

30 August 2007



**Amiad Filtration Systems Ltd.**  
**(“Amiad” or “the Company”)**

**Results for the six months to 30 June 2007**

Amiad, the producer and global supplier of water filters and filtration systems for the industrial, municipal and irrigation markets, announces its interim results for the six months to 30 June 2007.

**Financial Highlights**

- Turnover increased by 24% to \$27.4m (H1 2006: \$22.0m)
- Profit before tax increased by 68% to \$3.7m (H1 2006: \$2.2m)
- Gross margins were 49% (H1 2006: 50%)
- Fully diluted earnings per share almost doubled to 14.8 US cents (H1 2006: 7.8 US cents)
- Interim dividend of 3.0 US cents (gross) (H1 2006: 2.385 US cents)

**Operational Highlights**

- Strong finish to end of 2006 continued into the first half of 2007 reflecting the demand for its automatic filters
- Market growth in most territories and segments
- High growth in Australia, USA and Europe
- Good penetration into Russia, Ukraine and Kazakhstan
- Significant penetration for the microfiber technology as a platform for water treatment projects

Commenting on the results, Rami Treger, Chief Executive Officer of Amiad, said: “The market for Amiad’s products continues to expand with greater global investments in water infrastructure. Specifically, there is increasing investment in the municipality area (waste water, desalination, potable water) due to stricter restrictions and regulations being introduced worldwide.

These positive long-term trends underpin Amiad’s prospects. The Company has entered the second half of 2007 with an order volume and backlog which is substantially higher at this stage than at the corresponding time last year, which gives the Company confidence of achieving good growth across the business in the second half of this year as compared to the equivalent period last year. As a result, the Company expects to report a significant increase in revenues for the full year as compared with last year.”

**Enquiries:**

|  |                       |
|--|-----------------------|
| <b>Amiad Filtration Systems Ltd.</b>   |                       |
| Rami Treger, Chief Executive Officer<br>Itamar Eder, Chief Financial Officer | +972 (0) 4 690 9500   |
|  |                       |
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## **Operational Review**

The Board is pleased to report robust growth in the first half of 2007, building on the good momentum achieved in late 2006. The Company increased its revenues by 24% compared to the first half of 2006 to \$27.4 million (H1 2006: \$22.0m) and profit before tax increased by 68% compared to the first half of 2006 to \$3.7 million (H1 2006: \$2.2m) reflecting demand for its automatic filters. The results reflect increasing investment in major markets in water treatment and filtration systems to improve the supply and availability of clean water.

Amiad's automatic filters require low maintenance and can be adapted to provide bespoke solutions to a wide range of applications in industries including steel, power, oil and gas, pulp and paper, in addition to a wide variety of other applications in the irrigation market.

In the first half of 2007, order levels were good across all major territories. Amiad now sells its products in over 70 countries across the Americas, Africa, Europe, Asia and Australasia through a network of distributors and its own subsidiaries.

In USA, the Company saw high growth in all parts of its business. The Company installed filtration system for surface water for irrigation in the Bonita Bay area and an industrial application for river water use in the cooling process of a power generating station in Oklahoma. Its technology was also employed to solve the problem and produce potable water at a central hospital in Virginia when the city water supply contaminants caused upsets in the hospital water systems and contributed to an unreasonable replacement of cartridge filters and maintenance calls.

In Europe, Amiad entered into a contract with Bulmer, the UK cider producing company, to install water filters in their production facility. This is a leading brand in cider manufacturing and Amiad's filtration system has already improved the level of efficiency of their production. In May, the Company supplied its automatic filters to one of Scandinavia's largest oil & gas companies for a mounted filtration solution to be used for an oil drilling rig in the North Sea.

Earlier in the year, the Company continued its penetration into Russia. In January 2007, Amiad resolved a severe drinking water quality problem in the City of Ramenskoe, Russia and, as a result, received additional three substantial projects to be supplied this year. It also received orders for the first time in Kazakhstan and Ukraine for industrial automatic mega-filters for the steel industry.

The Company saw growth in Australia with it being asked to deploy its solutions at short notice and carry out water treatment projects in various cities due to a lack of drinking water caused by severe drought.

In China, the Company experienced further expansion in the municipal sector. It also won the second phase of the project to treat water in the Beijing Olympic Village. The Company also saw sales growth in Japan, India and Singapore. It was also asked to supply a desalination system to convert sea water into potable water for the Davis Research Station in Antarctica.

In the irrigation segment, the Company saw a worldwide increase in its sales activities, mainly in Western Europe, Argentina, Mexico and Australia.

## **Financial review**

Revenue for the six months ended 30 June 2007 increased by 24% compared to the first half of 2006 to \$27.4m (H1 2006: \$22.0m). Profit before tax increased by 68% compared to the first half of 2006 to \$3.7m (H1 2006: \$2.2m). Fully diluted earnings per share were 14.8 US cents (H1 2006: 7.8 US cents). Gross margins were 49% (H1 2006: 50%) mainly reflecting the weakness of the US dollar and increases in raw material prices. The Company introduced increase in its prices effective from 1 July 2007 in those areas where its products are invoiced in US dollars.

The Company increased its sales and marketing effort globally and this will continue in the second half, but the Company continues to keep a tight control over administrative and general expenses.

Operating profit increased by 44% compared to the first half of 2006 to \$3.7m (H1 2006: \$2.5m) reflecting the substantial growth in the business.

The significant growth is also reflected in the working capital requirements which resulted in an even net cash balance from operating activities. However, the Company improved its working capital ratio from 44% at the end of 2006 to 41% as at 30 June 2007.

Net cash and cash equivalent and marketable securities amounted to \$5.9m as of 30 June 2007.

## **Dividend**

The Directors have decided to declare a dividend out of the Company's profits for the six months ended 30 June 2007 of approximately 3.0 US cents (gross) per share, with an ex dividend date of 26 September 2007, a record date of 28 September 2007 and a payment date of 26 October 2007.

## **Management**

In June, the Company announced the appointment as CEO of Rami Treger to lead the Company in its next phase of long-term growth. He succeeds Yosef Katz, who is stepping down from the Board at the Company's EGM on 5 September 2007.

## **Water Treatment Entity**

As part of its strategy, the Company has recently started the process of setting up a separate entity to provide end-to-end solutions for the treatment of water, in addition to continuing to provide automated filters. Recently, it appointed a senior manager to develop this part of its business.

## **Outlook**

The market for Amiad's products continues to expand with greater global investment in water infrastructure. Specifically, there is increasing investment in the municipality area (waste water, desalination and potable water) due to stricter restrictions and regulations being introduced worldwide.

These positive long-term trends underpin Amiad's prospects. The Company has entered the second half of 2007 with an order volume and backlog which is substantially higher at this stage than at the corresponding time last year. This gives the Company confidence of achieving good growth across the business in the second half of 2007 as compared to the second half of last year. As a result, the Company expects to report a significant increase in revenues for the full year compared to 2006.

**AMIAD FILTRATION SYSTEMS LTD.**  
**CONDENSED CONSOLIDATED BALANCE SHEET**  
**AT 30 JUNE, 2007**

| <b>A s s e t s</b>                                 | <b>30 June</b>                   |               | <b>31 December,</b> |
|--|----------------------------------|---------------|---------------------|
|  | <b>2007</b>                      | <b>2006</b>   | <b>2006</b>         |
|  | <b>U.S. dollars in thousands</b> |               |                     |
|  | <b>(Unaudited)</b>               |               | <b>(Audited)</b>    |
| <b>CURRENT ASSETS:</b>                             |                                  |               |                     |
| Cash and cash equivalents                          | 3,369                            | 4,537         | 4,217               |
| Short term investments                             | 2,511                            | 1,688         | 1,869               |
| Accounts receivable and accruals:                  |                                  |               |                     |
| Trade  | 19,888                           | 16,523        | 16,871              |
| Other  | 1,245                            | 1,456         | 1,009               |
| Inventories  | 13,223                           | 8,769         | 10,470              |
| Income Tax assets                                  | 745                              | -             | 431                 |
| <b>T o t a l c u r r e n t a s s e t s</b>         | <b>40,981</b>                    | <b>32,973</b> | <b>34,867</b>       |
| <b>NON-CURRENT ASSETS:</b>                         |                                  |               |                     |
| Property and equipment                             | 2,943                            | 2,433         | 2,617               |
| Intangible assets                                  | 2,759                            | 2,447         | 2,759               |
| Loan to a related party                            | 659                              | 503           | 685                 |
| Long term receivables                              | 154                              | 548           | 105                 |
| Deferred income tax assets                         | 1,301                            | 708           | 1,225               |
| Severance pay assets                               | 1,993                            | 1,905         | 1,872               |
| <b>T o t a l n o n - c u r r e n t a s s e t s</b> | <b>9,809</b>                     | <b>8,544</b>  | <b>9,263</b>        |
| <b>T o t a l a s s e t s</b>                       | <b>50,790</b>                    | <b>41,517</b> | <b>44,130</b>       |

|   | <b>30 June</b>                  |               | <b>31 December,</b> |
|---|---------------------------------|---------------|---------------------|
|   | <b>2007</b>                     | <b>2006</b>   | <b>2006</b>         |
|   | <b>U.S dollars in thousands</b> |               |                     |
|   | <b>(Unaudited)</b>              |               | <b>(Audited)</b>    |
| <b>Liabilities and shareholders' equity</b>                                   |                                 |               |                     |
| <b>CURRENT LIABILITIES:</b>   |                                 |               |                     |
| Short term credit, loans from banks and other                                 | 8,948                           | 7,646         | 7,532               |
| Accounts payable and provisions:  |                                 |               |                     |
| Trade   | 10,496                          | 6,688         | 7,862               |
| Other   | 3,583                           | 2,453         | 3,111               |
| Income tax liability  | 366                             | 629           | 488                 |
| T o t a l current liabilities   | <u>23,393</u>                   | <u>17,416</u> | <u>18,993</u>       |
| <b>NON-CURRENT LIABILITIES:</b>   |                                 |               |                     |
| Loans from banks and other<br>(net of current maturities)                     | 2,800                           | 2,761         | 2,786               |
| Severance pay obligations   | 2,027                           | 1,961         | 1,909               |
| Deferred taxes  | 471                             | 565           | 542                 |
| T o t a l non-current liabilities   | <u>5,298</u>                    | <u>5,827</u>  | <u>5,237</u>        |
| T o t a l liabilities   | <u>28,691</u>                   | <u>22,703</u> | <u>24,230</u>       |
| <b>SHAREHOLDERS' EQUITY</b>   |                                 |               |                     |
| <b>Capital and reserves attributable to the<br/>Company's equity holders:</b> |                                 |               |                     |
| Share capital   | 2,291                           | 2,291         | 2,291               |
| Capital reserve   | 12,797                          | 12,797        | 12,797              |
| Currency translation reserve  | 240                             | 134           | 164                 |
| Retained earnings   | 6,340                           | 3,294         | 4,303               |
|   | <u>21,668</u>                   | <u>18,516</u> | <u>19,555</u>       |
| <b>MINORITY INTEREST</b>  | 431                             | 298           | 345                 |
| T o t a l shareholders' equity  | <u>22,099</u>                   | <u>18,814</u> | <u>19,900</u>       |
| T o t a l liabilities and shareholders' equity                                | <u>50,790</u>                   | <u>41,517</u> | <u>44,130</u>       |

The notes on pages 9 to 13 are an integral part of these condensed financial statements.

**AMIAD FILTRATION SYSTEMS LTD.**  
**CONDENSED CONSOLIDATED INCOME STATEMENT**  
**FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2007**

|   | <b>6 months ended</b> |                  | <b>Year ended</b>   |
|---|-----------------------|------------------|---------------------|
|   | <b>30 June</b>        |                  | <b>31 December,</b> |
|   | <b>2007</b>           | <b>2006</b>      | <b>2006</b>         |
| <b>U.S dollars in thousands</b>   |                       |                  |                     |
| <b>except per share data</b>  |                       |                  |                     |
|   | <b>(Unaudited)</b>    | <b>(Audited)</b> |                     |
| <b>Continuing operations:</b>   |                       |                  |                     |
| Revenue   | 27,437                | 22,045           | 44,076              |
| Cost of sales   | 14,009                | 10,946           | 22,097              |
| <b>Gross profit</b>   | <b>13,428</b>         | <b>11,099</b>    | <b>21,979</b>       |
| Selling and marketing costs   | 6,486                 | 5,680            | 11,455              |
| Administrative and general expenses   | 3,071                 | 2,699            | 5,581               |
| Amortization of other assets  | 188                   | 170              | 348                 |
| Other expenses, net   | 12                    | 8                | 4                   |
| <b>Operating profit</b>   | <b>3,671</b>          | <b>2,542</b>     | <b>4,591</b>        |
| Financial expenses, net   | 15                    | 364              | 864                 |
| <b>Profit before income tax</b>   | <b>3,656</b>          | <b>2,178</b>     | <b>3,727</b>        |
| Income tax expenses   | 749                   | 618              | 736                 |
| <b>Profit for the period</b>  | <b>2,907</b>          | <b>1,560</b>     | <b>2,991</b>        |
| <b>Attributed to:</b>   |                       |                  |                     |
| Equity holders of the company   | 2,821                 | 1,491            | 2,875               |
| Minority interest   | 86                    | 69               | 116                 |
|   | <u>2,907</u>          | <u>1,560</u>     | <u>2,991</u>        |
| <b>U.S dollars</b>  |                       |                  |                     |
| <b>Earnings per share attributable to the equity holders of the Company during the period</b> |                       |                  |                     |
| (see note 3d):  |                       |                  |                     |
| Basic   | 0.149                 | 0.079            | 0.152               |
| Diluted   | 0.148                 | 0.078            | 0.150               |

The notes on pages 9 to 13 are an integral part of these consolidated financial statements.

**AMIAD FILTRATION SYSTEMS LTD.**

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2007**

|  | Attributable to equity holders of the Company |                 |                              |                  |               | Minority interest | Total shareholders equity |
|--|---|-----------------|------------------------------|------------------|---------------|-------------------|---------------------------|
|  | Share capital                                 | Capital reserve | Currency translation reserve | Retained earning | Total         |                   |                           |
|  | \$ in thousands                               |                 |                              |                  |               |                   |                           |
| <b>BALANCE AT JANUARY 1, 2007</b> (audited)                | 2,291   | 12,797          | 164                          | 4,303            | 19,555        | 345               | 19,900                    |
| <b>CHANGES DURING THE 6 MONTH ENDED 30 June 2007:</b>      |   |                 |                              |                  |               |                   |                           |
| Currency translation differences                           | -   | -               | 76                           | -                | 76            | -                 | 76                        |
| Profit for the period                                      | -   | -               | -                            | 2,821            | 2,821         | 86                | 2,907                     |
| Total recognized profit for 6 month ended 30 June 2007     | -   | -               | 76                           | 2,821            | 2,897         | 86                | 2,983                     |
| Employees share purchase plan - value of employee services | -   | -               | -                            | 60               | 60            | -                 | 60                        |
| Cash dividend (\$ 0.045 per share)                         | -   | -               | -                            | (844)            | (844)         | -                 | (844)                     |
| <b>BALANCE AT JUNE 30, 2007</b> (unaudited)                | <u>2,291</u>                                  | <u>12,797</u>   | <u>240</u>                   | <u>6,340</u>     | <u>21,668</u> | <u>431</u>        | <u>22,099</u>             |
| <b>BALANCE AT JANUARY 1, 2006</b> (audited)                | 2,291   | 12,797          | 123                          | 3,190            | 18,401        | 265               | 18,666                    |
| <b>CHANGES DURING THE 6 MONTH ENDED 30 June 2006:</b>      |   |                 |                              |                  |               |                   |                           |
| Currency translation differences                           | -   | -               | 11                           | -                | 11            | -                 | 11                        |
| Profit for the period                                      | -   | -               | -                            | 1,491            | 1,491         | 69                | 1,560                     |
| Total recognized profit for 6 month ended 30 June 2006     | -   | -               | 11                           | 1,491            | 1,502         | 69                | 1,571                     |
| Employees share purchase plan - value of employee services | -   | -               | -                            | 68               | 68            | -                 | 68                        |
| Cash dividend (\$0.077 per share)                          | -   | -               | -                            | (1,455)          | (1,455)       | -                 | (1,455)                   |
| Dividend to minority                                       | -   | -               | -                            | -                | -             | (36)              | (36)                      |
| <b>BALANCE AT JUNE 30, 2006</b> (unaudited)                | <u>2,291</u>                                  | <u>12,797</u>   | <u>134</u>                   | <u>3,294</u>     | <u>18,516</u> | <u>298</u>        | <u>18,814</u>             |

**The notes on pages 9 to 13 are an integral part of these condensed financial statements.**

**AMIAD FILTRATION SYSTEMS LTD.**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2007 (continued)

|  | Attributable to equity holders of the Company |                 |                              |                  |         | Minority interest | Total shareholders equity |
|--|---|-----------------|------------------------------|------------------|---------|-------------------|---------------------------|
|  | Share capital                                 | Capital reserve | Currency translation reserve | Retained earning | Total   |                   |                           |
|  | \$ in thousands                               |                 |                              |                  |         |                   |                           |
| <b>BALANCE AT JANUARY 1, 2006</b> (audited)                | 2,291   | 12,797          | 123                          | 3,190            | 18,401  | 265               | 18,666                    |
| <b>CHANGES DURING THE YEAR ENDED 31 December 2006:</b>     |   |                 |                              |                  |         |                   |                           |
| Currency translation differences                           | -   | -               | 41                           | -                | 41      | -                 | 41                        |
| Profit for the period                                      | -   | -               | -                            | 2,875            | 2,875   | 116               | 2,991                     |
| Total recognized profit for year ended 30 December 2006    | -   | -               | 41                           | 2,875            | 2,916   | 116               | 3,032                     |
| Employees share purchase plan - value of employee services | -   | -               | -                            | 143              | 143     | -                 | 143                       |
| Cash dividend (\$0.1 per share)                            | -   | -               | -                            | (1,905)          | (1,905) | -                 | (1,905)                   |
| Dividend to minority                                       | -   | -               | -                            | -                | -       | (36)              | (36)                      |
| <b>BALANCE AT DECEMBER 31, 2006</b> (audited)              | 2,291   | 12,797          | 164                          | 4,303            | 19,555  | 345               | 19,900                    |

The notes on pages 9 to 13 are an integral part of these condensed financial statements.



**AMIAD FILTRATION SYSTEMS LTD.**

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2007

|  | 6 months ended            |                     | Year ended          |
|--|---------------------------|---------------------|---------------------|
|  | 30 June                   |                     | 31 December,        |
|  | 2007                      | 2006                | 2006                |
|  | U.S. dollars in thousands |                     |                     |
|  | (Unaudited)               |                     | (Audited)           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>               |                           |                     |                     |
| Cash generated from operations                             | 1,353                     | 1,827               | 3,805               |
| Interest paid  | (298)                     | (281)               | (633)               |
| Income tax paid  | (1,078)                   | (1,327)             | (1,833)             |
| Net cash generated from (used in) operating activities     | <u>(23)</u>               | <u>219</u>          | <u>1,339</u>        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>               |                           |                     |                     |
| Purchases of property and equipment                        | (729)                     | (202)               | (677)               |
| Purchases of intangible assets                             | (189)                     | -                   | (527)               |
| Investments grants received                                | 93                        | 61                  | 79                  |
| Short term investments, net                                | (630)                     | (1,679)             | (1,853)             |
| Proceeds from sale of property and equipment               | 58                        | 27                  | 62                  |
| Long-term loan granted to a related party and others       | (49)                      | (543)               | (328)               |
| Collection of long-term loan granted to a related party    | 23                        | 28                  | 85                  |
| Net cash used in investing activities                      | <u>(1,423)</u>            | <u>(2,308)</u>      | <u>(3,159)</u>      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>               |                           |                     |                     |
| Dividends paid to the minority interest                    | -                         | (36)                | (36)                |
| Dividends paid   | (844)                     | (1,455)             | (1,905)             |
| Repayments of long term loans                              | (1,048)                   | (981)               | (1,872)             |
| Receipt of long-term loans and other liabilities           | 1,003                     | 29                  | 1,075               |
| Short-term loans, net                                      | 1,473                     | 1,356               | 1,092               |
| Net cash generated from (used in) financing activities     | <u>584</u>                | <u>(1,087)</u>      | <u>(1,646)</u>      |
| <b>NET INCREASE (DEREASE) IN CASH AND CASH EQUIVALENTS</b> | <b>(862)</b>              | <b>(3,176)</b>      | <b>(3,466)</b>      |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>  | <b>4,217</b>              | <b>7,692</b>        | <b>7,692</b>        |
| <b>EXCHANGE GAINS ON CASH AND CASH EQUIVALENTS</b>         | <b>14</b>                 | <b>21</b>           | <b>(9)</b>          |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>      | <b><u>3,369</u></b>       | <b><u>4,537</u></b> | <b><u>4,217</u></b> |

The notes on pages 9 to 13 are an integral part of these condensed financial statements.

**AMIAD FILTRATION SYSTEMS LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - GENERAL:**

The interim financial statement as of 30 June 2007 and for the six-month period then ended (hereafter – the interim statements) has been prepared in condensed form in accordance with IAS 34 – “Interim Financial Reporting”.

The interim condensed financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2006.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2006, As described in the annual financial statements for the year ended 31 December 2006.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2007 and have not been early adopted:

- IAS 23 (revised March 2007), Borrowing Costs (effective from 1 January 2009). The standard is not expected to have any impact on the Company's accounts.
- IFRIC 13, Customer Loyalty Programmes, effective for annual periods beginning on or after 1 July 2008. IFRIC 13 is not expected to have any impact on the Company's accounts.
- IFRIC 14, IAS 19 - The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, effective for annual periods beginning on or after 1 January 2008. Management is currently assessing the impact of IFRIC 14 on the Company's operations.

**NOTE 3 - SHAREOLDERS' EQUITY:**

- a. On 26 March, 2007, the Company's Board of Directors resolved to distribute dividends to its shareholders in the amount of \$844 thousand.

**b. Share options**

- 1) On 12 August 2005, the Company granted to three senior employees, the chairman of the board of directors and to Kibbutz Amiad options to purchase 386,682, 154,674 and 77,336 Ordinary Shares, respectively (as adjusted for the share split and bonus shares). The options to the senior employees were granted in the framework of the Company's option plan that was submitted to the Israeli Tax Authorities, in accordance with the provisions of Section 102 to the Israeli Income Tax Ordinance and the remaining options were granted under the provisions of section 3(i) of the Income Tax Ordinance. The options vest over a period of four years (except in the case of the CEO where the period is three years) and have an exercise price of \$ 1.53 per share. The options will be held during the vesting period by a trustee and will be released in accordance with the terms of the option plan. Unexercised options expire 10 years after date of grant.

## AMIAD FILTRATION SYSTEMS LTD.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 3 - SHAREOLDERS' EQUITY (continued):

- 2) On 19 April 2007, following a request made by the Company, the senior employees and the chairman of the board of directors gave written notice to the Company of their waiver, with immediate effect, of 21,874 and 8,751 options respectively granted to them by the Company. At the same time, the Company received written notice from Kibbutz Amiad of its waiver, with immediate effect, of its right to options granted to it by the Company over 77,336 ordinary shares.
- 3) On 19 April 2007, the board of directors resolved to grant options over 72,961 ordinary shares under the plan to a director of the Company, at an exercise price of \$ 1.53 per ordinary share (being the same price as the exercise price for the options previously granted to Kibbutz Amiad and all other option holders), such options to vest over a period of 2.13 years. Unexercised options expire 8.13 years after date of grant. The actual grant date of the above option was 26 Jun 2007 following the approval company grant at the company annual general meeting on the 26 Jun 2007.
- 4) On 14 May 2007, the CEO announced that he was stepping down and would stay on as Chief Executive Officer until a replacement is appointed.  
On 27 July 2007, following a request made by the Company, the CEO gave his consent to amend his option agreement, so that the number of options and ordinary shares exercisable there under, will be reduced by 54,722 options ( from 218,886 options to 164,164 options), that there vesting period under the options agreement is August 11, 2008.
- 5) On 5 July 2007, the Company entered into an employment agreement with a new CEO in respect of his employment as of 1 August 2007. Pursuant to the terms of the agreement the CEO entitled to receive a phantom bonus which will be calculated on base of the change in the average price of the company's ordinary share for the 2 years period ended in August 2009. The bonus will be paid on August 2009, provided that CEO is employed by the Company at the record date.

On 27 July 2007, the Company entered into an Option Agreement with the CEO pursuant to which the CEO granted options to purchase 54,722 ordinary shares of the company, subject to the terms and conditions set out in the Option Agreement.

The phantom bonus and the Option Agreement are conditional upon obtaining shareholder approval at the Company's Annual General Meeting to be held in September 2007.

**AMIAD FILTRATION SYSTEMS LTD.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 3 - SHAREOLDERS' EQUITY** (continued):

**c. Earnings per share**

|  | 6 months ended<br>30 June |               | Year ended 31<br>December, |
|--|---------------------------|---------------|----------------------------|
|  | 2007                      | 2006          | 2006                       |
| U.S. dollars in thousands  |                           |               |                            |
|  | (Unaudited)               |               | (Audited)                  |
| <b>Diluted:</b>  |                           |               |                            |
| Number of shares used for calculation of earnings per share -basic   | 18,873                    | 18,873        | 18,873                     |
| Adjustments for share options  | 200                       | 321           | 309                        |
| Number of shares used for calculation of earnings per share -diluted | <u>19,073</u>             | <u>19,194</u> | <u>19,182</u>              |
| Net income attributable to equity holders of the parent              | <u>2,821</u>              | <u>1,491</u>  | <u>2,875</u>               |
| <b>Basic earnings per share (in U.S. dollars)</b>                    | <u>0.149</u>              | <u>0.079</u>  | <u>0.152</u>               |
| <b>Diluted earnings per share (in U.S. dollars)</b>                  | <u>0.148</u>              | <u>0.078</u>  | <u>0.150</u>               |

**NOTE 4 – EMPLOYEE INCNTIVE PLAN**

On 27 July 2007, the board of directors approved a Bonus Scheme which will be available to staff members and members of Senior Management, including to three members of the board conditional upon obtaining shareholder approval at the Company's Extraordinary General Meeting to be held in September 2007.

- a. Senior Management - bonus scheme will be in operation in relation to financial year ending 31 December 2007 which will pay a bonus to the Senior Management team by reference to their monthly salary. The level of bonus payable will be depended on the achievement of targets as set out in the Bonus Scheme. The maximum total bonus liability for the Company is NIS 600,000. Any bonus shall be paid following Board's approval of the 2007 financial statement in March 2008. If any member of Senior Management is not employed by the Company for the whole of the Bonus Year or is not employed at the bonus payment date, the payment of any bonus to that individual shall be subject to the absolute discretion of the Chairman and/or CEO of the Company.

**AMIAD FILTRATION SYSTEMS LTD.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 4 – EMPLOYEE INCNTIVE PLAN** (continued):

- b. Staff members -a discretionary bonus scheme will be in operation in relation to the financial year ending 31 December 2007 which will provide a bonus pool for Staff to recognize their contribution to the success of the business. The level of bonus payable will be depended on the achievement of targets as set out in the Bonus Scheme. The amount of the bonus for the Staff will be calculated as a bonus pool, the amount in the pool being dependent on the achievement of the targets. The maximum bonus pool is NIS 900,000.

A portion of the bonus pool shall be paid to Kibbutz Amiad subject to the formula that is presented in the bonus scheme conditional upon obtaining shareholder approval at the Company's Extraordinary General Meeting to be held in September 2007.

The bonus shall be paid, subject to the absolute discretion of management, following Board's approval of the 2007 financial statements in March 2008. As the payment of the bonus is fully discretionary, the Company reserves the right not to pay a bonus.

**NOTE 5 - REVENUES FROM SALES**

Sales by customer location:

|               | 6 months ended<br>30 June |        | Year ended<br>31 December, |
|---------------|---------------------------|--------|----------------------------|
|               | 2007                      | 2006   | 2006                       |
|               | U.S. dollars in thousands |        |                            |
|               | (Unaudited)               |        | (Audited)                  |
| North America | 7,383                     | 5,804  | 11,558                     |
| Europe        | 6,433                     | 4,684  | 9,842                      |
| Australia     | 4,761                     | 3,064  | 6,252                      |
| East Asia     | 3,411                     | 3,967  | 7,655                      |
| Israel        | 3,174                     | 2,337  | 4,486                      |
| South America | 1,831                     | 1,789  | 3,051                      |
| Africa        | 444                       | 400    | 1,232                      |
| Total         | 27,437                    | 22,045 | 44,076                     |

**NOTE 6 - CONTINGENT LIABILITIES**

- a. On or about August 21, 2007, Amiad USA, Inc. received a draft complaint from counsel for Yitzhak Orlans, the former President and a current director of Amiad USA, Inc. The draft complaint alleges age discrimination, disability discrimination, employment discrimination, wrongful termination and further alleges various other violations of the California Labor Code and the California Business & Professions Code in connection with the termination of Mr. Orlans' employment with Amiad USA, Inc. The draft complaint indicates that Mr. Orlans is seeking damages in excess of USD\$2,625,000 as well as unspecified amounts of non-economic damages, punitive damages and attorneys' fees and costs. It is too early to predict any outcome or potential liability.
- b. In March 2006, a claim was filed in the supreme court of Victoria against the subsidiary in Australia, Amiad Australia PTY Ltd. (hereafter - the subsidiary) as well as 8 other defendants for damages allegedly caused by inducing certain people who were then employed by the claimant to breach their employment and other duties to the claimant, and otherwise interfered with their employment contracts.

**AMIAD FILTRATION SYSTEMS LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 - CONTINGENT LIABILITIES (continued):**

In May 2007, the claimant filed an Amended Statement of Claim which altered the nature of the claim and increased the quantum of the claim against the subsidiary and the other defendant.

The amount alleged to have been lost by the claimant as a result of the conduct complained of in its Amended Statement of Claim is estimated by the claimant in its Amended Statement of Claim to be between \$16.5 million AUD and \$25 million AUD.

According to the legal counsel of the subsidiary it is not possible to predict whether this claim will succeed. Further, even if the claimant is successful in establishing that the subsidiary (either alone or with other defendants) is liable to it in the manner alleged, it is not possible to predict the amount (if any) that will be awarded against it.

In addition to the amount referred to above, the claimant is also seeking an order that the defendants pay its cost of the proceedings, and that they pay interest on any amount awarded against them.

Based on its agreements with Plastro Irrigation Ltd the Company believes to be substantially indemnified in this claim.

**NOTE 7 - CASH FLOWS FROM OPERATIONS:**

|   | <b>6 months ended</b>            |                     | <b>Year ended</b> |
|---|----------------------------------|---------------------|-------------------|
|   | <b>30 June</b>                   | <b>31 December,</b> | <b>2006</b>       |
|   | <b>2007</b>                      | <b>2006</b>         | <b>2006</b>       |
|   | <b>U.S. dollars in thousands</b> |                     |                   |
| Profit for the period   | 2,907                            | 1,560               | 2,991             |
| <b>(a) Adjustments for:</b>                                       |                                  |                     |                   |
| Depreciation and amortization                                     | 509                              | 471                 | 941               |
| Interest paid   | 298                              | 281                 | 633               |
| Income taxes paid   | 1,078                            | 1,327               | 1,833             |
| Share based payment   | 60                               | 68                  | 143               |
| Deferred taxes, net   | (146)                            | 355                 | (184)             |
| Accrued severance pay, net  | (3)                              | 95                  | 76                |
| Exchange rate differences on liabilities to banks                 | 2                                | 17                  | 69                |
| Loss on sale of fixed assets and others                           | 11                               | 2                   | 14                |
| Gain from marketable securities, net                              | (12)                             | (5)                 | (12)              |
| Exchange rate differences in on loans to related party and others | 3                                | (18)                | (48)              |
|   | <u>4,707</u>                     | <u>4,153</u>        | <u>6,456</u>      |
| <b>Changes in working capital:</b>                                |                                  |                     |                   |
| Increase in accounts receivable:                                  |                                  |                     |                   |
| Trade   | (2,861)                          | (2,026)             | (2,261)           |
| Other   | (613)                            | (208)               | (187)             |
| Increase (Decrease) in accounts payable:                          |                                  |                     |                   |
| Trade   | 2,405                            | 804                 | 1,802             |
| Other   | 328                              | (372)               | 131               |
| Increase in inventories   | (2,613)                          | (524)               | (2,136)           |
|   | <u>(3,354)</u>                   | <u>(2,326)</u>      | <u>(2,651)</u>    |
| Cash generated from operations                                    | <u>1,353</u>                     | <u>1,827</u>        | <u>3,805</u>      |

