

28 March 2019

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



## Final Results

Amiad (AIM: AFS), a leading global producer of water treatment and filtration solutions, announces its final results for the year ended 31 December 2018.

### Financial Summary

- Revenue of \$113.9m (2017: \$112.3m)
- Gross margin of 40.8% (2017: 39.5%)
- Operating profit of \$6.1m (2017: \$4.6m)
- Profit before tax of \$4.8m (2017: \$5.1m, which included exceptional gains from foreign currency hedging)
- Fully diluted earnings per share of \$0.10 (2017: \$0.14)
- Net debt at 31 December 2018 was \$13.8m (30 June 2018: \$10.8m) primarily reflecting an investment into inventories to support recent product launches
- Cash and cash equivalents at 31 December 2018 were \$13.5m (30 June 2018: \$14.6m)

### Operational Summary

- Positive sales momentum:
  - Growth in revenue reflecting increased sales in Americas and APAC regions
  - Key geography of the US achieved strong return to growth, with sales increasing 27.3%
  - Industry business unit sales grew by 4.9%, with growth in Petrol, Petrochemical, Oil & Gas ("PPOG") and Municipal segments in most geographies
  - Increase in underlying Irrigation sales offset by reduction in revenue generated under the distribution agreement with Netafim, resulting in slight decrease in Irrigation business unit sales overall
- Enhanced product offering and strengthened operations:
  - Successfully launched new range of irrigation products, which have been well received and contributed to Irrigation revenue in the second half of 2018
  - Completed integration of TEQUATIC™ PLUS Filter production line and employees, and implemented a focused the sales effort resulting strong pipeline and potential demand
  - Enhanced efficiency across the business with multiple actions, including in-house metal fabrication facility and increased automation in manufacturing
  - Gained 100% ownership of Amiad India subsidiary with acquisition of outstanding 40% shareholding from local partner

Dori Ivzori, Chief Executive Officer of Amiad, said: "This is a pleasing set of results with progress in most of our markets, including a return to growth in our key geography of the US. Our new Sigma series of irrigation products and the TEQUATIC™ PLUS Filter acquisition are performing well and receiving increasing demand. We continued to enhance our operational efficiency and benefitted from, among other measures, the contribution from our new in-house metal fabrication facility.

"Amiad entered 2019 in a stronger position than at the same point of the prior year with increased sales momentum and enhanced foundations. We are receiving strong demand for the new products, which are expected to make an important contribution to growth in their respective markets. This is supported by a solid backlog of projects to be delivered in 2019 in the Irrigation and Industry units. We also expect significant growth in the US. As a result, we expect to achieve good revenue growth in 2019 in line with market expectations, and are targeting an improvement in gross and operating margins. Consequently, we look to the future with confidence."

## Enquiries

<b>Amiad Water Systems Ltd.</b>	
Dori Ivzori, Chief Executive Officer Avishay Afriat, Chief Financial Officer	+972 4 690 9500
<b>Stifel Nicolaus Europe Ltd.</b>	
Stewart Wallace, Ben Maddison	+44 20 7710 7600
<b>Luther Pendragon Ltd.</b>	
Harry Chathli, Claire Norbury	+44 20 7618 9100

## 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 irrigation and industrial purposes. In these markets, 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 distributors to customers in more than 80 countries.

For additional information or product details, please visit [www.amiad.com](http://www.amiad.com).

## Operational Review

Amiad performed well in most of its markets during 2018, including a return to growth in its key geography of the US, which offset weakness in EMEA and a reduction in revenue generated under its distribution agreement with Netafim. As a result, the Company achieved modest growth in total revenue.

During the year, Amiad launched a new series of products targeting the Irrigation market and completed the integration of the TEQUATIC™ PLUS Filter acquisition, which is designed for difficult-to-treat, highly loaded water. These new solutions have been well received in the market and have strengthened Amiad's position in Irrigation and the PPOG segment respectively.

Amiad continued to focus on improving its cost structure and enhancing efficiency. In particular, the Company benefited from a full year's contribution from its in-house metal fabrication facility, which commenced operations in the second half of 2017. Amiad also implemented a number of other measures, such as introducing automation to certain manufacturing processes and identifying purchase economies. As a result, the Company achieved a solid improvement in gross margin that also translated into an increase in operating margin.

## Performance by Segment

Amiad has two business units: Irrigation and Industry (formerly referred to as 'Non-Irrigation'). Revenue generated under the Company's distribution agreement with Netafim, whereby Netafim sells Amiad's Irrigation products, contributes to the Irrigation business unit sales. The Industry business unit comprises sales into the Petrol, Petrochemical, Oil & Gas ("PPOG"), Municipal and General (other industry) segments. As noted previously, during 2018 the Company amended the classification of certain sales in the Industry business unit to better represent the segmental activities, which, in some cases, impacts the comparison with previous years as described below.

### *Irrigation*

The Irrigation business unit generated \$60.3m in 2018 (2017: \$61.1m), accounting for 52.9% of the Company's revenue (2017: 54.4%). The reduction was due to a decrease in sales generated under the Company's distribution agreement with Netafim, which offset the growth in Amiad's direct Irrigation sales. Excluding the contribution from Netafim, Amiad's Irrigation sales increased by 4.9% over 2017, reflecting growth in Irrigation in all of Amiad's geographic regions except EMEA.

During the year, Amiad launched a new product series targeted at the Irrigation market, which consists of three products:

- Mini Sigma – an automatic self-cleaning filter with Amiad's suction-scanning technology that is compact and modular in design to enable various installation configurations and a small footprint
- Sigma Pro – an automatic polymeric multi-screen filter, which provides a large screen area while maintaining a small footprint
- ADI-P – an electronic controller, which can be linked to a mobile app, for advanced filter monitoring capabilities and control functionality

Alongside Amiad's existing media, disc, screen and microfibre filtration solutions, this new product range offers customers a more complete package for their irrigation filtration requirements. In addition, thanks to its compact size and modular design, the Mini Sigma has enabled the Company to enter the landscaping market.

The new products were well received by the market, and made a solid contribution to Irrigation revenue in the fourth quarter of 2018 and the backlog entering into 2019.

## ***Industry***

The Industry business unit generated \$53.7m in 2018 (2017: \$51.2m), accounting for 47.1% of the Company's revenue (2017: 45.6%). The increase was due to growth in the PPOG segment within the Industry business unit, where sales grew by 74.4% to \$8.8m (2017: \$5.1m). This reflects growth in PPOG sales in all of the Company's geographic regions.

In the Municipal segment of the Industry business unit, reported revenue increased to \$11.2m (2017: \$9.7m), however this includes approximately \$2.5m of sales in the US that in the prior year were not classified as Municipal, but were within the General industry segment. Excluding these sales, Municipal segment sales were slightly reduced compared with the prior year due to weakness in EMEA.

For the Company's other projects within the Industry business unit, which are classified within the 'General' industry segment, sales declined to \$33.7m (2017: \$36.4m). However, this is primarily due to the reclassification of approximately \$2.5m sales from General industry in 2017 to Municipal in 2018. Excluding the reclassified sales, the General industry segment sales were 0.7% lower as growth in EMEA was offset by slight reductions elsewhere.

## **Performance by Region**

### ***Americas***

The Americas region includes sales by Amiad's subsidiaries in the US, Mexico and Brazil as well as sales from the Company's headquarters in Israel into Latin America.

In the Americas, Amiad achieved a return to growth in 2018 with revenue increasing by 22.6% to \$30.9m. In its key geography of the US, sales increased by 27.3% to \$26.8m (2017: \$21.1m), reflecting growth in the Irrigation and Industry business units. In Irrigation, sales grew to \$12.4m (2017: \$10.7m), supported by a focused sales efforts, and in Industry sales grew to \$14.4m (2017: \$10.4m) as a result of the reorganisation in 2017 of the sales team and channel partner network.

Within the Industry business unit in the US, sales in the PPOG segment increased by 141.9% to \$3.4m (2017: \$1.4m), which was driven by the Company's acquisition at the end of 2017 of the licence to the TEQUATIC™ PLUS Filter. During the year, Amiad installed the manufacturing equipment for the TEQUATIC™ PLUS Filter at the Company's US headquarters in Mooresville, North Carolina; transitioned the existing TEQUATIC™ PLUS Filter employees and customers; and implemented significant sales efforts and cost reduction measures.

In the Municipal segment in the US, sales increased by 183.7%, which was partly due to the reclassification of certain sales as mentioned above. However, on an underlying basis, excluding these projects, sales in the Municipal segment nonetheless increased by approximately 45.3%. On a reported basis, General industry revenue declined in the US, however, this is due to the sales reclassification: on an underlying basis, sales in this segment also grew.

In Latin America, sales were broadly flat year-on-year in the Irrigation and Industry business units respectively, but with a greater diversification of projects within the industry segments: in 2017 all of the projects in the Industry business unit were in General industry whereas in 2018 there were also projects in the PPOG and Municipal segments.

### ***EMEA***

The EMEA region includes sales by Amiad's subsidiaries in France (Amiad Europe), Turkey and the UK as well as the domestic sales of the Company's headquarters in Israel and also into Europe, the Middle East and Africa.

Revenue in EMEA was \$34.2m compared with \$36.9m in 2017. The reduction in revenue was primarily due to lower sales in the Industry business unit, which generated \$18.2m (2017: \$20.4m). Sales were also lower in the Irrigation unit at \$16.0m (2017: \$16.5m), as an increase in Irrigation sales in Amiad Europe was offset by a reduction in Israel (domestic) sales as activity returned to normalised levels following an exceptional year in 2017.

In the Industry business unit, a significant reduction in the Municipal segment offset growth in sales in the PPOG and General industry segments. In particular, the economic difficulties in Turkey resulted in a postponement in much public investment and, consequently, a substantial decline in municipal activity.

During the year, the Company implemented organisational restructuring, including a relocation to a new facility and logistics centre in Europe, to better support the regional sales activities.

## **APAC**

The APAC region includes sales by Amiad's subsidiaries in Australia, China, India and Singapore as well as sales from the Company's headquarters in Israel into the Asia-Pacific geography.

Revenue in APAC increased by 5.0% to \$28.1m (2017: \$26.8m), reflecting growth in the Irrigation unit to \$8.8m (2017: \$8.1m) and in the Industry unit to \$19.3m (2017: \$18.7m). Australia continued to be the largest contributor to regional revenue, accounting for 49.1% of total sales (2017: 50.1%), with sales increasing to \$28.1m (2017: \$26.8m).

Within the Industry business unit, there was an increase in revenue in the PPOG and Municipal segments in most geographies, which was partially mitigated by a reduction in General industry. The reduction in General industry was primarily in due to a decline in India where there was a reorganisation of the management team and sales force in that subsidiary following the Company acquiring the outstanding 40% share capital to take full ownership.

Singapore performed particularly well across the Industry business unit, with sales increasing by 72.2% to \$4.6m, primarily as a result of the delivery of a few major projects in the Municipal segment that had been delayed from 2017, as previously noted.

## **Financial Review**

Revenue for the year ended 31 December 2018 increased to \$113.9m compared with \$112.3m for 2017.

Gross margin improved to 40.8% (2017: 39.5%) with gross profit increasing to \$46.5m (2017: \$44.3m). This was a result of multiple actions, including recognising the full benefits from the Company's new metal fabrication facility that was completed in the second half of 2017, which enables a greater amount of in-house production; introducing automation to certain manufacturing processes; and reviewing global operations to identify further purchase economies and efficiencies through global production planning.

Sales and marketing costs increased to \$27.3m (2017: \$25.9m) primarily due to the launch of the new Irrigation products during the year as well as a general increase in sales and marketing activities and some exceptional expenses related to the reorganisation in Amiad Europe. R&D costs were broadly flat at \$3.6m (2017: \$3.7m) and administrative and general expenses were reduced to \$9.5m (2017: \$10.2m) as the Company continued to maintain tight cost control.

Operating profit increased by 34.6% to \$6.1m (2017: \$4.6m) through improved margins as described above. Profit before tax was \$4.8m (2017: \$5.1m) and fully diluted earnings per share were \$0.10 (2017: \$0.140). The reduction was due to net finance expenses of \$1.3m in 2018 compared with a net finance income of \$0.5m in 2017 primarily as a result of exceptional gains from foreign currency hedging in the earlier period.

As at 31 December 2018, cash and cash equivalents were \$13.5m (30 June 2018: \$14.6m). Net debt at 31 December 2018 was \$13.8m (30 June 2018: \$10.8m), with the increase primarily due to an increase in inventories relating to the launch of the new products and in anticipation of sales in 2019, supported by the level of backlog, as well as a slight increase in other receivables due to timing of revenue recognition and the impact of currency fluctuations.

## **Dividend**

As stated above, the Company is going through a growth phase with the launch of new products and a higher rate of activity, which requires increased investment in working capital. As a result, the Board of Directors believe that it would be in the best interests of the Company and its shareholders to not declare a final dividend for 2018 thereby strengthening the financial position to support this expansion. The Company continues to adhere to a progressive dividend policy and, assuming the Company grows as anticipated, the Board expects to resume dividend payments.

## **Outlook**

Amiad entered 2019 in a stronger position than at the same point of the prior year with increased sales momentum and enhanced foundations. The Company is receiving strong demand for the new Irrigation products that were launched in 2018 and the TEQUATIC™ PLUS Filter, which are expected to make an important contribution to growth in their respective markets. This is supported by a solid backlog of projects to be delivered in 2019 in the Irrigation and Industry units. The Company also expects significant growth in the US.

The Company continues to focus on increasing efficiency and reducing operating expenses, such as through introducing further automation and value engineering. In addition, the Company expects to benefit from operational gearing, with the anticipated growth in revenue being achievable without expanding the cost base.

Amiad continues to actively manage the impact of foreign currency movement and believes that its hedging position is well established for 2019. However, if there is significant erosion of the US Dollar against the New Israeli Shekel, it could have an adverse effect on the Company's reported results.

As a result, the Company anticipates good revenue growth in 2019 – with increased sales in both the Irrigation and Industry business units – in line with market expectations, and is targeting an improvement in gross and operating margins as it benefits from additional operational efficiencies. Consequently, the Board looks to the future with confidence.

**AMIAD WATER SYSTEMS LTD.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$ in thousands</b>	
<b>Assets</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	13,526	16,122
Financial assets at fair value through profit or loss - derivatives	158	238
Trade and other receivables:		
Trade	37,154	38,795
Other	4,761	3,935
Inventories	30,975	28,470
Current income tax assets	632	615
<b>Total Current Assets</b>	<b>87,206</b>	<b>88,175</b>
<b>NON-CURRENT ASSETS:</b>		
Investment in joint venture	-	10
Severance pay fund, net	160	184
Long-term receivables	276	57
Property, plant and equipment	11,086	11,271
Intangible assets	13,267	14,745
Deferred income tax assets	2,687	2,480
<b>Total Non-Current Assets</b>	<b>27,476</b>	<b>28,747</b>
<b>Total Assets</b>	<b>114,682</b>	<b>116,922</b>

Date of approval of the financial statements by the board of directors: March 27, 2019.

**AMIAD WATER SYSTEMS LTD.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	<b>December 31</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$ in thousands</b>	
<b>Liabilities and Equity</b>		
<b>CURRENT LIABILITIES:</b>		
Bank credit and current maturities of borrowings from bank	17,365	13,746
Financial liabilities at fair value through profit or loss - derivatives	180	108
Trade and other payables:		
Trade	14,414	15,855
Other	10,841	12,826
Current income tax liability	340	287
<b>Total Current Liabilities</b>	43,140	42,822
<b>NON-CURRENT LIABILITIES:</b>		
Borrowings from banks (net of current maturities)	9,914	12,037
Liability for royalty payment	1,008	1,116
Remeasurements of post-employment benefit obligations, net	345	372
Deferred income tax liabilities	-	-
<b>Total Non-Current Liabilities</b>	11,267	13,525
<b>Total Liabilities</b>	54,407	56,347
<b>EQUITY:</b>		
<b>Capital and reserves attributable to equity holders of the Company:</b>		
Share capital	2,800	2,798
Capital reserves	28,781	28,720
Transaction with non-controlling interests	(416)	(259)
Currency translation reserve	(7,380)	(5,206)
Retained earnings	33,574	31,916
	57,359	57,969
<b>Non-controlling interests</b>	2,916	2,606
<b>Total Equity</b>	60,275	60,575
<b>Total Liabilities and Equity</b>	114,682	116,922

**AMIAD WATER SYSTEMS LTD.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	<b>Year ended December 31</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$ in thousands except per share data</b>	
Revenue	113,923	112,269
Cost of revenue	67,388	67,924
<b>Gross Profit</b>	<b>46,535</b>	<b>44,345</b>
Research and development, net	3,644	3,698
Selling and marketing costs	27,326	25,872
Administrative and general expenses	9,489	10,221
Other (gains) losses	(64)	(6)
<b>Operating Profit</b>	<b>6,140</b>	<b>4,560</b>
Finance income	510	1,761
Finance expenses	(1,814)	(1,241)
<b>Finance income (expenses), net</b>	<b>(1,304)</b>	<b>520</b>
<b>Profit before income taxes</b>	<b>4,836</b>	<b>5,080</b>
Income tax expenses	1,075	932
<b>Profit for the year</b>	<b>3,762</b>	<b>4,148</b>
<b>Other comprehensive loss (income):</b>		
<b>Items that will not be reclassified to profit or loss:</b>		
Remeasurements of post-employment benefit obligations, net	1	221
<b>Items that may be subsequently reclassified to profit or loss:</b>		
Currency translation differences	2,886	(919)
<b>Other comprehensive loss (income) for the year</b>	<b>2,887</b>	<b>(698)</b>
<b>Total comprehensive income for the year</b>	<b>875</b>	<b>4,846</b>
<b>Profit attributable to:</b>		
Equity holders of the Company	2,294	3,178
Non-controlling interests	1,468	970
	<b>3,762</b>	<b>4,148</b>
<b>Total comprehensive income attributable to:</b>		
Equity holders of the Company	119	4,039
Non-controlling interests	756	807
	<b>875</b>	<b>4,846</b>
	\$	
<b>Earnings per share attributable to the equity holders of the Company during the year:</b>		
Basic	0.101	0.140
Diluted	0.100	0.140

**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								
<b>BALANCE AT JANUARY 1, 2017</b>	22,663,651	2,798	28,520	(6,288)	(259)	29,857	54,628	2,902	57,530
<b>Comprehensive income (loss):</b>									
Profit (loss) for the year						3,178	3,178	970	4,148
Currency translation differences				1,082			1,082	(163)	919
Remeasurement of net defined benefit liability						(221)	(221)		(221)
<b>Total comprehensive income (loss)</b>				1,082		2,957	4,039	807	4,846
<b>Transaction with owners:</b>									
Recognition of compensation related to employee stock and options grants			27				27		27
Capitalisation of retained earnings			173			(173)	-	-	-
Dividend to Non-controlling interest								(1,103)	(1,103)
Dividend (\$0.032 per share)						(725)	(725)		(725)
<b>Total transaction with owners</b>			200			(898)	(698)	(1,103)	(1,801)
<b>BALANCE AT DECEMBER 31, 2017</b>	22,663,651	2,798	28,720	(5,206)	(259)	31,916	57,969	2,606	60,575
<b>Comprehensive income (loss):</b>									
Profit (loss) for the year						2,294	2,294	1,468	3,762
Currency translation differences				(2,174)			(2,174)	(712)	(2,886)
Remeasurement of net defined benefit liability						(1)	(1)		(1)
<b>Total comprehensive income (loss)</b>				(2,174)		2,293	119	756	875
<b>Transaction with owners:</b>									
Recognition of compensation related to employee stock and options grants			63				63		63
Exercise of options	15,461	2	(2)						-
Acquisition of non-controlling interest					(157)		(157)	(173)	(330)
Dividend to non-controlling Interest								(273)	(273)
Dividend (\$0.028 per share)						(635)	(635)		(635)
<b>Total transaction with owners</b>	15,461	2	61			(635)	(729)	(446)	(1,175)
<b>BALANCE AT DECEMBER 31, 2018</b>	22,679,112	2,800	28,781	(7,380)	(16)	33,574	57,359	2,916	60,275

**AMIAD WATER SYSTEMS LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Year ended December 31</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$ in thousands</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash generated from operations	1,114	5,719
Interest paid	(455)	(35)
Interest received	228	201
Income taxes paid, net	(751)	(1,333)
Net cash generated from operating activities	136	4,552
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Sale of investment	40	-
Business acquisition	-	(1,173)
Purchase of property, plant and equipment	(3,223)	(2,607)
Purchase of intangible assets	(63)	(179)
Investment grants received	1,626	89
Proceeds from sale of property, plant and equipment	44	35
Restricted deposit	212	(302)
Net cash used in investing activities	(1,364)	(4,137)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Dividends paid to equity holders of the Company	(635)	(725)
Dividends paid to non-controlling interest	(273)	(1,103)
Acquisition of non-controlling interest	(330)	
Receipt of long-term borrowings	5,373	6,005
Payments of long-term borrowings	(7,505)	(6,838)
Increase (decrease) in bank credit and short-term borrowing, net	3,685	1,760
Net cash generated from (used in) financing activities	315	(901)
<b>EXCHANGE RATE LOSS ON CASH AND CASH EQUIVALENTS</b>	(1,683)	517
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(2,596)	31
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	16,122	16,091
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	13,526	16,122

**AMIAD WATER SYSTEMS LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**1) CASH FLOWS FROM OPERATIONS**

	<b>Year ended December 31</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$ in thousands</b>	
Profit for the year	3,762	4,148
<b>(a) Adjustments to reconcile net income to net cash generated from operating activities:</b>		
Depreciation and amortisation	2,864	3,460
Interest paid	455	35
Interest received	(228)	(201)
Income taxes paid, net	751	1,333
Share-based payment, net	63	27
Increase in deferred income taxes, net	(299)	(199)
Increase (decrease) in accrued severance pay, net	50	(58)
Gain from sale of investment	(30)	-
Exchange rate differences on borrowings	237	(198)
Net increase (decrease) in assets and liabilities at fair value through profit or loss	152	(111)
Loss (profit) from sale of property, plant and equipment	(30)	5
	3,985	4,093
 <b>Changes in working capital:</b>		
Decrease (increase) in accounts receivable:		
Trade	(245)	(3,878)
Other	(1,435)	624
Decrease (increase) in long-term receivables	(230)	4
Increase (decrease) in accounts payable:		
Trade	(21)	997
Other	(1,236)	1,852
Increase in inventories	(3,466)	(2,121)
	(6,633)	(2,522)
Cash generated from operations	1,114	5,719

**2) IFRS 16 - New standards and interpretations not yet adopted**

In January 2016, the IASB issued IFRS 16 - Leases which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract and replaces the previous leases standard, IAS 17 - Leases.

IFRS 16 eliminates the classification of leases for the lessee as either operating leases or finance leases as required by IAS 17 and instead introduces a single lessee accounting model whereby a lessee is

required to recognize assets and liabilities for all leases with a term that is greater than 12 months, unless the underlying asset is of low value, and to recognize depreciation of leases assets separately from interest on lease liabilities in the income statement. As IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, a lessor will continue to classify its leases as operating leases or finance leases and to account for those two types of leases differently. The standard is effective for annual periods beginning on or after January 1, 2019.

The Group plans to apply IFRS 16 as from January 1, 2019 and has chosen to apply a modified retrospective approach and to measure a right-of-use asset in an amount equal to the lease liability.

It is noted that in the framework of the initial application of IFRS 16, the Group has elected to apply the following practical expedients with respect to leases in which it is the lessee:

- To apply this Standard to contracts that were previously identified as leases applying IAS 17 Leases and IFRIC 4 Determining whether an Arrangement contains a Lease and not to apply this Standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4
- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Assessing whether a contract is onerous in accordance with IAS 37 immediately before the date of initial application instead of assessing impairment of right-of-use assets.
- Not applying IFRS 16 with respect to leases that end within 12 months from the date of initial application and leases where the underlying asset has a low value.
- Using hindsight when determining the lease term if the contract includes an extension or termination option.
- Excluding initial direct costs from measurement of the right-of-use asset at the date of initial application.

Furthermore, it is noted that the Group has chosen to apply the exemption from recognizing short-term leases and leases where the underlying asset has a low value, and to not include amounts relating to non-lease components in the measurement of the liability.

The Company expects that the adoption of the standard will result in recognition of approximately \$20.5 million of lease assets and lease liabilities as of January 1, 2019 on the Company's balance sheets.

The Group's management estimates that the main expected effects of the implementation of the Standard on the consolidated statement of comprehensive income for 2019 will be a decrease in rental expenses of approximately \$ 3.2 million, an increase in depreciation expenses in the amount of about \$2.7 million, an increase in financing expenses in the amount of about \$0.8 million.

The information presented above is an estimate of the Group and may differ from the data that will ultimately be included in the financial statements for the initial implementation period.