

24 March 2016

Amiad Water Systems Ltd.
("Amiad" or the "Company")



Full Year Results

Amiad (AIM: AFS), a leading global producer of water treatment and filtration solutions, announces its full year results for the twelve months ended 31 December 2015.

Successful Restructuring and Return to Profitability

- Restructuring exercise, improved efficiencies and consequential higher-than-expected cost savings resulted in the Company achieving its goal of returning to profitability
- Underlying performance of the Company improved, resulting in revenue growth of 8% year-on-year on a constant currency basis
- Growth in the Irrigation and Oil & Gas segments mitigated weakness in the Municipal and Industrial segments
- New products continued to contribute to revenue growth, positioning the Company to improve gross margin

Financial Summary

- Revenue was broadly flat at \$118.8m on a reported basis (2014: \$118.5m)
- Gross margin improved 160 basis points to 40.5% (2014: 38.9%)
- Operating profit more-than-trebled to \$8.8m (2014: \$2.9m)
- Profit before tax increased significantly to \$6.7m (2014: \$0.4m loss)
- Fully diluted earnings per share increased to \$0.166 (2014: \$0.065 loss)
- Dividend for 2015 of \$0.067 per share (2014: \$0.022 per share)
- Successfully executed on restructuring and cost cutting exercise resulting in reduction in cost base by approximately \$4m on an annualised basis
- Net debt substantially reduced to \$8.8m at 31 December 2015 (30 June 2015: \$18.2m; 31 December 2014: \$21.3m)
- Cash and cash equivalents at 31 December 2015 were \$17.0m (30 June 2015: \$14.5m; 31 December 2014: \$14.1m)

Operational Summary

- Largest growth was seen in EMEA where sales increased by approximately 15% driven by large projects carried out in the Irrigation and Oil & Gas segments
- Established a subsidiary in the UK to support increasing demand for clean water solutions in the UK and Europe
- Growth in sales of new products maintained, accounting for approximately 9% of revenues (2014: c. 7%)
- Irrigation segment sales accounted for 46.6% of total revenue
 - In Q4 2015, signed exclusive distribution agreement with Netafim, a global leader in smart irrigation solutions for sustainable productivity, which is expected to be a significant contributor to 2016 revenue
- Sales in the Oil & Gas segment were the highest ever in the history of the Company, contributing almost 10% of revenue
- Industrial segment sales decreased to \$42.8m (2014: \$46.9m), mainly due to weakness in the US, Australia, China and South East Asia, but partly mitigated by growth in EMEA
- Municipal segment continued to suffer from lack of investment in major infrastructure projects by local authorities as revenue declined to \$8.9m compared with \$10.7m in 2014

Arik Dayan, Chief Executive Officer of Amiad, said: "We are pleased that the business demonstrated solid underlying growth as sales of new products and our traditional automatic filters increased worldwide. The

sales of new products helped improve our gross margin and this, combined with our restructuring programme, meant that we achieved our goal of returning to profitability. Irrigation continued to be the main growth segment along with Oil & Gas also showing good growth. The global macro-economic conditions continued to have an impact on large infrastructure municipal projects and the Industrial segment suffered primarily due to slowdown in the mining industry in Australia and China.

“In 2016, we continue to demonstrate progress and maintain tight cost control. However, we are cautious about the potentially negative impact of global macro-economic conditions, currency headwinds and uncertainty due to the US elections. We expect the Irrigation segment to continue to be the main contributor to revenue, supported by the partnership with Netafim. The Municipal segment is anticipated to return to growth, and there are increased orders from India and China in the Industrial segment compared with last year. In the Oil & Gas segment, 2015 was an exceptionally good year, however, in 2016 we expect a reduction in projects due to the effect on the industry from lowered oil prices. As a result, the fundamentals of the business remain sound and the management team continues to drive the business forward.”

Enquiries

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About Amiad

Amiad Water Systems (AIM: AFS) is a leading global producer of automatic, self-cleaning water treatment and filtration products and systems. Through its engineering skills and ability to innovate, Amiad provides cost-effective “green” solutions for the industrial, municipal, irrigation, oil & gas and ballast water markets. In these segments its patented products are being integrated into the core of systems for filtration and water treatment, micro irrigation and membrane protection, wastewater and potable water treatment, cooling systems and sea water filtration.

Headquartered in Israel, Amiad provides these solutions through nine subsidiaries and a comprehensive network of over 170 distributors to customers in more than 80 countries.

For additional information or product details, please visit www.amiad.com.

Operational Review

This was a significant year which saw the Company benefit from the organisational efficiencies implemented during 2014 that were designed to enhance the Company's efficiency and flexibility. This enabled the Company to react quickly to the slowdown experienced at the end of 2014 and commence a restructuring programme as the first step towards a return to profitability. The sales of Amiad's new products, particularly the Omega and Sigma, increased which contributed to improvement in the performance of the business and the gross margins, which was also supported by efficiency gains in the manufacturing process. On a constant currency basis, there was an increase in revenues of 8% compared with 2014 and the Company achieved its goal of returning to profitability for full year 2015.

Segment Performance

The Irrigation and Industrial segments generated \$55.3m and \$42.8m respectively during the period (2014: \$52.5m and \$46.9m), accounting for 46.6% and 36.0% of the Company's revenue (2014: 44.3% and 39.6%). The Irrigation segment continued to perform well in the US, Australia, EMEA and China, supported by sales of Amiad's Omega and Sigma products. In addition, the Company signed an exclusive distribution agreement with Netafim, a global leader in smart irrigation solutions for sustainable productivity, whereby Netafim will market Amiad's Arkal product lines for the irrigation market in numerous countries outside of Israel as part of its filtration offering. The decrease in revenue in the Industrial segment was mainly due to weakness in the US, Australia, China and South East Asia, but it was partly mitigated by growth in EMEA.

The Municipal segment sales decreased to \$8.9m (accounting for 7.5% of 2015 total revenue) from \$10.7m in 2014 due to a lack of investment by municipal entities in large infrastructure projects. Revenue in the Oil & Gas segment grew to \$11.6m, or 9.7% of total sales, from \$7.1m (6.0% of total revenue) in 2014 mainly due to sales from injection water and fracking water projects that were awarded during 2014 and completed in 2015. The Ballast Water segment remained weak with revenues of \$0.2m (2014: \$1.3m) due to the continued lack of regulatory impetus for ship owners to invest in new systems.

Global Activity

US

In the US, revenues amounted to \$26.0m compared with \$28.7m in 2014. The decline was primarily due to the Industrial segment, which was lower by \$2.6m year-on-year. There was an increased contribution from the Oil & Gas segment, which offset slight declines in the Irrigation, Municipal and Ballast Water segments.

EMEA

Revenues in EMEA grew approximately 15% in aggregate over 2014 despite currency headwinds in Europe. Specifically in Europe, the reported revenue would be higher on a constant currency basis. Sales in the Irrigation segment in Europe increased significantly as a result of the sales office established in the region last year. Amiad also performed well in the Oil & Gas segment in EMEA.

On 7 September 2015, Amiad announced that it had established a wholly-owned subsidiary in the UK to support the increasing demand for clean water solutions in the UK and Europe. Its operations are based in Swansea, Wales and it is the Company's first permanent base in the UK. Previously, Amiad's products and solutions were sold through its distributor based in Swansea. The new subsidiary, Amiad Water Systems UK Ltd, reports to Amiad Europe, and provides marketing and technical support functions. Amiad UK has already contributed to sales and the Company expects the UK subsidiary to be a major player in the non-irrigation segment in Europe.

Asia

Sales in Asia, on aggregate, decreased to \$13.3m compared with \$15.4m in 2014, primarily due to weakness in China where sales were significantly lower in the Industrial segment as a result of a lack of activity in the steel industry. Chinese operations were also impacted by a strong currency effect as the Chinese Renminbi fell against the US Dollar. Amiad took positive action to restructure its subsidiary, Amiad China, and strengthen its management team resulting in growth in the Irrigation segment. Amiad continues to believe that the longer-term growth opportunities offered by China remain substantial.

South East Asia also suffered from a decline in the Industrial segment, which reduced overall revenues, but this was partly offset by strong performance in the Oil & Gas segment. Short-term weakness in China and South East Asia was partly mitigated by a strong year in India, primarily in the Industrial segment, which experienced demand from the power generation sector – which also carries a higher gross margin.

Australia

In Australia, revenues amounted to \$10.0m compared with \$14.4m in 2014. The decline was primarily due to the Industrial and Oil & Gas segments that continued to suffer due to the reduced demand for raw materials from China, Australia's largest export customer, which has resulted in resource companies cancelling or postponing projects. The Municipal segment also declined as a result of the lack of public spending on large infrastructure projects. However, the Irrigation segment performed well, achieving a slight increase in revenues, based on sales of the new Omega and Sigma filters, with the demand being due to investment in upgrading irrigation systems used in food production to advanced, automatic solutions, which is being supported by public authorities. As with China, Australian operations were heavily affected by currency fluctuations, particularly in the Industrial segment.

Financial Review

Revenue for the twelve months ended 31 December 2015 was \$118.8m compared with \$118.5m in 2014. The Company's revenue recognition continued to be impacted by adverse changes in exchange rates, mainly the US Dollar against the New Israeli Shekel, but also between the Australian and US Dollars as well as the Euro and US Dollar. On a constant currency basis, Amiad achieved a growth in revenue of 8%.

Gross margin improved to 40.5% (2014: 38.9%). The increase was mainly due to the benefits of the cost cutting and restructuring programme, efficiency gains in the manufacturing process and product mix as well as the impact of currency exchange rates.

During the year, Amiad completed the implementation of the restructuring and cost cutting programme, which performed better than expected, resulting in cost savings of approximately \$4m on an annualised basis. The Company also took actions to significantly clean the balance sheet through making provisions for bad debt and inventory write-offs and restoring certain performance-based employee bonuses.

As a result, operating profit increased by 208% to \$8.8m (2014: \$2.9m) and the Company achieved a profit before tax of \$6.7m compared with a \$0.4m loss for the prior year. Significantly, despite the provisions for bad debt, the Company earned a net profit of \$5.1m compared with a \$1.0m loss in 2014.

Fully diluted earnings per share increased to \$0.166 compared with a \$0.065 loss in 2014.

As of 31 December 2015, cash and cash equivalents were \$17.0m (30 June 2015: \$14.5m; 31 December 2014: \$14.1m). Net debt reduced to \$8.8m (30 June 2015: \$18.2m; 31 December 2014: \$21.3m), which exceeded expectations, as a result of the return to profit, decrease in working capital and improved collection of receivables.

Dividend

The Directors have decided to declare a dividend out of the Company's profits for the twelve months ended 31 December 2015 of \$0.067 gross per share (dividend 2014: \$0.022 gross per share), with an ex-dividend date of 7 April 2016, a record date of 8 April 2016 and a payment date of 5 May 2016.

Outlook

In 2016, the Company continues to demonstrate progress and maintain tight cost control. However, it is cautious about the potentially negative impact of global macro-economic conditions, currency headwinds and uncertainty due to the US elections.

Amiad expects the Irrigation segment to continue to be the main contributor to revenues, supported by the partnership with Netafim. The Municipal segment is anticipated to return to growth, and there are increased orders from India and China in the Industrial segment compared with last year. In the Oil & Gas segment, 2015 was an exceptionally good year, however, in 2016 the Company expects a reduction in projects due to the effect on the industry from lowered oil prices. As a result, the fundamentals of the business remain sound and the management team continues to drive the business forward.

AMIAD WATER SYSTEMS LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Assets	31 December	
	2015	2014
	\$ in thousands	
CURRENT ASSETS:		
Cash and cash equivalents	17,018	14,090
Financial assets at fair value through profit or loss	148	452
Trade and other receivables:		
Trade	36,014	44,091
Other	4,488	3,230
Inventories	24,719	23,729
Current income tax assets	430	869
Total Current Assets	82,817	86,461
NON-CURRENT ASSETS:		
Investment in joint venture	10	10
Severance pay fund, net	95	105
Long-term receivables	43	48
Property, plant and equipment	10,731	11,184
Intangible assets	15,690	16,849
Deferred income tax assets	1,778	2,738
Total Non Current Assets	28,347	30,934
Total Assets	111,164	117,395

AMIAD WATER SYSTEMS LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	31 December	
	2015	2014
	\$ in thousands	
Liabilities and Equity		
CURRENT LIABILITIES:		
Bank credit and current maturities of borrowings from bank	14,188	23,212
Financial liabilities at fair value through profit or loss- derivatives	214	1,066
Trade and other payable:		
Trade	15,461	15,064
Other	9,946	8,431
Put option liability	-, -	2,927
Liability to the CEO of a subsidiary	1,367	-, -
Current income tax liability	321	463
Total Current Liabilities	41,497	51,163
NON CURRENT LIABILITIES:		
Borrowings from banks (net of current maturities)	11,673	12,205
Liability to the CEO of a subsidiary	1,508	-, -
Accrued severance pay, net	321	450
Deferred income tax liabilities	329	823
Total Non Current Liabilities	13,831	13,478
Total Liabilities	55,328	64,641
EQUITY:		
Capital and reserves attributable to equity holders of the Company:		
Share capital	2,798	2,798
Capital reserves	28,437	28,371
Transaction with non-controlling interests	(180)	(180)
Currency translation reserve	(4,145)	(2,188)
Retained earnings	28,773	23,944
	55,683	52,745
Non-controlling interests	153	9
Total Equity	55,836	52,754
Total Liabilities and Equity	111,164	117,395

AMIAD WATER SYSTEMS LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2015	2014
	\$ in thousands except per share data	
Revenue	118,779	118,471
Cost of sales	70,630	72,418
Gross Profit	48,149	46,053
Research and development, net	2,932	3,158
Selling and marketing costs	25,460	28,204
Administrative and general expenses	11,049	11,359
Other gains (losses)	114	(468)
Operating Profit	8,822	2,864
Finance income	790	137
Finance costs	(2,960)	(3,430)
Finance costs, net	(2,170)	(3,293)
Profit (loss) before income taxes	6,652	(429)
Income tax expenses	1,581	559
Profit (loss) for the year	5,071	(988)
Other comprehensive loss- Items that will not be reclassified to profit or loss:		
Remeasurements of post-employment benefit obligations, net	92	135
Items that may be subsequently reclassified to profit or loss:		
Currency translation differences	1,963	773
Other comprehensive loss for the year	2,055	908
Total comprehensive income (loss) for the year	3,016	(1,896)
Profit (loss) attributable to:		
Equity holders of the Company	4,921	(1,006)
Non controlling interests	150	18
	5,071	(988)
Total comprehensive income (loss) attributable to:		
Equity holders of the Company	2,872	(1,913)
Non controlling interests	144	17
	3,016	(1,896)
	\$	
Earnings (loss) per share attributable to the equity holders of the Company during the year:		
Basic	0.217	(0.044)
Diluted	0.166	(0.065)

AMIAD WATER SYSTEMS LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company						Non- controlling interest	Total equity	
	Number of shares	Share capital	Capital reserve	Currency translation reserve	Transaction with non-controlling interest	Retained earnings			Total
	\$ in thousands								
BALANCE AT 1 JANUARY 2014	22,663,651	2,798	28,271	(1,416)	(180)	26,082	55,555	(8)	55,547
Comprehensive income (loss):									
Profit (loss) for the year						(1,006)	(1,006)	18	(988)
Currency translation differences				(772)			(772)	(1)	(773)
Remeasurement of net defined benefit liability						(135)	(135)		(135)
Total comprehensive income (loss)				(772)		(1,141)	(1,913)	17	(1,896)
Transaction with owners:									
Recognition of compensation related to employee stock and options grants			100				100		100
Dividend (\$0.106 per share)						(997)	(997)		(997)
Total transaction with owners			100			(997)	(897)		(897)
BALANCE AT 31 DECEMBER 2014	22,663,651	2,798	28,371	(2,188)	(180)	23,944	52,745	9	52,754
Comprehensive income (loss):									
Profit for the year						4,921	4,921	150	5,071
Currency translation differences				(1,957)			(1,957)	(6)	(1,963)
Remeasurement of net defined benefit liability						(92)	(92)		(92)
Total comprehensive income (loss)				(1,957)		4,829	2,872	144	3,016
Transaction with owners:									
Recognition of compensation related to employee stock and options grants			66				66		66
Total transaction with owners			66				66		66
BALANCE AT 31 DECEMBER 2015	22,663,651	2,798	28,437	(4,145)	(180)	28,773	55,683	153	55,836

AMIAD WATER SYSTEMS LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December	
	2015	2014
	\$ in thousands	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash generated from (used in) operations	16,425	(302)
Interest paid	(781)	(816)
Interest received	130	162
Income taxes paid, net	(312)	(2,576)
Net cash generated from (used in) operating activities	<u>15,462</u>	<u>(3,532)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(2,084)	(2,581)
Purchase of intangible assets	(334)	(653)
Investment grants received	131	332
Proceeds from sale of property, plant and equipment	131	57
Restricted deposit	25	(266)
Collection of long-term loan to a related party	-	40
Net cash used in investing activities	<u>(2,131)</u>	<u>(3,071)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid to equity holders of the Company	-	(997)
Receipt of long-term borrowings	10,000	3,072
Payments of long term borrowings	(8,522)	(9,016)
Increase (decrease) in bank credit and short term borrowing, net	<u>(10,958)</u>	<u>12,988</u>
Net cash generated from (used in) financing activities	<u>(9,480)</u>	<u>6,047</u>
EXCHANGE RATE LOSS ON CASH AND CASH EQUIVALENTS	<u>(923)</u>	<u>(225)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,928	(781)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>14,090</u>	<u>14,871</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>17,018</u>	<u>14,090</u>

