

31 March 2015

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 2014.

Financial Summary – in line with market expectations

- Revenue was \$118.5m (2013: \$118.8m)
- Operating profit was \$2.9m (2013: \$5.7m)
- Adjusted* profit before tax was \$2.3m
- Loss before tax, including currency-related finance expense and one-off restructuring charge, was \$0.4m (2013: \$5.1m profit)
- Gross margin was 38.9% (2013: 40.8%)
- Fully diluted loss per share of \$0.065 (2013: \$0.153 earnings)
- Net debt of \$21.3m (30 June 2014: \$19.7m; 31 December 2013: \$13.7m)
- Cash and cash equivalents at 31 December 2014 were \$14.1m (30 June 2014: \$14.7m; 31 December 2013: \$14.9m)

* Adjusted to exclude currency-related finance expense of \$2.2m and one-off restructuring charge of \$0.5m

Operational Summary

- Developed markets performed well, but developing markets experienced delays in, or cancellations of, certain orders in H2 2014
- Increased traction in Irrigation, Municipal and Oil & Gas segments (excluding extraordinary project in H1 2013), but slowdown in Industrial and Ballast Water segments, particularly in H2 2014
 - Irrigation segment continued to be largest contributor to revenues at \$52.5m (2013: \$50.9m), representing 44.3% of total sales
 - Municipal segment was broadly flat, but revenues in this segment in USA and Turkey increased significantly
 - Overall, Industrial segment sales were broadly flat compared with 2013, but grew 34% and 31% in the USA and Europe respectively
 - Sales in Oil & Gas segment declined slightly to \$7.1m (2013: \$8.0m), but excluding the exceptionally large project in Colombia in H1 2013 (valued at approximately \$5m), Oil & Gas segment revenues grew 137%
 - Postponement in implementation of coastguard regulations by International Maritime Organization ("IMO") continued to impact sales in Ballast Water segment
- Implemented restructuring and cost cutting exercise, which is expected to reduce operating expenses by approximately \$4m in 2015. The Company incurred one-off finance expense of \$0.5m in 2014

Arik Dayan, Chief Executive Officer of Amiad, said: "Whilst we achieved growth in our key segments in developed countries, as we have stated previously, 2014 was a transitional year. Revenues were flat compared with 2013, in line with market expectations, due to reduced sales in developing countries towards the end of the year and a greater-than-expected impact of currency fluctuation. In response, we embarked upon a restructuring program to realign the sales teams and reduce administrative overheads. With a combination of the restructuring as well as the solid platform of growing sales in developed countries, the Company exited 2014 in better shape than it began the year.

"Amiad entered 2015 with an 18% higher backlog than at the equivalent period in 2014. We are committed to maintaining tight cost control whilst continuing to invest in targeted sales & marketing and product development. As a result, the Board expects revenues for full year 2015 to be in line with market expectations."

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 ten 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

During the year, the Company gained traction in the Irrigation, Municipal and Oil & Gas segments (excluding an extraordinary project delivered in H1 2013), but suffered from a slowdown in the Industrial and Ballast Water segments, particularly in the second half of the year. In addition, whilst developed markets performed well, the developing markets experienced delays in, or cancellations of, certain orders in the second half of 2014. As a result, despite achieving sequential growth in H1 2014 (over H2 2013) and entering H2 2014 with a higher backlog than at the same time in the previous year, the Company reported revenues broadly flat for full year 2014 over 2013.

Segment Performance

The Irrigation and Industrial segments generated \$52.5m and \$46.9m respectively during the period (2013: \$50.9m and \$47.3m), accounting for 44.3% and 39.6% of the Company's revenues (2013: 42.9% and 39.9%). The Municipal segment generated \$10.7m (9.1%) compared with \$10.4m in 2013. Revenue in the Oil & Gas segment was \$7.1m, or 6.0% of total sales, compared with \$8.0m (6.7%) in 2013 – with the latter including an extraordinary single large project in the Oil & Gas segment in Colombia, value at approximately \$5m. The Ballast Water segment remained weak with revenues of \$1.3m, representing 1.1% of overall revenue, compared with \$2.1m in 2013. This was largely due to the previously stated postponement in the implementation of coastguard regulations by the IMO.

Operational Efficiencies

In response to the sustained weakness in some of its key markets, the Company commenced, in November 2014, a restructuring and cost cutting exercise to reduce operational expenses and headcount in sales & marketing and G&A expenses at its headquarters. As a result of these measures, which are now complete, the Company reduced its headcount, primarily at its headquarters, and expects operating expenses to be approximately \$4m lower in 2015.

The operational changes at the headquarters were, in part, facilitated by the strengthening of the Company's subsidiaries – in particular, the diversification of Amiad's manufacturing base with the increase in production capacity in China and Europe. The Company's subsidiary in China is now able to produce for the local and global markets. In addition, Amiad is benefiting from organisational efficiencies implemented during the year that are designed to enhance the operations of the Company with regards to the coordination between the headquarters in Israel and the subsidiaries globally, including streamlining the sales process.

Global Activity

US and South America

Amiad performed well in the US, with revenues increasing 20% to \$28.5m. During the first half the year, Amiad achieved growth in all segments, with a slight decline in Oil & Gas and Ballast Water in the second half. This growth was due to projects such as that awarded by Newport News Shipbuilding (NNS), a division of Huntington Ingalls Industries (HII), to supply Amiad automatic self-cleaning screen filters for the aircraft carrier John F. Kennedy (CVN 79), the second ship of the new class of US Navy aircraft carriers as well as several projects in the Irrigation and Oil & Gas – for fracking, and injection and cooling water - segments across the US.

In Latin America, sales continued to be depressed. However, the Company delivered an injection water project in the Oil & Gas segment in Brazil for \$0.5m, and was awarded projects in Peru and Mexico. The Company continues to build an effective team and to increase its presence locally in the region.

EMEA

Amiad performed well in most segments in Europe – undertaking significant work in Italy, Spain and France – thereby reporting an increase in sales of 28% compared with the equivalent period last year. The Company achieved a significant increase in sales in the Oil & Gas segment. In addition, the Irrigation sales office that

was established during the year in Europe is performing well and resulted in modest growth in regionally sales in this segment.

Asia

Revenues in China declined slightly in 2014 over 2013, primarily due to weakness in the Industrial segment. However, the subsidiary is in a stronger operational position with the increase in production capabilities – which enables them to now offer local manufacturing for the region and globally. In India and South East Asia, the Company achieved slight growth in revenue, primarily due to the Industrial segment.

Australia

The Industrial segment suffered in Australia from the weakness in the Australian economy 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. However, the Irrigation segment more than doubled its sales due to several projects in protecting drip irrigation based on the new Amiad self-cleaning filters, Omega and Sigma. In addition, a number of mining projects and a further project with Origin Energy, one of Australia's leading integrated energy companies, providing filtration for a coal seam gas to liquefied natural gas plant contributed towards a marked improvement in sales in the Oil & Gas segment.

Product Development

Amiad's portfolio of products launched in November 2011 continue to be well-received and are increasingly penetrating the market. In 2014, sales of Omega, Sigma and Super Galaxy products were higher at approximately \$6m (2013: \$2m), with a strong backlog for 2015. In particular, the growth in the Oil & Gas segment during the year was based on sales of the Omega. The recently-launched 6-inch and 8-inch Sigma is achieving strong sales in the Irrigation market, particularly in the US and Australia.

Financial Review

Revenue for the twelve months ended 31 December 2014 was \$118.5m compared with \$118.8m for the full year 2013.

The Company was significantly impacted by currency factors: a combination of hedging deals and 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. The total adverse impact of currency exchange resulted in \$2.2m in finance expenses during the year. In addition, as noted above, the Company incurred a one-off restructuring expense of \$0.5m.

Fully diluted loss per share was \$0.065 (2013: \$0.153 earnings). Operating profit was \$2.9m compared with \$5.7m in 2013 and loss before tax was \$0.4m (2013: \$5.1m profit), with the decline being a result of the currency fluctuation and one-off restructuring expense.

Gross margin was 38.9% compared with 40.8% in 2013. The decline was due to the weakness of the US dollar against the Israeli shekel as well as \$0.5m in labour costs being moved from G&A expenses to cost of sales due to the restructuring.

As of 31 December 2014, cash and cash equivalents in the bank were \$14.1m compared with \$14.7m at 30 June 2014 and \$14.9m at 31 December 2013. Net debt at year end was \$21.3m (30 June 2014: \$19.7m).

Dividend

Whilst the Company adheres to a progressive dividend policy, given the financial performance during the year, particularly in H2 2014, the Board of Directors believe that it would not be in the best interests of the Company or its shareholders to declare a final dividend for 2014. However, assuming the Company continues to perform in line with management expectations, the Board anticipates resuming dividend payments from H1 2015.

The Directors declared an interim dividend out of the Company's profits for the six months ended 30 June 2014 of \$0.022 gross per share (interim dividend 2013: \$0.051 gross per share; total dividend for 2013: \$0.073).

Outlook

The positive steps taken by the Company to cut costs in response to the uncertainty around certain contracts towards the end of 2014 has left Amiad in a better shape as it entered 2015 compared with 2014. The focus of the management team is to run the streamlined operations effectively with a focus on improving profits whilst realigning the Company for growth. The management believes that it has the market-leading technology, products and the personnel that will enable it to capture opportunities across the majority of the market segments and territories in which it operates.

Amiad entered 2015 with an 18% higher backlog than at the equivalent point in 2014. The Industrial and Oil & Gas segments have seen an increase in backlog of 30% respectively, whilst the Ballast Water segment continues to suffer from the postponement of the implementation of IMO regulation and a lack of clear direction resulting in reduced impetus for change amongst ship builders.

The Company's management team is committed to maintaining tight cost control whilst continuing to invest in targeted sales & marketing and product development. As a result, the Board expects revenues for full year 2015 to be in line with market expectations.

AMIAD WATER SYSTEMS LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	31 December	
	2014	2013
	\$ in thousands	
Assets		
CURRENT ASSETS:		
Cash and cash equivalents	14,090	14,871
Financial assets at fair value through profit or loss	452	480
Trade and other receivables:		
Trade	44,091	41,560
Other	3,230	3,501
Inventories	23,729	25,277
Current income tax assets	869	367
Total Current Assets	86,461	86,056
NON-CURRENT ASSETS:		
Investment in joint venture	10	-,-
Loans to a related party	-,-	100
Severance pay fund, net	105	261
Long-term receivables	48	36
Property, plant and equipment	11,184	11,449
Intangible assets	16,849	16,846
Deferred income tax assets	2,738	1,722
Total Non-Current Assets	30,934	30,414
Total Assets	117,395	116,470

AMIAD WATER SYSTEMS LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	31 December	
	2014	2013
	\$ in thousands	
Liabilities and Equity		
CURRENT LIABILITIES:		
Bank credit and current maturities of borrowings from bank	23,212	10,544
Financial liabilities at fair value through profit or loss- derivatives	1,066	63
Trade and other payable:		
Trade	15,064	19,670
Other	8,431	9,433
Put option liability	2,927	2,204
Current income tax liability	463	529
Total Current Liabilities	51,163	42,443
NON CURRENT LIABILITIES:		
Borrowings from banks (net of current maturities)	12,205	17,988
Investment in associate		110
Accrued severance pay ,net	450	381
Deferred income tax liabilities	823	1
Total Non-Current Liabilities	13,478	18,480
Total Liabilities	64,641	60,923
EQUITY:		
Capital and reserves attributable to equity holders of the Company:		
Share capital	2,798	2,798
Capital reserves	28,371	28,271
Transaction with non-controlling interests	(180)	(180)
Currency translation reserve	(2,188)	(1,416)
Retained earnings	23,944	26,082
	52,745	55,555
Non-controlling interests	9	(8)
Total Equity	52,754	55,547
Total Liabilities and Equity	117,395	116,470

AMIAD WATER SYSTEMS LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2014	2013
	\$ in thousands except per share data	
Revenue	118,471	118,787
Cost of sales	72,418	70,360
Gross Profit	46,053	48,427
Research and development, net	3,158	3,357
Selling and marketing costs	28,204	27,456
Administrative and general expenses	11,359	11,929
Other gains (losses)	(468)	27
Operating Profit	2,864	5,712
Finance income	137	1,901
Finance costs	(3,430)	(2,278)
Finance costs, net	(3,293)	(377)
Share in loss of joint venture	-,	(188)
Profit before income taxes	(429)	5,147
Income tax expenses	559	1,499
Profit for the year	(988)	3,648
Other comprehensive income (loss)- Items that will not be reclassified to profit or loss:		
Remeasurements of post-employment benefit obligations	(135)	72
Items that may be subsequently reclassified to profit or loss:		
Currency translation differences	(773)	(1,271)
Other comprehensive income for the year	(908)	1,199
Total comprehensive income for the year	(1,896)	2,449
Profit attributable to:		
Equity holders of the Company	(1,006)	3,700
Non-controlling interests	18	(52)
	(988)	3,648
Total comprehensive income attributable to:		
Equity holders of the Company	(1,913)	2,503
Non-controlling interests	17	(54)
	(1,896)	2,449
		\$
Earnings per share attributable to the equity holders of the Company during the year:		
Basic	(0.044)	0.163
Diluted	(0.065)	0.153

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 2013	22,663,651	2,798	28,029	(147)	(180)	24,826	55,326	46	55,372
Comprehensive income:									
Profit for the year						3,700	3,700	(52)	3,648
Currency translation differences				(1,269)			(1,269)	(2)	(1,271)
Remeasurement of net defined benefit liability						72	72		72
Total comprehensive income				(1,269)		3,772	2,503	(54)	2,449
Transaction with owners:									
Recognition of compensation related to employee stock and options grants			242				242		242
Dividend (\$0.106 per share)						(2,516)	(2,516)		(2,516)
Total transaction with owners			242			(2,516)	(2,274)		(2,274)
BALANCE AT 31 DECEMBER 2013	22,663,651	2,798	28,271	(1,416)	(180)	26,082	55,555	(8)	55,547
Comprehensive income:									
Profit 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				(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)	(887)		(897)
BALANCE AT 31 DECEMBER 2014	22,663,651	2,798	28,371	(2,188)	(180)	(23,944)	52,745	9	52,754

	Year ended 31 December	
	2014	2013
	\$ in thousands	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash generated from (used in) operations	(302)	9,547
Interest paid	(816)	(815)
Interest received	162	273
Income taxes paid	(2,576)	(926)
Net cash generated from (used in) operating activities	<u>(3,532)</u>	<u>8,079</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(2,581)	(2,406)
Purchase of intangible assets	(653)	(756)
Investment grants received	332	130
Proceeds from sale of property, plant and equipment	57	40
Restricted deposit	(266)	718
Collection of long-term loan granted to a related party and other	40	637
Net cash used in investing activities	<u>(3,071)</u>	<u>(1,637)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid to equity holders of the Company	(997)	(2,516)
Receipt of long-term borrowings	3,072	8,570
Payments of long term borrowings	(9,016)	(7,452)
Increase (decrease) in bank credit and short term borrowing, net	12,988	(3,932)
Net cash generated from (used in) financing activities	<u>6,047</u>	<u>(5,330)</u>
EXCHANGE RATE (LOSS) ON CASH AND CASH EQUIVALENTS	<u>(225)</u>	<u>(496)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(781)	616
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>14,871</u>	<u>14,255</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>14,090</u></u>	<u><u>14,871</u></u>

CASH FLOWS FROM OPERATING ACTIVITIES:

	Year ended 31 December	
	2014	2013
	\$ in thousands	
Profit for the year	(988)	3,648
(a) Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	3,690	3,839
Interest paid	816	815
Interest received	(162)	(273)
Income taxes paid	2,576	926
Share based payment	100	242
Increase in Put option	-,	130
Share in loss of joint venture	(60)	188
Decrease (Increase) in deferred income taxes, net	(287)	277
Accrued severance pay, net	127	120
Exchange rate differences on borrowings	(133)	(201)
Decrease in assets at fair value through profit or loss	1,031	611
Profit from sale of fixed assets	(2)	(3)
Exchange rate differences on loans to related party and others	-,	(33)
	<u>7,696</u>	<u>6,638</u>

	Year ended 31 December	
	2014	2013
	\$ in thousands	
Changes in working capital:		
Decrease (increase) in accounts receivable:		
Trade	(3,604)	(1,265)
Other	(118)	1,177
Decrease in prepaid expenses	-,	54
Increase in long term receivable	(13)	-,
Increase (decrease) in accounts payable:		
Trade	(3,579)	482
Other	(823)	(1,361)
Decrease in inventories	1,127	174
	<u>(7,010)</u>	<u>(739)</u>
Cash generated from (used in) operations	<u>(302)</u>	<u>9,547</u>