purpose of which is the development of generic robotic technologies for implementation in assembly processes and in intra-plant logistics tasks in industry. Within this framework, the Company will be entitled to grants for one and a half years, starting from 1 August 2019 according to an approved budget and execution reports.

Note 12: - Equity

A. Share capital

31 December 2019 and 2018

Registered Issued and paid up

Note Number of shares

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | |  | |  | |
| Ordinary shares with a par value of NIS 0.01 each \*) | | 3,800,000 | | 1,2400,001 | |

\*) See also Note 1B.

B. Share rights

Voting rights in general meetings, right to a dividend, rights in liquidation of the Company and a right to appoint directors in the Company.

C. Distribution of a dividend

On 24 June 2019, the Company declared and distributed a dividend totaling NIS 240 million.

**Keter Plastic Ltd.**

**Notes to the Financial Statements**

Note 13: - Compensation plan for employees

The management of the group decided to implement a Managers Incentive Plan (“Plan”) in the framework of which certain employees were entitled, at the discretion of the management, to purchase a share package containing ordinary shares, preferred shares and preferred Ratchet shares of Krona Management SA, according to a mix determined in an agreement and at a price to be determined by the Company. In the event of a disagreement regarding the value, there are mechanisms in the agreement for the determination of the value of the shares (other than in a number of cases where ordinary shares were granted to a number of employees with no consideration). The shares were granted by Krona Investments S.A.R.L., which is a company which indirectly holds shares in the Company.

In cases of recruitment of additional capital, the employees were given the possibility of purchasing an addition package of shares following the purchase of the base package as stated in the agreement, according to the mix fixed in the Plan.

In the framework of the Plan, the Company was granted the right to purchase the shares of the employees in the case of their leaving, as determined in the agreement, according to the circumstances for which the employee left and in accordance with what is stated in the agreement.

The Company granted a number of employees ordinary shares for free which were allocated under Capital Plan 102 and were deposited with a trustee. In the rolling framework of the Tax Authority, mechanisms were fixed, *inter alia*, for the manner in which the employees were taxed, if the Company were to purchase the shares of the employees which were allocated under 102 by means of a re‑purchase mechanism in accordance with the conditions fixed in the Plan.

Every participant in the Plan may finance his share with a provision either by means of a cash payment or by receiving a loan from an entity related to BC Partners (it is possible to combine the two alternatives).

The Plan, including the purchase of the shares by means of a loan, was handled in accordance with Regulation 24 of the Accounting Standards Board. As of 31 December 2019, the Company recorded an expense for the compensation plan for its managers at the sum of about NIS 3,118 thousand; the total expense in 2019 came to a total of NIS 221 thousand.

**Keter Plastic Ltd.**

**Notes to the Financial Statements**

Note 14: - Taxes on income

A. Tax laws applicable to the Company

Income Tax Law (Adjustments Due to Inflation), 5745-1985

According to the law, until the end of 2007, the results were measured for tax purposes in Israel when adjusted for changes in the Consumer Price Index.

In February 2008, an amendment to the Income Tax Law (Adjustments Due to Inflation), 5745-1985 passed in the Knesset, which limits the application of the Adjustment Law from 2008 and forward. Starting from 2008, the results are measured for tax purposes in nominal values, other than certain adjustments for changes in the Consumer Price Index during the period up to 31 December 2007. Adjustments referring to capital gains, such as for the financing of real estate (betterment) and securities, continue to apply until the date of realization. The amendment to the law includes, *inter alia*, the cancellation of the adjustment of the supplement and the deduction for inflation and the additional deduction for depreciation (for depreciable assets purchased after the 2007 tax year) starting from 2008.

Amendment to the Capital Investment Encouragement Law, 5719-1959 (Amendment 68)

In December 2010, the Knesset approved the Economic Policy Law for 2011 and 2012 (Legislative Amendments), 5771-2011, which established, *inter alia*, amendments in the Capital Investment Encouragement Law, 5719-1959 (hereinafter – Law). The application of the amendment is from 1 January 2011. The amendment changes the benefit tracks in the law and applies a single tax rate to all the preferred income of the Company, which will be deemed a preferred company with a preferred plant. Starting from the 2011 tax year, the Company may choose (without the possibility of changing its choice) whether to change to the application of the amendment, and starting from that same tax year regarding which the choice was made, the amended tax rates will apply to all the preferred income from the preferred plant. The tax rates under the amendment to the Law are: in 2011 and 2012, 15% (in Development Area A – 10%), in 2013, 12.5% (in Development Area A – 7%).

**Keter Plastic Ltd.**

**Notes to the Financial Statements**

Note 14: - Taxes on income (cont.)

Amendment to the Capital Investment Encouragement Law, 5719-1959 (Amendment 71)

In August 2013, the Change in National Priorities Law (Legislative Amendments to Achieve Budget Goals for 2013 and 2014), 5773-2013, which includes Amendment 71 to the Capital Investment Encouragement Law (hereinafter – Amendment). The Amendment states that the tax rate on preferred income from a preferred plant in 2014 and henceforth is 16% (in Development Area A – 9%).

In addition, the Amendment states that if a dividend is applied to an individual or a foreign resident from the profits of the preferred plant as stated above, tax at a rate of 20% will apply.

The Company chose to work for the application of the Amendment and delivered its final decision to the tax authorities. Therefore, starting from the 2011 tax year, Amendment 71 applies to the Company.

The Industry Encouragement Law (Taxes), 5729-1969

The Company has the status of an “industrial company” as this term is defined in this law. According to this status and under amendments which have been published, the Company is entitled to demand a depreciation deduction at increased rates with regard to equipment used in industrial activity, as stated in the amendments under the Adjustment Law. In addition, the Company is entitled to a reduction for a patent or right to exploit a patent or knowhow used for the development or the promotion of the plant, to a deduction of expenses for the issuing of shares registered for trade on the stock exchange and to submit a later report under certain conditions.

B. The tax rates applying to the Company

The company tax rate in Israel in 2018 and 2019 was 23%.

A human being owes tax on real capital gains at the company tax rate applicable in the year of the sale.

In December 2016, the Economic Efficiency Law (Legislative Amendments to Implement Economic Policy for Budget Years 2017 and 2018), 5777-2016 was approved; it includes a reduction in the company tax rate starting from 1 January 2017 to a rate of 24% (instead of 25%), and starting from 1 January 2018, to a rate of 23%.

**Keter Plastic Ltd.**

**Notes to the Financial Statements**

Note 14: - Taxes on income (cont.)

C. Deferred taxes

1. The composition:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Liabilities for termination of employee-employer relationships | | | Fixed assets | | Provision for vacation and rehabilitation | | Reserve for sick pay | | Other | | Total |
| In NIS thousand | | | | | | | | | | |
|  |  | | |  | |  | |  | |  | |  |
| Balance to 1 January 2018 | 163 | | | (9,357) | 1,597 | | (277) | | 173 | | (7,701) | |
|  |  | | |  |  | |  | |  | |  | |
| Charged to Profit and Loss Statement | | | 139 | (156) | (180) | | 5 | | 905 | | 713 | |
|  |  | | |  |  | |  | |  | |  | |
| Balance to 31 December 2018 | 302 | | | (9,513) | 1,417 | | (272) | | 1,078 | | (6,988) | |
|  |  | | |  |  | |  | |  | |  | |
| Charged to Profit and Loss Statement | | | (75) | (482) | (11) | | (29) | | 739 | | 142 | |
|  |  | | |  |  | |  | |  | |  | |
| Balance to 31 December 2019 | | | 227 | (9,995) | 1,406 | | (301) | | 1,817 | | (6,846) | |

D. Taxes on the income included in the Profit and Loss Statement

31 December

2019 2018

Note NIS thousand

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| Current taxes |  | 9,555 | 12,119 |
| Deferred taxes |  | (142) | (713) |
| Taxes for previous years |  | 2,456 | (4,440) |
|  |  | 11,869 | 6,996 |

E. Tax assessments

The Company has final tax assessments up to and including the 2013 tax year.

**Keter Plastic Ltd.**

**Notes to the Financial Statements**

Note 15: - Additional details to Profit and Loss Statement clauses

A. Income from sales and services

31 December

2019 2018

Note NIS thousand

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | | |  | | | | | |  | | |
| Income from sales and services abroad 1) | | |  | 1,444,640 | | | | | | 1,605,256 | | |
| Sales in the local market |  | | | 148,686 | | | | | | 144,313 | | |
|  |  | | | 1,593,326 | | | | | | 1,749,569 | | |
| B. Cost of the sales and services | | |  | | | | | To year ending on  31 December  2019 2018  NIS thousand | | | | | |
| Purchases/materials consumed |  | | | 900,142 | | | | | | | 801,917 | |
| Changes in inventory of finished products and products in process | | | | | | | | | (44,805) | | 159,625 | |
| Salaries and benefits |  | | | 197,771 | | | | | | | 181,285 | |
| Depreciation and provision for decrease in value | | | | |  | | 63,066 | | | | 66,261 | |
| Factory | | | | |  | | 135,052 | | | | 142,211 | |
| Outside work | | | | | |  | | 11,451 | | | 19,525 | |
|  | | | | |  | | 1,262,677 | | | | 1,370,824 | |
| C. Research and development expenses | | | | | |  | |  | | |  | | |
|  | | | | |  | | To year ending on  31 December  2019 2018  NIS thousand | | | | | |
| Salaries and benefits | | | | |  | | 8,528 | | | 6,016 | | |
| External work | | | | |  | | 3,360 | | | 1,115 | | |
| Other research and development expenses 1) | | | | |  | | 7,863 | | | 6,539 | | |
| Less – governmental grants 2) | | | | |  | | 309 | | | - | | |
|  | | | | |  | | 19,442 | | | 13,670 | | |
|  | | | | |  | |  | | |  | | |
| **Keter Plastic Ltd.**  **Notes to the Financial Statements**  Note 15: - Additional details to Profit and Loss Statement clauses (cont.) | | | | | | | | | | | | | | |
| D. Expenses for sales, administration and general | | | | | |  | |  | | |  | | |
|  | | | | |  | | To year ending on  31 December  2019 2018  NIS thousand | | | | | |
| Salaries and benefits | | | | |  | | 110,484 | | | | 115,514 | |
| Depreciation | | | | |  | | 4,309 | | | | 4,399 | |
| Transport and export expenses | | | | |  | | 43,808 | | | | 50,467 | |
| Other | | | | |  | | 115,861 | | | | 129,412 | |
| Participation in expenses – Related Companies 1) | | | | | |  | | (84,588) | | | (91,086) | |
|  | | | | |  | | 189,874 | | | | 208,706 | |
|  | | | | |  | |  | | | |  | |
| E. Other expenses, net | | | | | |  | |  | | |  | | |
|  | | | | |  | | To year ending on  31 December  2019 2018 | | | | | |
| Loss from realization of fixed assets, net | | | | |  | | 231 | | | 2,922 | |
| Other expenses, net | | | | |  | | 117 | | | - | |
|  | | | | |  | | 348 | | | 2,922 | |

1) See Note 16.

2) See Note 11D.

**Keter Plastic Ltd.**

**Notes to the Financial Statements**

Note 16: - Controlling shareholders and Related Parties

A. Transactions with controlling shareholders and Related Parties

For year ending on

31 December

2019 2018

Note NIS thousand

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | | | | |  | |
| Income from sales of goods and royalties | | | | | 967,078 | | | 1,046,812 | |
| Purchases and receipt of services (1) | | | | | 24,308 | | | 39,844 | |
| Financing income, net | | | | 9,319 | | | | 1,958 | |
| Sales expenses | | | | 17,716 | | | | 17,438 | |
| Charge for sales, administration and general expenses (3) | | | | | 111,069 | | | 115,492 | |
| Charge for participation in expenses, net (4) | | | 84,793 | | | | | 91,086 | |
| Income, net, from participation in research and development expenses | | | | | | 1,588 | | - | |
| Consideration for sales of fixed assets | | | (4,537) | | | | | - | |
|  | |  | | | | |  | |

B. Balances with controlling shareholders and Related Parties

31 December

2019 2018

Note NIS thousand

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | |  | | |  |
| Customers | |  | | 108,246 | | 425,330 |
| Accounts receivable (5) | | | |  | 159,832 | 44,165 |
| Liabilities to suppliers and service providers | | | | | (57,432) | (73,652) |

1. Purchases and receipt of services from Related Companies.
2. The Company rented from shareholders and companies under their control buildings used for the activity of the Company.
3. Expenses for sale fees and refund of expenses for transport from the sale of goods.
4. The Company charges Related Companies for participation costs in expenses given by it.
5. In 2019, includes short-term loans to a Related Company, linked to the Euro and bearing annual interest at the rate of 4%.

**Keter Plastic Ltd.**

**Notes to the Financial Statements**

Note 17: - Events after the reporting date

1. In March 2020, The World Health Organization declared an international pandemic connected to the quickly-growing spread of a new strain of the Coronavirus, Covid-19. The pandemic has had an unprecedented effect on the world economy, as governments have responded to this public health emergency, such as the lockdown imposed by the government, travel limitations and other means of protecting the public. These measures, if they continue for an extended period, are liable to adversely affect global markets, including the demand for perishable goods, products and services. These developments are liable to have a significant effect on the Company’s sales, the results of its activities and its cash flow. The management of the Company anticipates a decline in Company sales in the short term. As a result, the management took a number of initiatives at the beginning of March 2020 in order to limit the monetary effect connected with Covid-19, such as (i) a cessation of production in order to reduce inventory, (ii) a postponement of non-vital expenses, (iii) freezing of rent payments, (iv) leverage of governmental support in various regions in which the Group is active, and (v) supervision and monitoring of customer debt collection.

The management has also executed strict cash controls in the entire Group under the management of the CFO of the Group and is administering a cash flow forecast of 13 weeks and has also updated its budget in order to take into account the present environment, particularly the commercial implications of the situation.

This situation is changing quickly, and additional influences on the business are liable to be created of which the Group is not aware at present. Although at this time the effect is expected to be temporary, there is uncertainty regarding the time period. At this stage, it is impossible to estimate the influence of the pandemic on the results of the Group, its monetary condition, liquidity or capital resources at the present time; the management is closely following the situation and will continue to take the appropriate measures.

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