

AMIAD WATER SYSTEMS LTD.

INTERIM FINANCIAL INFORMATION

(Unaudited)

JUNE 30, 2013

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(Unaudited)
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The amounts are presented in U.S. dollars (\$) in thousands.



Review Report of Interim Financial Information

Introduction

We have reviewed the accompanying financial information Amiad Water Systems Ltd. (hereafter - the Company) and its subsidiaries (hereafter - the group), which includes the condensed consolidated statement of financial position as of 30 June 2013 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six month periods then ended. The Board of Directors and management are responsible for preparation and presentation of the financial information for this reporting period in accordance with IAS 34 – "Interim Financial Reporting"; our responsibility is to express a conclusion of the financial data for this interim period based on our review.

Scope of review

Our review was performed in accordance with Standard No. 1 on Review Engagements of the Institute of Certified Public Accountants in Israel - "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". Review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Auditing Standards generally accepted in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing came to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Kesselman & Kesselman

Haifa, Israel
September 9, 2013


Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member firm of PricewaterhouseCoopers International Limited




AMIAD WATER SYSTEMS LTD.
CONDENSED CONSOLIDATED BALANCE SHEET
JUNE 30, 2013

	<u>June 30</u>		<u>December 31,</u>
	<u>2013</u>	<u>2012*</u>	<u>2012*</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
	<u>U.S. dollars in thousands</u>		
Assets			
CURRENT ASSETS:			
Cash and cash equivalents	13,267	12,697	14,255
Financial assets at fair value through profit or loss	1,243	229	1,140
Accounts receivable and accruals:			
Trade	44,096	45,049	40,831
Other	3,599	5,219	5,336
Income tax assets	1,130	1,235	701
Inventories	22,556	28,021	26,017
Total current assets	<u>85,891</u>	<u>92,450</u>	<u>88,280</u>
NON-CURRENT ASSETS:			
Investments in associates	24	80	76
Loan to a related party	633	627	635
Long-term receivables	104	273	72
Prepaid expenses	104	163	49
Property and equipment	11,399	9,692	11,609
Intangible assets	16,879	18,090	17,482
Deferred income tax assets	1,679	1,733	2,035
Total non-current assets	<u>30,822</u>	<u>30,658</u>	<u>31,958</u>
Total assets	<u>116,713</u>	<u>123,108</u>	<u>120,238</u>

*Reflects the adoption of IFRS 11 and IAS 19 amendment, see note 3b.



Tal Yeshua
 Chairman of the Board



Ark Dayan
 Chief Executive Officer
 and Director



Amir Harel
 Chief Finance Officer

Date of approval of the interim financial information by the Company's Board of Directors: September 9, 2013



AMIAD WATER SYSTEMS LTD.
CONDENSED CONSOLIDATED BALANCE SHEET
JUNE 30, 2013

	<u>June 30</u>		<u>December 31,</u>
	<u>2013</u>	<u>2012*</u>	<u>2012*</u>
	<u>(Unaudited)</u>	<u>(Audited)</u>	
<u>U.S. dollars in thousands</u>			
Liabilities and equity			
CURRENT LIABILITIES:			
Short-term credit and current maturities of borrowings from banks	15,719	17,907	13,421
Financial liabilities at fair value through profit or loss – derivatives	93	625	112
Accounts payable and accruals:			
Trade	16,972	20,471	19,807
Other	9,103	9,367	10,499
Current income tax liability	365	545	958
Dividend payable	1,360	1,242	
T o t a l c u r r e n t l i a b i l i t i e s	<u>43,612</u>	<u>50,157</u>	<u>44,797</u>
NON-CURRENT LIABILITIES:			
Borrowings from banks and others (net of current maturities)	14,403	18,515	18,158
Put option liability	1,924	1,435	1,795
Accrued severance pay	171	11	115
Deferred income tax liabilities	1	1	1
T o t a l n o n - c u r r e n t l i a b i l i t i e s	<u>16,499</u>	<u>19,962</u>	<u>20,069</u>
T o t a l l i a b i l i t i e s	<u>60,111</u>	<u>70,119</u>	<u>64,866</u>
EQUITY:			
Capital and reserves attributable to equity holders of the Company:			
Share capital	2,798	2,798	2,798
Capital reserves	28,161	24,794	28,029
Currency translation reserve	(1,016)	189	(147)
Transaction with non controlling interest	(180)	(180)	(180)
Retained earnings	26,862	25,329	24,826
	<u>56,625</u>	<u>52,930</u>	<u>55,326</u>
NON CONTROLLING INTEREST	(23)	59	46
T o t a l e q u i t y	<u>56,602</u>	<u>52,989</u>	<u>55,372</u>
T o t a l l i a b i l i t i e s a n d e q u i t y	<u>116,713</u>	<u>123,108</u>	<u>120,238</u>

*Reflects the adoption of IFRS 11 and IAS 19 amendment, see note 3b.

The attached notes are an integral part of this condensed consolidated interim financial information.

AMIAD WATER SYSTEMS LTD.
CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2013

	Six months ended June 30		Year ended December 31,
	2013	2012*	2012*
	(Unaudited)		(Audited)
	U.S dollars in thousands except per share data		
REVENUE	61,746	66,214	130,764
COST OF SALES	36,832	37,375	74,800
GROSS PROFIT	24,914	28,839	55,964
RESEARCH AND DEVELOPEMEMNT EXPENSES	1,478	1,560	2,893
SELLING AND MARKETING EXPENSES	13,261	15,031	29,162
ADMINISTRATIVE AND GENERAL EXPENSES	5,950	6,323	13,191
OTHER LOSSES (INCOME) NET	(6)	59	60
OPERATING PROFIT	4,231	5,866	10,658
FINANCIAL INCOME	1,353	428	1,336
FINANCE EXPENSES	(1,319)	(1,259)	(1,829)
FINANCE EXPENSES - NET	(34)	831	493
SHARE OF PROFIT OF ASSOCIATES	50	(1)	6
INCOME BEFORE TAXES ON INOCME	4,215	5,036	10,159
INCOME TAX EXPENSES	889	884	2,086
INCOME FOR THE PERIOD	3,326	4,152	8,073
OTHER COMPREHENSIVE INCOME-			
Currency translation differences	868	(208)	128
Remeasurement of net defined benefit liability			46
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	2,458	4,360	7,899
PROFIT FOR THE PERIOD ATTRIBUTED TO:			
Equity holders of the Company	3,396	4,188	8,122
Non controlling interest	(70)	(36)	(49)
	3,326	4,152	8,073
	U.S dollars		
EARNINGS PER SHARE:			
Attributable to the equity holders of the Company during the period:			
Basic	0.147	0.180	0.355
Diluted	0.147	0.180	0.340

*Reflects the adoption of IFRS 11 and IAS 19 amendment, see note 3b.

The attached notes are an integral part of this condensed consolidated interim financial information.

AMIAD WATER SYSTEMS LTD.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2013

	Attributable to owners of the parent						Non-controlling interest	Total equity	
	Number of shares	Share capital	Capital Reserve	Currency translation reserve	Transaction with non controlling interest	Retained earnings			Total
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 -									
Income for the period						3,396	3,396	(70)	3,326
Other comprehensive income -									
Currency translation differences				(869)			(869)		(868)
Total comprehensive income				(869)		3,396	2,527	1	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						(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>
BALANCE AT JANUARY 1, 2012 (audited)	22,590,690	2,789	24,692	(20)	(180)	22,383	49,664	96	49,760
CHANGES DURING THE SIX MONTH ENDED JUNE 30, 2012 (unaudited):									
Comprehensive income -									
Income for the period						4,188	4,188	(36)	4,152
Other comprehensive income -									
Currency translation differences				209			209	(1)	208
Total comprehensive income				209		4,188	4,397	(37)	4,360
Transaction with owners:									
Dividend (\$0.055 per share)						(1,242)	(1,242)		(1,242)
Exercise of options of employee		9	102				111		111
Total transactions with owners		9	102			(1,242)	(1,131)		(1,131)
BALANCE AT JUNE 30, 2012 (unaudited)	<u>22,663,651</u>	<u>2,798</u>	<u>24,794</u>	<u>189</u>	<u>(180)</u>	<u>25,329</u>	<u>52,930</u>	<u>59</u>	<u>52,989</u>

AMIAD WATER SYSTEMS LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2013

	Attributable to owners of the parent							
	Number of shares	Share capital	Capital reserve	Currency translation reserve	Transaction with non-		Non- controlling interest	Total equity
					Controlling Interest	Retained earnings		
U.S. dollars in thousands								
Balance at 1 January 2012	22,590,690	2,789	24,692	(20)	(180)	22,383	96	49,760
Comprehensive income - Income for the year*						8,122	(49)	8,073
Other comprehensive income				(127)		(46)	(1)	(128)
Currency translation differences								(46)
Remeasurement of net defined benefit liability*				(127)		8,076	(50)	7,899
Total comprehensive income								
Transaction with owners:								
Issuance of shares to a senior employee	72,961	9	102					111
Allocation of share capital			3,235			(3,235)		
Dividend (\$0.106 per share)						(2,398)		(2,398)
Total transaction with owners	72,691	9	3,337			(5,633)		(2,287)
Balance at 31 December 2012	22,663,651	2,798	28,029	(147)	(180)	24,826	46	55,372

The attached notes are an integral part of this condensed consolidated interim financial information.

*Reflects the adoption of IFRS 11 and IAS 19 amendment, see note 3b.

AMIAD WATER SYSTEMS LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2013

	Six months ended June 30		Year ended December 31,
	2013	2012*	2012*
	(Unaudited)		(Audited)
	U.S dollars in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash generated from operations (see note 6)	2,730	2,370	15,265
Interest paid	(382)	(516)	(1,054)
Interest received	78	250	325
Income tax paid	(1,462)	(528)	(677)
Net cash generated from operating activities	<u>964</u>	<u>1,576</u>	<u>13,859</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(1,085)	(1,757)	(5,053)
Purchases of intangible assets and capitalized development Expenses	(339)	(799)	(1,386)
Investments grants received	112	11	499
Restricted deposit	912	(1,222)	(1,254)
Proceeds from sale of property and equipment	12	87	122
Collection (payments) of long-term loan to a related party	(13)	42	127
Net cash used in investing activities	<u>(401)</u>	<u>(3,638)</u>	<u>(6,945)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid to equity holders of the Company			(2,398)
Receipt of long-term borrowings and other liabilities	20	5,805	9,811
Repayments of long term borrowings	(3,746)	(3,093)	(6,930)
Proceeds from exercise of options		111	111
Short-term borrowings (repayments) from banks, net	2,422	185	(5,080)
Net cash generated from (used in) financing activities	<u>(1,304)</u>	<u>3,008</u>	<u>(4,486)</u>
EXCHANGE GAIN (LOSS) ON CASH AND CASH EQUIVALENTS	<u>(247)</u>	<u>41</u>	<u>117</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(988)</u>	<u>987</u>	<u>2,545</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>14,255</u>	<u>11,710</u>	<u>11,710</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>13,267</u>	<u>12,697</u>	<u>14,255</u>

*Reflects the adoption of IFRS 11 and IAS 19 amendment, see note 3b.

The attached notes are an integral part of this condensed consolidated interim financial information.

AMIAD WATER SYSTEMS LTD.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 1 - GENERAL INFORMATION

- a. Amiad Water Systems LTD. (hereafter -The Company) and its subsidiaries (together- the Group) is a producer and global supplier of water filters and filtration systems used in the industrial & municipal market and the irrigation market.
- b. The Company was incorporated in Israel in June 1997. The address of its registered office is Kibbutz Amiad, Israel.
The Company is traded in the Alternative Investment Market in London (AIM), a part of the London Stock Exchange, since December 2005.
The principal shareholders of the Company, as for the report release date, are Kibbutz Amiad (hereafter -The "Kibbutz"), directly and through a Company controlled by the Kibbutz, A.M.S.I. Investments Ltd. ("AMSI") which owns 45.49% of the Company's outstanding shares.

The Kibbutz and AMSI are engaged in a shareholders agreement with Kibbutz Beit Zera Cooperative Agricultural Society Ltd. and two cooperatives held by Beit Zera (hereinafter – "Beit Zera") which owns 4.5% of the Company's outstanding shares and with Bermad Industries Cooperative Agricultural Society Ltd. (hereinafter – "Bermad") which owns 8.99% of the Company's outstanding shares. The agreement was signed upon Beit Zera and Bermad becoming shareholders in the Company pursuant to the acquisition of Arkal Filtration systems Cooperative Agricultural Society Ltd. Pursuant to the shareholders agreement the parties thereto shall vote their shares together at all meeting of the shareholder of the Company, as shall be agreed among them or in the absence of an agreement as shall be decided by the Kibbutz. In addition, the shareholder agreement imposes on Beit Zera and Bermad certain limitations on the transferability of shares of the Company they received pursuant to the acquisition of Arkal Filtration systems Cooperative Agricultural Society Ltd.

These group consolidated financial statements were authorized for issue by board of directors on April 9, 2013.

AMIAD WATER SYSTEMS LTD.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 1 - GENERAL INFORMATION (continued):

c. Reclassification

Certain comparative figures have been reclassified to conform to the current period presentation.

NOTE 2 - BASIS OF PREPARATION

- a.** This condensed consolidated interim financial information of June 30, 2013 and for the six month periods then ended (hereafter - the interim financial information) have been prepared in condensed form in accordance with IAS 34 - "Interim Financial Reporting".

The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended December 31 2012, which have been prepared in accordance with IFRS. This condensed consolidated interim financial information is reviewed and not audited.

- b.** Estimates –

The preparation of interim financial statements requires management to exercise its judgment; it also requires the use of accounting estimates and assumptions that affect the application of the group's accounting policy and the amounts of reported assets, liabilities, income and expenses. Actual results may differ from those estimates.

In preparation of these condensed consolidated interim financial statements, the significant judgments that were exercised by the management in applying the group's accounting policy and the key sources of estimation uncertainty were similar to those applied in the consolidated annual financial statements for the year ended December 31, 2012.

AMIAD WATER SYSTEMS LTD.
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Significant accounting policies and computation methods used in preparing the interim financial information are consistent with those used in preparing the 2012 annual financial statements, except for the following:

Income tax in interim periods is recognized based on management's best estimate of the weighted average annual income tax rate expected.

- b. New standards, amendments and interpretations to existing standards that became effective and are mandatory for accounting periods commencing January 1, 2013:

1) IFRS 11 – Joint arrangements

IFRS 11 replaces IAS 31 "Interests in Joint Ventures" (hereafter – IAS 31) and SIC-13 "Jointly-controlled Entities — Non-monetary Contributions by Venturers". IFRS 11 addresses only two categories of joint arrangements: "joint operations" and "joint ventures", where there is joint control; the category of "jointly controlled assets", which currently exists under IAS 31, was merged into the "joint operations" category. The guidelines provided in IFRS 11 for determining the type of the joint arrangement focus in the manner in which the rights and obligations are distributed between the parties to the joint arrangement. Under IFRS 11, a "joint operation" is a joint arrangement under which the parties, who share control in the arrangement, have rights to the assets and obligations for the liabilities relating to the joint arrangement; (these parties are called – "joint operators"). A "joint venture" is a joint arrangement under which the parties, who share control in the arrangement have rights to the net assets of the joint arrangement; (these parties are called – "joint venturers").

AMIAD WATER SYSTEMS LTD.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

IFRS 11 cancels the option which is currently available under IAS 31, of accounting for an interest in a joint venture under the proportionate consolidation method. Instead, joint venturers will account for the joint venture using the equity method. On the other hand, joint operators shall apply accounting treatment that is similar to the one currently in place under IAS 31 for "jointly controlled assets" and "jointly controlled operations". A joint operator shall recognize its interest in assets, liabilities, revenues and expenses, based on its involvement in the joint operation (that is, based on its direct rights and obligations in the assets, liabilities, revenues and expenses of the joint operation) rather than on the participation interest it has in the joint arrangement. IFRS 11 also provides guidance for parties that participate in joint arrangements but do not have joint control.

The group applied IFRS 11 for the first time commencing January 1, 2013 on a retrospective basis for all reported periods.

Upon first time application of IFRS 11, the group's rights in jointly controlled entities are accounted for as a joint venture, since the group has rights in their net assets. Therefore, the investment in jointly controlled entities, which was previously accounted for using the proportionate consolidation method, is accounted for by the equity method upon first application of IFRS 11.

Subsequent to the first time application of IFRS 11 the company presents its share in profits of companies accounted for by the equity method (net) under the income from operations item.

For the effect of first-time implementation on the statement of financial position, see (5).

AMIAD WATER SYSTEMS LTD.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

2) IAS 19 – Employee Benefits

Beginning on 1 January 2013, the Group first-time implements IAS 19 Amendment. According to the standard, the first-time implementation is done retrospectively and therefore, financial information of previous periods is restated.

IAS 19 Amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits covered by IAS 19. The following is a summary of the key changes in the amended standard:

"Actuarial gains and losses" are renamed "Remeasurement of net defined benefit liability (asset); hereinafter - Remeasurement), including, in addition to actuarial gains and losses certain other components as defined in IAS 19 Amendment. Remeasurement are recognized in other comprehensive income. This eliminates the options to recognize actuarial gains and losses in profit or loss or to use the corridor approach.

- i. Past service cost is recognized immediately in the period of a plan amendment and is no longer spread over future-service period to vesting.
- ii. In defined benefit plans with plan assets, net interest expenses/income on the balance of net employee benefit asset or liability using the discount rate used in IAS 19 in its current version to measure the defined benefit liability. This accounting treatment replaces the use of the "interest cost" and "expected return of plan assets" that existed in IAS 19 in its previous version.
- iii. The distinction between short- and long-term benefits for measurement purposes is based on when payment is expected, not when payment can be demanded.
- iv. Any benefit that has a future-service obligation is not a termination benefit. A liability for a termination benefit is recognized when the entity can no longer withdraw the offer of the termination benefit or recognizes any related restructuring costs.
- v. Disclosure requirements are broader than those existing in the previous version of IAS 19. Until the first-time implementation of IAS 19 Amendment, the accounting policy of the Company was to

recognize actuarial gains and losses arising from changes in actuarial assumptions and resulting from differences between past assumptions and actual results if they are more than the greater of 10% of the present value of the define benefit obligation and 10% of the fair value of plan assets. Those actuarial gains or losses are recognized to profit or loss over the average expected work period of the employees. After the first-time implementation of IAS 19 Amendment, the Company is not deferring the recognition of "Remeasurement". Remeasurement as computed under the new guidance are fully recognized to other comprehensive income in the period they incurred.

AMIAD WATER SYSTEMS LTD.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

For the effect of first-time implementation on the statement of financial position, see (5).

3) Amendment to IAS 1 "Financial Statements Presentation" (hereinafter - IAS 1 Amendment)

IAS 1 Amendment changes the disclosure of other comprehensive income in the statement of comprehensive income. The key changes in the IAS 1 are as follows:

- i. The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled will be presented separately from items that may be recycled in the future.

Entities that choose to present other comprehensive income items before tax will be required to show the amount of tax related to the two groups separately.

- ii. The title used by IAS 1 for the statement of comprehensive income has changed to "statement of profit or loss and other comprehensive income. However, IAS 1 still permits entities to use other titles.

The Group first-time implemented IAS 1 Amendment beginning 1 January 2013 retrospectively for all reported periods.

As some other comprehensive income items of the Group (e.g. financial statements translation differences) may be recycled to profit or loss, while other items in other comprehensive income (e.g. remeasurements of defined benefit plans) may not be recycled to profit or loss, then following the implementation of the amendment, the Company presented each group separately in the statement of comprehensive income.

- 4) The first-time implementation of additional new IFRSs and amendments to existing standards which are yet to be effective and the group did not elect to early adopt are detailed in the 2012 financial statements of the group.

AMIAD WATER SYSTEMS LTD.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

- 5) Effect of first-time implementation of IFRS 11 and IAS 19 amendment on the statement of financial position:

	As previously reported	Effect of first - time implementation of IFRS 11	As reported in these financial statements
	U.S dollars in thousands		
The effect on the consolidated statements of income and the statements of comprehensive income:			
1) For the six months ended June 30, 2012 (Unaudited):			
Revenue	66,394	(180)	66,214
Cost of sales	37,416	(41)	37,375
Gross profit	28,978	(139)	28,839
Research and Development expenses	1,560		1,560
Selling and Marketing expenses	15,159	(128)	15,031
Administrative and general expenses	6,339	(16)	6,323
Other losses (income) net	59		59
Operating profit	5,861	5	5,866
Financial income	434	(6)	428
Finance expenses	1,259		1,259
Share of profit of associates		1	1
Income before taxes on income	5,036		5,036
Income tax	884		884
Income for the period	4,152		4,152
Other comprehensive income	208		208
Total comprehensive income for the period	4,360		4,360

AMIAD WATER SYSTEMS LTD.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

	As previously reported	Effect of first - time implementation of IFRS 11	Effect of first - time implementation of IAS 19 Amendment	As reported in these financial statements
	U.S dollars in thousands			
2) For the twelve months ended 31, 2012 (Audited):				
Revenue	131,091	(327)		130,764
Cost of sales	74,877	(59)	(18)	74,800
Gross profit	<u>56,214</u>	<u>(268)</u>	<u>18</u>	<u>55,964</u>
Research and Development expenses	2,898		(5)	2,893
Selling and Marketing expenses	29,446	(274)	(10)	29,162
Administrative and general expenses	13,239	(35)	(13)	13,191
Other losses net	60			60
Operating profit	<u>10,571</u>	<u>41</u>	<u>46</u>	<u>10,658</u>
Financial income	1,365	(29)		1,336
Finance expenses	(1,830)	1		(1,829)
Equity losses		6		6
Income before taxes on income	<u>10,106</u>	<u>7</u>	<u>46</u>	<u>10,159</u>
Income tax	2,079	7		2,086
Income for the period	<u>8,027</u>	<u></u>	<u>46</u>	<u>8,073</u>
Other comprehensive income	<u>(128)</u>	<u></u>	<u>(46)</u>	<u>(174)</u>
Total comprehensive income for the period	<u>7,899</u>	<u></u>	<u></u>	<u>7,899</u>

AMIAD WATER SYSTEMS LTD.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

	As previously reported	Effect of first - time implementation of IFRS 11	As reported in these financial statements
U.S dollars in thousands			
The effect on statement of financial position data:			
1) As of June 30, 2012 (Unaudited):			
Assets:			
Current assets	92,719	(269)	92,450
Non-current assets	30,501	157	30,658
Total assets	123,220	(112)	123,108
Liabilities:			
Current liabilities	50,269	(112)	50,157
Non-current liabilities	19,962		19,962
Total liabilities	70,231	(112)	70,119
Total equity	52,989		52,989
Total liabilities and equity	123,220	(112)	123,108
2) As of December 31, 2012 (Audited):			
Assets:			
Current assets	88,470	(190)	88,280
Non-current assets	31,804	154	31,958
Total assets	120,274	(36)	120,238
Liabilities:			
Current liabilities	44,833	(36)	44,797
Non-current liabilities	20,069		20,069
Total liabilities	64,902	(36)	64,866
Total equity	55,372		55,372
Total liabilities and equity	120,274	(36)	120,238

AMIAD WATER SYSTEMS LTD.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

	As previously reported	Effect of first - time implementation of IFRS 11	As reported in these financial statements
U.S dollars in thousands			
Effect on statement of cash flows data:			
1) As of June 30, 2012(Unaudited):			
Cash flows from operating activities-			
Net cash generated from operating activities	1,482	94	1,576
Cash flows from investing activities-			
Net cash used in investing activities	(3,648)	10	(3,638)
Cash flows from financing activities-			
Net cash generated from financing activities	3,008		3,008
Exchange loss on cash and cash equivalents	43	(2)	41
Net increase in cash and cash equivalents	885	102	987
Cash and cash equivalents at beginning of year	11,848	(138)	11,710
Cash and cash equivalents at end of period	12,733	(36)	12,697
2) As of December 31, 2012 (Audited):			
Cash flows from operating activities-			
Net cash generated from operating activities	13,920	(61)	13,859
Cash flows from investing activities-			
Net cash used in investing activities	(6,954)	9	(6,945)
Cash flows from financing activities			
Net cash used in financing activities	(4,486)		(4,486)
Exchange loss on cash and cash equivalents	122	(5)	117
Net increase in cash and cash equivalents	2,602	(57)	2,545
Cash and cash equivalents at beginning of year	11,848	(138)	11,710
Cash and cash equivalents at end of period	14,450	(195)	14,255

AMIAD WATER SYSTEMS LTD.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

NOTE 4 - SHAREOLDERS' EQUITY

Dividends

In April, 2013 the company distributed total dividends to its shareholders in amount of \$1,360 thousands, \$0.06 per share.

NOTE 5 - REVENUES FROM SALES:

Sales by customer location:

	Six months ended June 30,		Year ended December 31,
	2013	2012	2012
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
North America	14,407	17,313	33,336
Europe	9,968	8,752	19,641
Australia	7,230	12,559	25,980
Asia	11,866	13,885	24,547
Israel	5,183	4,763	9,809
South America	8,054	3,557	7,469
Africa	2,001	2,920	6,208
Middle East	2,505	2,120	3,383
Other	532	345	391
Total	61,746	66,214	130,764

AMIAD WATER SYSTEMS LTD.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

NOTE 6 - CASH FLOWS FROM OPERATIONS:

APPENDIX A:

	Six months ended		Year ended
	June 30		December 31,
	2013	2012*	2012*
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
Profit for the period	3,326	4,152	8,073
(a) Adjustments to reconcile net income to net cash generated from operating activities:			
Income and expenses not involving cash flows:			
Depreciation and amortization	1,879	1,737	3,635
Interest paid	382	516	1,054
Interest received	(78)	(250)	(325)
Income tax paid	1,462	528	677
Increase in put option	129	184	384
Equity losses (gains)	50	(1)	6
Deferred income taxes, net	333	(242)	(537)
Accrued severance pay, net	82	120	217
Exchange rate differences on borrowings	(151)	9	254
Loss from sale of fixed assets	3	54	60
Loss (gain) from financial assets at fair value through profit or loss	(122)	22	(1,402)
Share based payment	132		
Actuarial Loss			(46)
Exchange rate differences on borrowings to related party and others	(18)	15	(13)
	<u>4,083</u>	<u>2,692</u>	<u>3,964</u>
Changes in working capital:			
Decrease (increase) in accounts receivable:			
Trade	(3,606)	(4,172)	224
Other	280	1,023	1,355
Decrease (increase) in prepaid expenses	(55)	24	138
Decrease in long-term receivable		142	276
Increase (Decrease) in accounts payable:			
Trade	(2,437)	(3,863)	(4,742)
Other	(1,876)	718	2,208
Decrease in inventories	3,015	1,654	3,769
	<u>(4,679)</u>	<u>(4,474)</u>	<u>3,228</u>
Cash generated from operations	<u>2,730</u>	<u>2,370</u>	<u>15,265</u>

*Reflects the adoption of IFRS 11 and IAS 19 amendment, see note 3b.

AMIAD WATER SYSTEMS LTD.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

NOTE 6 - CASH FLOWS FROM OPERATIONS (continued):
APPENDIX B:

	Six months ended 30 June		Year ended 31 December
	2013	2012	2012
	(Unaudited)		(Audited)
U.S. dollars in thousands			
Supplementary information on investing and financing activities not involving cash flows -			
Dividend	(1,360)	(1,242)	-

NOTE 7 - SUBSEQUENT EVENTS

1. On August 5, 2013, the Law for Change of National Priorities (Legislative Amendments for Achieving the Budgetary Goals for 2013-2014), 2013 (hereinafter - the Law) was published in Reshumot (the Israeli government official gazette), enacting, among other things, the following amendments:
 - a. Raising the corporate tax rate beginning in 2014 and thereafter to 26.5% (instead of 25%).
 - b. Increasing the tax rate on the income of preferred enterprises from the 2014 tax year and thereafter, as stated in the Encouragement of Capital Investment Law, 1959 (hereinafter - the Encouragement Law), of a qualifying company in Development Zone A to 9% (instead of 7% in 2014 and 6% in 2015 and thereafter) and companies located in zones other than Zone A to 16% (instead of 12.5% in 2014 and 12% in 2015 and thereafter). In addition, the tax rate on dividends distributed on January 1, 2014 and thereafter originating from preferred income under the Encouragement Law will be raised to 20% (instead of 15%).
 - c. When a company distributes revaluation gains to its shareholders, the asset for which revaluation gains are recognized in the financial statements of the company is deemed as an asset that was sold on distribution day (notional sale) and therefore such revaluation gains are liable to tax. Revaluation gains are defined by the Law as retained earnings not subject to corporate tax, of the kind indicated by the Minister of Finance with approval of the Finance Committee of the Knesset, at over NIS 1 million to be calculated accumulatively from the date of acquiring the asset.

The balances of deferred tax as of June 30, 2013 does not account for the expected impact of the Law as its legislation has not been effectively completed by that date. Those impacts are expected to be reflected in the financial statements issued beginning on the date where the legislation was effectively completed, i.e. the financial information for the third quarter of 2013.

In the second half of 2013, in which the legislation process has been completed, the law is expected to cause an increase in net deferred tax liabilities of \$ 100 thousand (calculated based on deferred tax assets as of June 30, 2013).

2. On September 9, 2013 the company distributed total dividends to its shareholders in amount of \$1,156 thousands, \$ 0.051 per share