

6 September 2017

Amiad Water Systems Ltd.
(“Amiad” or the “Company”)



Interim Results

Amiad (AIM: AFS), a leading global producer of water treatment and filtration solutions, announces its interim results for the six months ended 30 June 2017.

Financial Summary

- Revenue increased 6.2% to \$55.7m (H1 2016: \$52.4m)
- Gross margin improved to 39.6% (H1 2016: 39.2%)
- Operating profit increased 51.0% to \$2.8m (H1 2016: \$1.9m)
- Profit before tax increased 93.9% to \$3.2m (H1 2016: \$1.7m)
- Fully diluted earnings per share of \$0.098 (H1 2016: \$0.049)
- Net debt at 30 June 2017 was \$8.1m (31 December 2016: \$8.8m)
- Cash and cash equivalents at 30 June 2017 were \$15.7m (31 December 2016: \$16.1m)

Operational Summary

- Growth in sales reflecting progress across all core segments
 - Irrigation segment sales, which accounted for 57.8% of total revenue, increased in all but one territory
 - Increased sales in the Industrial segment in China, India and Israel offset weakness elsewhere resulting in overall growth in the segment
 - Sales in the Municipal segment were 33.6% higher than H1 2016, primarily due to a significant increase in the US
 - Oil & Gas segment sales grew 13.4% due to growth in Australia and also the US
- Completed in-house metal fabrication facility, which is now fully operational, that will enable increased efficiency and quality

Strategic Plan

- Review completed by new CEO
- Clear roadmap to grow revenues to \$150m by 2022 with continued focus on profitability
- Primary focus on Irrigation segment and North America – offers a significant opportunity across all segments
- Ballast Water segment offering will be enhanced over the next six months to target this potentially significant market, however if progress cannot be delivered over this period then resources will be refocused elsewhere

Dori Ivzori, Chief Executive Officer of Amiad, said: “I am pleased to report this set of results that represents an inflection point for Amiad. We achieved sales growth across all of our core segments and saw a substantial increase in profitability thanks to the foundations that we laid last year and continued tight cost control. At the same time, we completed our in-house metal fabrication facility, which is now fully operational and will contribute to improved efficiency in the second half of the year and beyond.

“Looking ahead, we entered the second half of 2017 with a higher backlog than at the same time last year and are receiving increasing customer interest in our products. While we expect to be negatively impacted in the second half from the weakness of the US Dollar against the New Israeli Shekel, there is sufficient demand in the business to compensate for this and, consequently, we anticipate reporting full year growth for 2017 in line with market expectations. As a result, the Board looks to the future with confidence and to delivering shareholder value.”

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

In the first half of 2017, the Company achieved growth in all of its core segments and in most geographies except the US, Singapore, Europe and Brazil due to weakness in the Industrial segment in those territories. As a result, total revenue increased 6.2% year-on-year. However, thanks to progress made in 2016 in adjusting the cost structure, maintaining control over expenses and benefiting from its foreign exchange hedging over the period, the Company achieved 93.9% growth in profit before tax. The Company also completed its in-house metal fabrication facility, which is now fully operational and will contribute to improved efficiency during the second half of 2017 onwards. Amiad continued to invest in R&D in line with its policy and is developing new products, particularly for the Irrigation segment, that are to be launched from 2018, that form part of the Company's strategic plan as described below.

Segment Performance

The Irrigation and Industrial segments generated \$32.2m and \$17.8m respectively during the period (H1 2016: \$30.3m and \$17.5m), accounting for 57.8% and 31.9% of the Company's revenue (H1 2016: 57.9% and 33.4%). The growth in the Irrigation segment was across all geographies, except India. In the Industrial segment, an increase in sales in China, India and Israel offset weakness elsewhere resulting in slight growth overall.

The Municipal segment sales were \$3.7m (accounting for 6.7% of H1 2017 total revenue), compared with \$2.8m in H1 2016, with the increase due to growth in the US. Revenue in the Oil & Gas segment was \$2.0m, or 3.5% of total sales, compared with \$1.7m (3.3% of total revenue) in H1 2016 with the growth due to an increase in sales in Australia but also the US. The Ballast Water segment continued to experience difficult trading conditions with revenues of \$0.01m (H1 2016: \$0.03m).

Global Activity

US

In the US, the Company took a strategic decision to restructure the Industrial segment sales team and channel partner network to support targeted growth in 2018 and beyond. As a result of this reorganisation, sales in this segment were significantly lower during the period compared with the prior year. However, this was partly offset by growth in revenues in the other segments, particularly in the Municipal segment where a few medium-sized projects were delivered in the first half of 2017. Consequently, total revenues amounted to \$11.3m compared with \$11.8m in H1 2016.

EMEA

Revenues in EMEA grew by 9.7% in aggregate over H1 2016, which was due to weakness in Europe being offset primarily by an increase in Israel but also Turkey.

The growth in Israel was principally across the Irrigation and Industrial segments as well generating sales in the Municipal segment.

In Europe, sales in the Irrigation segment continued to increase slightly as the sales office established in the region continued to build on the success of the prior year, and the Municipal segment also experienced growth, however this was offset by sustained weakness in the Industrial and Oil & Gas segments in this region.

As previously announced, during the period the Company was notified about issues with the certification used by its French subsidiary company (the "Subsidiary") to confirm compliance of certain products ("Products"), sold by the Subsidiary, with the French Attestation de Conformité Sanitaire ("ACS") standard. Following an initial investigation, the Company put in place new management oversight of its French and European operations, and appointed Amiad's VP Operations & COO as interim President of the Subsidiary. In addition, application for the requisite ACS certification for the relevant Products was submitted and the Company is pleased to report that it has received the first of the two certificates. Amiad continues to work with its customers to minimise the disruption to ongoing projects.

Asia

Sales in China and India grew by 22.1% and 15.3% respectively over the same period of last year, primarily due to an increase in the Industrial segment. In China, the strengthening economy resulted in an increase in investment, especially in the steel industry that has traditionally been the strongest sector for Amiad in China. In India, the Company won a number of large Municipal and Industrial projects that it commenced supplying during the first half of 2017.

However, on aggregate, sales in Asia decreased due to a significant reduction in revenues in Singapore as a result of a slight delay in a few major projects that Amiad now expects to complete in the second half of the year.

Australia

In Australia, revenues were 13.5% higher than the comparable period of the prior year. This was primarily due to growth in the Oil & Gas segment. The Irrigation segment also continued to perform well, with sales remaining level with the prior year, while the Industrial and Municipal segments declined slightly.

The above analysis shows the Company's sales by business unit.

Financial Review

Revenue for the six months ended 30 June 2017 increased by 6.2% to \$55.7m compared with \$52.4m for H1 2016. As stated above, the growth was due to improvement across the Company's segments (excluding Ballast Water), although there was variation within the different geographies.

Gross margin was 39.6% (H1 2016: 39.2%). The slight improvement was due to continued tight cost control and gains from operational efficiencies. However, spending on R&D increased as Amiad invested in sustaining its product innovation to support future sales. In the second half of 2017, the Company expects further improvement as Amiad begins to recognise the full benefits from the construction of its new metal fabrication facility, but this will be offset by the negative impact of the foreign currency exchange rate of the US Dollar against the New Israeli Shekel as described below. In H1 2017, hedging generated income of \$700,000 to offset the \$1.0m loss at the operating level compared with the equivalent period of the previous year.

Operating profit increased by 51.0% to \$2.8m (H1 2016: \$1.9m) and profit before tax increased by 93.9% to \$3.2m compared with \$1.7m for the same period of the prior year. Fully diluted earnings per share were \$0.098 compared with \$0.049 in H1 2016.

Foreign currency exchange movements – primarily the US Dollar against the New Israeli Shekel – had a negative impact on the Company's reported operating profit, but this did not affect the reported profit before tax due to the net finance income, primarily as a result of hedging arrangements. However, the Company does not have the same level of hedging arrangements in place for the second half of 2017 and so anticipates foreign currency movements to have a negative impact of approximately \$1.5m on full year reported profit on a constant currency basis compared with full year 2016.

Further to the announcement of 12 July 2017, the Company expects to incur exceptional legal and other costs related to the certification issue in France of approximately \$0.4m for full year 2017. Based on currently available information, the Company does not anticipate there to be a material impact on the Company's results for the 2017 financial year in relation to this matter.

As at 30 June 2017, cash and cash equivalents were \$15.7m (31 December 2016: \$16.1m). Net debt at 30 June 2017 was \$8.1m (31 December 2016: \$8.8m), however the Company expects a slight increase by year-end due to the negative affect of the currency exchange and the need to support R&D and other investment associated with the strategic plan.

Strategic Plan

Following the appointment of Dori Ivzori as CEO in Q4 2016, Amiad has been conducting an internal review to assess the position of the Company and determine the strategy for growth going forward. That process is now concluded.

The strategic aim of the Company is to be a profitable, growing business generating at least \$150m in annual revenue within the next five years – which the Company would expect to achieve both through organic growth as well as complementary acquisitions. To achieve this, the Company has three strategic areas of focus:

- Irrigation segment: Amiad will strengthen its position in this core segment through internal development and potentially by acquisition to ensure it has the right products and channels to market. The Company intends to launch new products targeting this market from 2018.
- North America: The Company will invest in all segments, including Irrigation, in the appropriate regions, and develop its offering to target new sectors within its segments. Amiad believes the North America region represents a substantial market opportunity for its products, and will offer a stronger and faster return on its investment than other geographies.
- Ballast water segment: Over the next six months, Amiad will focus on enhancing its offer to this market – which represents a significant opportunity – and gain the requisite certifications and partner approvals. If these targets have not been met within this time period, the Company will refocus these resources on other markets.

The Company will continue to be active in the non-Irrigation segments, but will concentrate on fewer sectors and territories within its segments to focus its efforts on areas where it can be most successful. However, Amiad will continue to service its customers in the traditional areas, including in markets that it does not expect to invest actively in growing.

In addition, Amiad will continue to focus on reorganising the business to improve the cost structure, efficiency, its customer support and engineering capability.

Outlook

During the first half of 2017, Amiad received a greater number of orders than during H1 2016 and entered the second half of 2017 with a higher value of backlog than at the same time of the prior year. With Amiad receiving increased customer interest as segments within many geographies experience a return to investment, the momentum of the first half has been sustained into the second half. While the Company expects to be negatively impacted in the second half from the weakness of the US Dollar against the New Israeli Shekel, with a reduced hedging offset, there is sufficient demand in the business to compensate for this and, consequently, Amiad anticipates reporting full year growth for 2017 in line with market expectations.

Looking further ahead, with the improvement in its core markets and with its new strategic plan in place, the Company is confident of achieving sustained growth and delivering shareholder value over the medium to long term.

AMIAD WATER SYSTEMS LTD.
CONDENSED CONSOLIDATED BALANCE SHEET
JUNE 30, 2017

	June 30		December 31,
	2017	2016	2016
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
Assets			
CURRENT ASSETS:			
Cash and cash equivalents	15,674	16,201	16,091
Financial assets at fair value through profit or loss	452	220	85
Trade and other receivables:			
Trade	37,909	37,839	33,939
Other	5,145	4,167	4,331
Current income tax assets	446	165	417
Inventories	25,941	25,381	24,938
T o t a l Current Assets	85,567	83,973	79,801
NON-CURRENT ASSETS:			
Investment in joint venture	10	10	10
Severance pay fund, net	396	93	361
Long-term receivables	60	47	59
Property, plant and equipment	11,065	10,354	10,783
Intangible assets	14,034	15,226	14,532
Deferred income tax assets	2,493	2,319	2,222
T o t a l Non Current Assets	28,058	28,049	27,967
T o t a l Assets	113,625	112,022	107,768

Eli Opper
Chairman of the Board

Dori Ivzori
CEO and Director

Irit Ben-Dov
Chief Finance Officer

Date of approval of the interim financial information by the Company's Board of Directors: September 5, 2017

AMIAD WATER SYSTEMS LTD.
CONDENSED CONSOLIDATED BALANCE SHEET
JUNE 30, 2017

	<u>June 30</u>		<u>December 31,</u>
	<u>2017</u>	<u>2016</u>	<u>2016</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
	<u>U.S. dollars in thousands</u>		
Liabilities and equity			
CURRENT LIABILITIES:			
Bank credit and current maturities of borrowings from banks	11,314	10,438	11,253
Financial liabilities at fair value through profit or loss – derivatives	104	115	66
Trade and other payable:			
Trade	16,138	15,191	13,854
Other	12,856	10,602	10,278
Liability to the CEO of a subsidiary	-, -	1,306	-, -
Current income tax liability	675	772	816
T o t a l Current Liabilities	<u>41,087</u>	<u>38,424</u>	<u>36,267</u>
NON-CURRENT LIABILITIES:			
Borrowings from banks (net of current maturities)	12,432	16,207	13,596
Liability to the CEO of a subsidiary	-, -	1,508	-, -
Deferred income tax liabilities	6	-, -	6
Accrued severance pay, net	409	380	369
T o t a l Non Current Liabilities	<u>12,847</u>	<u>18,095</u>	<u>13,971</u>
T o t a l Liabilities	<u>53,934</u>	<u>56,519</u>	<u>50,238</u>
EQUITY:			
Capital and reserves attributable to equity holders of the Company:			
Share capital	2,798	2,798	2,798
Capital reserves	28,531	28,483	28,520
Transaction with non-controlling interest	(259)	(180)	(259)
Currency translation reverse	(5,539)	(4,224)	(6,288)
Retained earnings	31,358	28,465	29,857
	<u>56,889</u>	<u>55,342</u>	<u>54,628</u>
Non-controlling interests	2,802	161	2,902
Total Equity	<u>59,691</u>	<u>55,503</u>	<u>57,530</u>
Total Liabilities and Equity	<u>113,625</u>	<u>112,022</u>	<u>107,768</u>

AMIAD WATER SYSTEMS LTD.
CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2017

	Six months ended		Year ended
	June 30		December 31,
	2017	2016	2016
	(Unaudited)		(Audited)
U.S dollars in thousands			
except per share data			
Revenue	55,670	52,409	105,590
Cost of sales	33,627	31,876	64,077
Gross Profit	22,043	20,533	41,513
Research and development, net	1,795	1,680	3,402
Selling and marketing costs	12,698	12,237	24,423
Administrative and general expenses	4,791	4,794	9,953
Other gains (losses)	34	28	(34)
Operating Profit	2,793	1,850	3,701
Finance income	1,100	698	1,009
Finance costs	(656)	(879)	(1,622)
Finance income (costs), net	444	(181)	(613)
Profit (loss) before income taxes	3,237	1,669	3,088
Income tax expense	725	449	677
Profit for the period	2,512	1,220	2,411
Other comprehensive income (loss)-			
Items that will not be reclassified to profit or loss:			
Re-measurements of post-employment benefit obligations	-,-	-,-	260
Items that may be subsequently reclassified to profit or loss:			
Currency translation differences	769	(81)	(2,147)
Other comprehensive income (loss) for the period	769	(81)	(1,887)
Total comprehensive income for the period	3,281	1,139	524
Profit attributable to:			
Equity holders of the Company	2,226	1,210	2,342
Non-controlling interests	286	10	69
	2,512	1,220	2,411
Total comprehensive income attributable to:			
Equity holders of the Company	2,975	1,131	459
Non-controlling interest	306	8	65
	3,281	1,139	524
	U.S dollars		
Earnings (loss) per share attributable to the equity holders of the company during the period:			
Basic	0.098	0.053	0.103
Diluted	0.098	0.049	0.095

AMIAD WATER SYSTEMS LTD.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2017

	Attributable to owners of the parent						Non-controlling interest	Total equity	
	Number of shares	Share capital	Capital Reserve	Currency translation reserve	Transaction with Non-controlling Interest	Retained earning			Total
	U.S dollars in thousands								
BALANCE AT JANUARY 1, 2017 (audited)	22,663,651	2,798	28,520	(6,288)	(259)	29,857	54,628	2,902	57,530
CHANGES DURING THE SIX MONTH ENDED JUNE 30, 2017 (unaudited):									
Comprehensive income -									
Profit for the period						2,226	2,226	286	2,512
Currency translation differences				749			749	20	769
Total comprehensive income				749		2,226	2,975	306	3,281
Transaction with owners:									
Recognition of compensation related employee stock and option grants			11				11		11
Dividend to a non-controlling interest								(406)	(406)
Dividend (\$0.032 per share)						(725)	(725)		(725)
Total transactions with owners			11			(725)	(714)	(406)	(1,120)
BALANCE AT JUNE 30, 2017 (unaudited)	<u>22,663,651</u>	<u>2,798</u>	<u>28,531</u>	<u>(5,539)</u>	<u>(259)</u>	<u>31,358</u>	<u>56,889</u>	<u>2,802</u>	<u>59,691</u>
BALANCE AT JANUARY 1, 2016 (audited)	22,663,651	2,798	28,437	(4,145)	(180)	28,773	55,683	153	55,836
CHANGES DURING THE SIX MONTH ENDED JUNE 30, 2016 (unaudited):									
Comprehensive income -									
Profit for the period						1,210	1,210	10	1,220
Currency translation differences				(79)			(79)	(2)	(81)
Total comprehensive income				(79)		1,210	1,131	8	1,139
Transaction with owners:									
Recognition of compensation related employee stock and option grants			46				46		46
Dividend (\$0.067 per share)						(1,518)	(1,518)		(1,518)
Total transactions with owners			46			(1,518)	(1,472)		(1,472)
BALANCE AT JUNE 30, 2016 (unaudited)	<u>22,663,651</u>	<u>2,798</u>	<u>28,483</u>	<u>(4,224)</u>	<u>(180)</u>	<u>28,465</u>	<u>55,342</u>	<u>161</u>	<u>55,503</u>

AMIAD WATER SYSTEMS LTD.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2017

	Attributable to owners of the parent						Non-controlling interest	Total equity	
	Number of shares	Share capital	Capital reserve	Currency translation reserve	Transaction with non-controlling interest	Retained earning			Total
	U.S dollars in thousands								
Balance at 1 January 2016	22,663,651	2,798	28,437	(4,145)	(180)	28,773	55,683	153	55,836
Comprehensive income -									
Loss for the period						2,342	2,342	69	2,411
Currency translation differences				(2,143)			(2,143)	(4)	(2,147)
Remeasurement of net defined benefit liability						260	260		260
Total comprehensive income				(2,143)		2,602	459	65	524
Transaction with owners:									
Transaction with non-controlling interests					(79)		(79)	2,684	2,605
Recognition of compensation related to employee stock and options grants			83				83		83
Dividend (\$0.067 per share)						(1,518)	(1,518)		(1,518)
Total transaction with owners			83		(79)	(1,518)	(1,514)	2,684	1,170
Balance at 31 December 2016	22,663,651	2,798	28,520	(6,288)	(259)	29,857	54,628	2,902	57,530

AMIAD WATER SYSTEMS LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2017

	Six months ended		Year ended
	June 30		December 31,
	2017	2016	2016
	(Unaudited)		(Audited)
	U.S dollars in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash generated from operations (see note 5)	3,590	556	6,166
Interest paid	(365)	(374)	(764)
Interest received	102	24	124
Income tax received (paid)	(557)	114	(635)
Net cash generated from operating activities	<u>2,770</u>	<u>320</u>	<u>4,891</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	(1,426)	(856)	(2,564)
Purchase of intangible assets	(68)	(113)	(225)
Investments grants received	89	125	127
Restricted deposit	(144)	392	465
Proceeds from sale of property, plant and equipment	18	4	38
Net cash used in investing activities	<u>(1,531)</u>	<u>(448)</u>	<u>(2,159)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Receipt of long-term borrowings	2,015	9,014	9,014
Dividends paid to equity holders of the Company	(725)	(1,518)	(1,518)
Dividends paid to minority interests	(406)	-	-
Payments of long term borrowings	(3,421)	(6,977)	(11,394)
Increase (decrease) in bank credit and short term borrowing, net	305	(1,246)	1,370
Net cash generated used in financing activities	<u>(2,232)</u>	<u>(727)</u>	<u>(2,528)</u>
EXCHANGE RATE GAIN (LOSS) ON CASH AND CASH EQUIVALENTS	<u>576</u>	<u>38</u>	<u>(1,131)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(417)</u>	<u>(817)</u>	<u>(927)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>16,091</u>	<u>17,018</u>	<u>17,018</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>15,674</u></u>	<u><u>16,201</u></u>	<u><u>16,091</u></u>

CASH FLOWS FROM OPERATIONS:

APPENDIX A:

	Six months ended		Year ended
	June 30		December 31,
	2017	2016	2016
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
Profit for the period	2,512	1,220	2,411
(a) Adjustments to reconcile net income to net cash generated from operating activities:			
Depreciation and amortization	1,658	1,694	3,431
Interest paid	365	374	764
Interest received	(102)	(24)	(124)
Income taxes paid (received), net	557	(114)	635
Share based payment, net	11	46	83
Distribution of profits to a CEO of a subsidiary	-,	(114)	(371)
Changes in liability to the CEO of a subsidiary	-,	53	151
Increase in deferred income taxes, net	(213)	(874)	(814)
Accrued severance pay, net	(13)	56	65
Exchange rate differences on borrowings	(183)	(102)	91
Loss (profit) from sale of property, plant and equipment	(16)	5	19
Increase in assets at fair value through profit or loss	(329)	(171)	(85)
	<u>1,735</u>	<u>829</u>	<u>3,845</u>
Changes in working capital:			
Decrease (increase) in accounts receivable:			
Trade	(3,351)	(1,782)	878
Other	(532)	223	(491)
Decrease (increase) in long-term receivable	2	(3)	(18)
Increase (Decrease) in accounts payable:			
Trade	1,617	(379)	(980)
Other	2,263	1,077	1,127
Increase in inventories	(656)	(629)	(606)
	<u>(657)</u>	<u>(1,493)</u>	<u>(90)</u>
Cash generated from operations	<u><u>3,590</u></u>	<u><u>556</u></u>	<u><u>6,166</u></u>