

11 September 2014

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



Results for the six months to 30 June 2014

Amiad (AIM: AFS), a leading global producer of water treatment and filtration solutions, announces its interim results for the six months ended 30 June 2014.

Financial Summary

- Revenue was \$60.2m (H1 2013: \$61.7m)
- Operating profit was \$2.1m (H1 2013: \$4.2m)
- Profit before tax was \$1.7m (H1 2013: \$4.2m)
- Gross margin was 39.4% (H1 2013: 40.3%)
- Fully diluted earnings per share was \$0.049 (H1 2013: \$0.147)
- Net debt of \$19.7m (31 December 2013: \$13.7m; 30 June 2013: \$16.9m)
- Interim dividend of \$0.022 per share (H1 2013: \$0.051)
- Cash and cash equivalents at 30 June 2014 were \$14.7m (31 December 2013: \$14.9m; 30 June 2013: \$13.3m)

Operational Summary

- Amiad returned to growth following the downturn in the second half of 2013
- Irrigation segment revenues were slightly higher than H1 2013 and over 16% higher than H2 2013 due to return of projects delayed from that period
- Municipal segment in Israel, USA and Europe saw significant increase in sales, resulting in revenues being 24% higher in this segment compared with H1 2013
- Overall, Industrial segment sales were broadly flat compared with H1 2013, although revenue growth of 40% was achieved in US compared with equivalent period last year
- Sales in Oil & Gas segment were over 50% lower in H1 2014 compared with the same period of the prior year due to the exceptionally large project in Colombia in H1 2013. Excluding the Colombian project, the Oil & Gas segment revenues almost tripled as a result of sales in Europe, Australia and South East Asia
- Postponement in implementation of coastguard regulations by International Maritime Organization (“IMO”) continued to impact sales in Ballast Water segment
- Sales from new products – Omega, Sigma and Super Galaxy – contributed around 10% of overall revenues in H1 2014 compared with 1-2% of overall revenues in H1 2013, demonstrating the continuing demand and technological lead of these products

Arik Dayan, Chief Executive Officer of Amiad, said: “Whilst the first half results were down year-on-year, the increase over H2 2013 is a clear indication that Amiad is back to growth as the global economy continues to improve.

“Looking ahead, the Company entered the second half of 2014 with a higher backlog than at the equivalent period last year. We expect the Municipal and Oil & Gas segments to accelerate in the second half of the year and the Irrigation segment, particularly in the US, to continue to show sustained momentum. Hence, we expect to deliver revenue growth for full year 2014 compared with 2013 and, despite the uncertainty surrounding the extent of the impact of the NIS strength against the US Dollar, we still expect to report a higher net profit than last year.”

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

In the first half of the year, the Company saw the Irrigation segment and Municipal segments reporting revenues higher than H1 2013. The Industrial segment remained flat and the Oil & Gas segment saw revenues reduce by over 50% due to the lack of a single large project similar to that delivered in Colombia in H1 2013. As a result, overall revenues for H1 2014 decreased by 2.5% to \$60.2m (H1 2013: \$61.7m). However, revenues were up by 5% compared with H2 2013 – a clear indication of the Company's return to growth.

Specifically, the Irrigation and Industrial segments generated \$27.7m and \$22.9m respectively during the period (H1 2013: \$27.1m and \$22.8m), accounting for 46% and 38% respectively of the Company's revenues. There was a resumption of demand in the Municipal segment as it reported revenues 24% higher at \$6.1m (10% of the Company's revenues), compared with \$4.9m in H1 2013. There was a significant decline in sales in the Oil & Gas segment at \$2.7m (H1 2013: \$5.7m) – 5% of overall revenues. However, this decline was due to the delivery of a single large project in the first half of 2013, valued at approximately \$5m. The Company continues to be impacted in the Ballast Water segment by the postponement in the implementation of IMO regulations. Revenues in this segment were \$0.8m compared with \$1.1m in H1 2013.

Amiad's portfolio of new products continue to be well-received and are increasingly penetrating the market. In H1 2013, sales of Omega, Sigma, ScanJet and Super Galaxy products all across the globe reached an all-time high at approximately \$6m, representing 10% of overall sales.

Global Activity

US and South America

Amiad performed well and achieved growth in all five segments in the US, with Irrigation and Industrial segments being the best performers. This 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 Irrigation projects across the US.

The constraints on public funding and projects have continued to persist, but not as much as during 2013. The Municipal segment continues to penetrate the market and achieved increased sales. In the first half, the Company completed several projects using Amiad's automatic self cleaning filters and Arkal automatic disk filters for algae removal, membrane protection and dust abatement.

However, it was a disappointing period for sales in Latin America. The Company continues to build an effective team and to increase its presence locally.

EMEA

Amiad performed well in most segments in Europe – undertaking significant work in Italy, Spain and France – thereby reporting an increase in sales of 18% compared with the equivalent period last year. In the Municipal, Oil & Gas and Industrial segments, Amiad completed projects resulting in revenues increasing by 66%.

Asia

During the first half of the year, Amiad experienced weakness in the Industrial segment in South East Asia. Revenues in China declined by approximately 20% primarily due to reduced revenues from the Industrial segment. Demand in India remained weak and so revenues in that territory were broadly similar to H1 2013. However, Amiad continued work on its production line at its Indian and Chinese subsidiaries and expects to increase local production next year. South East Asia saw a 16% improvement in revenues compared with H1 2013 due to Oil & Gas and Municipal projects.

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 almost 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.

Financial Review

Revenues for the six months ended 30 June 2014 decreased by 2.5% to \$60.2m compared with \$61.7m for the first half of 2013. Fully diluted earnings per share were \$0.049 (H1 2013: \$0.147).

Operating profit was \$2.1m compared with \$4.2m for the first half of 2013, and profit before tax was \$1.7m (H1 2013: \$4.2m).

Gross margins were 39.4% (H1 2013: 40.3%). The decline was mainly due to the weakness of the US dollar against the Israeli shekel as well as slightly lower sales but the same fixed costs compared with the prior year.

As of 30 June 2014, cash and cash equivalents were \$14.7m (31 December 2013: \$14.9m; 30 June 2013: \$13.3m). Net debt increased to \$19.7m (31 December 2013: \$13.7m; 30 June 2013: \$16.9m). This was mainly due to reduced net profits and an increase in working capital, primarily for trade receivables as well as increased levels of inventory and some capital investment.

Dividend

The Directors have decided to declare 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), with an ex dividend date of 9 October 2014, a record date of 10 October 2014 and a payment date of 29 October 2014.

Outlook

As stated at the time of the Company's full year results on April 2014, with an improving global economy, Amiad anticipates returning to growth for full year 2014.

Amiad entered the second half of 2014 with a higher backlog than at the equivalent period last year. The Company expects the Municipal and Oil & Gas segments to grow in the second half of the year and the Irrigation segment, particularly in the US, to continue to show sustained momentum. The Industrial segment remains stable and is performing as expected. Hence, the Company anticipates delivering revenue growth for full year 2014 compared with 2013. Despite the uncertainty surrounding the extent of the impact of the NIS strength against the US Dollar, the Company still expects to report a higher net profit than last year. In addition, the Company expects to be able to maintain efficiency measures and tight cost control over the course of 2014.

AMIAD WATER SYSTEMS LTD.
CONDENSED CONSOLIDATED BALANCE SHEET
JUNE 30, 2014

	June 30		December 31,
	2014	2013	2013
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
Assets			
CURRENT ASSETS:			
Cash and cash equivalents	14,743	13,267	14,871
Financial assets at fair value through profit or loss	44	1,243	480
Accounts receivable and accruals:			
Trade	46,916	44,096	41,560
Other	5,105	3,599	3,501
Income tax assets	775	1,130	367
Inventories	26,097	22,556	25,277
T o t a l current assets	93,680	85,891	86,056
NON-CURRENT ASSETS:			
Investment in joint venture	10	24	-,
Severance pay fund, net	254	169	261
Loan to a related party	-,	633	100
Long-term receivables	46	104	36
Prepaid expenses	-,	104	-,
Property and equipment	11,094	11,399	11,449
Intangible assets	16,508	16,879	16,846
Deferred income tax assets	2,064	1,678	1,721
T o t a l non-current assets	29,976	30,990	30,413
T o t a l assets	123,656	116,881	116,469

AMIAD WATER SYSTEMS LTD.
CONDENSED CONSOLIDATED BALANCE SHEET
JUNE 30, 2014

	June 30		December 31,
	2014	2013	2013
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
Liabilities and equity			
CURRENT LIABILITIES:			
Short-term credit and current maturities of borrowings from banks	20,987	15,719	10,544
Financial liabilities at fair value through profit or loss – derivatives	86	93	63
Accounts payable and accruals:			
Trade	18,956	16,972	19,670
Other	9,891	9,103	9,433
Put option liability	2,204	-,	2,204
Current income tax liability	735	365	529
Dividend payable	499	1,360	-,
T o t a l current liabilities	53,358	43,612	42,443
NON-CURRENT LIABILITIES:			
Borrowings from banks and others (net of current maturities)	13,444	14,403	17,988
Investment in joint venture	-,	-,	110
Put option liability	-,	1,924	-,
Accrued severance pay	340	340	381
T o t a l non-current liabilities	13,784	16,667	18,479
T o t a l liabilities	67,142	60,279	60,922
EQUITY:			
Capital and reserves attributable to equity holders of the Company:			
Share capital	2,798	2,798	2,798
Capital reserves	28,332	28,161	28,271
Currency translation reserve	(1,218)	(1,016)	(1,416)
Transaction with non controlling interest	(180)	(180)	(180)
Retained earnings	26,830	26,862	26,082
	56,562	56,625	55,555
NON CONTROLLING INTEREST	(48)	(23)	(8)
T o t a l equity	56,514	56,602	55,547
T o t a l liabilities and equity	123,656	116,881	116,469

AMIAD WATER SYSTEMS LTD.
CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2014

	Six months ended		Year ended
	June 30		December 31,
	2014	2013	2013
	(Unaudited)		(Audited)
U.S dollars in thousands			
except per share data			
REVENUE	60,217	61,746	118,787
COST OF SALES	36,477	36,832	70,360
GROSS PROFIT	23,740	24,914	48,427
RESEARCH AND DEVELOPMENT EXPENSES	1,759	1,478	3,357
SELLING AND MARKETING EXPENSES	14,349	13,261	27,456
ADMINISTRATIVE AND GENERAL EXPENSES	5,586	5,950	11,929
OTHER LOSSES (INCOME) NET	(52)	(6)	(27)
OPERATING PROFIT	2,098	4,231	5,712
FINANCIAL INCOME	(275)	(1,353)	(1,901)
FINANCE EXPENSES	713	1,319	2,278
FINANCE EXPENSES (INCOME) - NET	438	(34)	377
SHARE OF PROFIT OF ASSOCIATES	-,-	50	188
INCOME BEFORE TAXES ON INCOME	1,660	4,215	5,147
INCOME TAX EXPENSES	452	889	1,499
INCOME FOR THE PERIOD	1,208	3,326	3,648
OTHER COMPREHENSIVE INCOME-			
Items that may be subsequently reclassified to profit or loss:			
Currency translation differences	(197)	868	1,271
Items that will not be reclassified to profit or loss:			
Remeasurements of post- employment benefits obligations	-,-	-,-	72
	(197)	868	1,199
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	1,405	2,458	2,449
PROFIT FOR THE PERIOD ATTRIBUTED TO:			
Equity holders of the Company	1,247	3,396	3,700
Non controlling interest	(39)	(70)	(52)
	1,208	3,326	3,648
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	1,445	2,527	2,503
Non controlling interest	(40)	(69)	(54)
	1,405	2,458	2,449
	U.S dollars		
EARNINGS PER SHARE:			
Attributable to the equity holders of the company during the period:			
Basic	0.053	0.147	0.163
Diluted	0.049	0.147	0.153

AMIAD WATER SYSTEMS LTD.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2014

	Number of shares	Attributable to owners of the parent					Total	Non- controlling interest	Total equity
		Share capital	Capital Reserve	Currency translation reserve	Transaction with non controlling Interest	Retained earning			
U.S dollars in thousands									
BALANCE AT JANUARY 1, 2014 (audited)	22,663,651	2,798	28,271	(1,416)	(180)	26,082	55,555	(8)	55,547
CHANGES DURING THE SIX MONTH ENDED JUNE 30, 2014 (unaudited):									
Comprehensive income -									
Profit for the period						1,247	1,247	(39)	1,208
Other comprehensive income -									
Currency translation differences				198			198	(1)	197
Total comprehensive income				198		1,247	1,445	(40)	1,405
Transaction with owners:									
Recognition of compensation related stock and option grants			61				61		61
Dividend (\$0.022 per share)						(499)	(499)		(499)
Total transactions with owners			61			(499)	(438)		(438)
BALANCE AT JUNE 30, 2014 (unaudited)	<u>22,663,651</u>	<u>2,798</u>	<u>28,332</u>	<u>(1,218)</u>	<u>(180)</u>	<u>26,830</u>	<u>56,562</u>	<u>(48)</u>	<u>56,514</u>
BALANCE AT JANUARY 1, 2013 (audited)	22,663,651	2,798	28,029	(147)	(180)	24,826	55,326	46	55,372
CHANGES DURING THE SIX MONTH ENDED JUNE 30, 2013 (unaudited):									
Comprehensive income -									
Profit for the period						3,396	3,396	(70)	3,326
Other comprehensive income -									
Currency translation differences				(869)			(869)	1	(868)
Total comprehensive income				(869)		3,396	2,527	(69)	2,458
Transaction with owners:									
Recognition of compensation related stock and option grants			132				132		132
Dividend (\$0.06 per share)						(1,360)	(1,360)		(1,360)
Total transactions with owners			132			(1,360)	(1,228)		(1,228)
BALANCE AT JUNE 30, 2013 (unaudited)	<u>22,663,651</u>	<u>2,798</u>	<u>28,161</u>	<u>(1,016)</u>	<u>(180)</u>	<u>26,862</u>	<u>56,625</u>	<u>(23)</u>	<u>56,602</u>

AMIAD WATER SYSTEMS LTD.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2014

	Attributable to owners of the parent								
	Number of shares	Share capital	Capital reserve	Currency translation reserve	Transaction with non- Controlling Interest	Retained earning	Total	Non- controlling interest	Total equity
	U.S dollars 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 period						3,700	3,700	(52)	3,648
Other comprehensive income									
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

AMIAD WATER SYSTEMS LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2014

	Six months ended		Year ended
	June 30		December 31,
	2014	2013	2013
	(Unaudited)		(Audited)
	U.S dollars in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash generated from (used in) operations	(3,700)	2,730	9,547
Interest paid	(433)	(382)	(815)
Interest received	41	78	273
Income tax paid	(842)	(1,462)	(926)
Net cash generated from (used in) operating activities	<u>(4,934)</u>	<u>964</u>	<u>8,079</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(838)	(1,085)	(2,406)
Purchases of intangible assets and capitalized development Expenses	(357)	(339)	(756)
Investments grants received	-	112	130
Restricted deposit	(48)	912	718
Proceeds from sale of property and equipment	29	12	40
Collection (payments) of long-term loan to a related party	40	(13)	637
Net cash used in investing activities	<u>(1,174)</u>	<u>(401)</u>	<u>(1,637)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid to equity holders of the Company	-	-	(2,516)
Receipt of long-term borrowings and other liabilities	51	20	8,570
Repayments of long term borrowings	(4,488)	(3,746)	(7,452)
Short-term borrowings (repayments) from banks, net	10,368	2,422	(3,932)
Net cash generated from (used in) financing activities	<u>5,931</u>	<u>(1,304)</u>	<u>(5,330)</u>
EXCHANGE GAIN (LOSS) ON CASH AND CASH			
EQUIVALENTS	49	(247)	(496)
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>(128)</u>	<u>(988)</u>	<u>616</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>14,871</u>	<u>14,255</u>	<u>14,255</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>14,743</u>	<u>13,267</u>	<u>14,871</u>