

AMIAD WATER SYSTEMS LTD.

INTERIM FINANCIAL INFORMATION

(Unaudited)

JUNE 30, 2014

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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 of 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 2014 and the related condensed consolidated statements of income comprehensive, changes in equity and cash flows for the six-month period 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 on 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.


Haifa, Israel
September 9, 2014

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

Kesselman & Kesselman

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

	<u>June 30</u>		<u>December 31,</u>
	<u>2014</u>	<u>2013</u>	<u>2013</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
	<u>U.S. dollars in thousands</u>		
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
Total current assets	<u>93,680</u>	<u>85,891</u>	<u>86,056</u>
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
Total non-current assets	<u>29,976</u>	<u>30,990</u>	<u>30,413</u>
Total assets	<u>123,656</u>	<u>116,881</u>	<u>116,469</u>



Tal Yeshua
Chairman of the Board



Arik 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, 2014

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

	<u>June 30</u>		<u>December 31,</u>
	<u>2014</u>	<u>2013</u>	<u>2013</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	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	-
Total current liabilities	<u>53,358</u>	<u>43,612</u>	<u>42,443</u>
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
Total non-current liabilities	<u>13,784</u>	<u>16,667</u>	<u>18,479</u>
Total liabilities	<u>67,142</u>	<u>60,279</u>	<u>60,922</u>
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
	<u>56,562</u>	<u>56,625</u>	<u>55,555</u>
NON CONTROLLING INTEREST	(48)	(23)	(8)
Total equity	<u>56,514</u>	<u>56,602</u>	<u>55,547</u>
Total liabilities and equity	<u>123,656</u>	<u>116,881</u>	<u>116,469</u>

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, 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 DEVELOPEMEMNT 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 INOCME	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 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

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, 2014

	Attributable to owners of the parent								
	Number of shares	Share capital	Capital Reserve	Currency translation reserve	Transaction with non controlling Interest		Total		
					Retained earnings	Non-controlling interest			
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)			61			(499)	(499)		(499)
Total transactions with owners			28,332			(499)	(438)		(438)
BALANCE AT JUNE 30, 2014 (unaudited)	22,663,651	2,798	28,332	(1,218)	(180)	26,830	56,562	(48)	56,514
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)			132			(1,360)	(1,360)		(1,360)
Total transactions with owners			28,161		(180)	26,862	56,625	(23)	56,602
BALANCE AT JUNE 30, 2013 (unaudited)	22,663,651	2,798	28,161	(1,016)	(180)	26,862	56,625	(23)	56,602

ANLAD 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-		Non- controlling interest	Total equity
					Controlling Interest	Retained earnings		
U.S dollars in thousands								
Balance at 1 January 2013	22,663,651	2,798	28,029	(147)	(180)	24,826	46	55,372
Comprehensive income - Profit for the period						3,700	(52)	3,648
Other comprehensive income				(1,269)				(1,271)
Currency translation differences				(1,269)				(1,271)
Remeasurement of net defined benefit liability						72		72
Total comprehensive income				(1,269)		3,772	(54)	2,449
Transaction with owners:								
Recognition of compensation related to employee stock and options grants			242					242
Dividend (\$0.106 per share)			242			(2,516)		(2,516)
Total transaction with owners		2,798	28,271	(1,416)	(180)	26,082	(8)	55,547
Balance at 31 December 2013	22,663,651	2,798	28,271	(1,416)	(180)	26,082	(8)	55,547

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

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 (see note 6)	(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>

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 statement were authorized for issue by board of directors on April 9, 2014.

AMIAD WATER SYSTEMS LTD.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 2 - BASIS OF PREPARATION

- a. These condensed consolidated interim financial statements for the six months ended 30 June 2014 have been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with IFRSs.

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, 2013.

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 2013 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. Amendments to existing standards which are not yet effective and which have not been early adopted by the Group:

IFRS 15 - "Revenue from Contracts with Customers" (hereafter - IFRS 15).

Upon first time application, IFRS 15 shall replace other IFRS provisions relating to revenue recognition.

The core principle of IFRS 15 is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

IFRS 15 sets out a single revenue recognition model, according to which the entity shall recognize revenue in accordance with the said core principle by implementing a five-step model framework:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when the entity satisfies a performance obligation.

IFRS 15 provides guidance about various issues related to the application of the said model, including: recognition of revenue from variable consideration set in the contract, adjustment of the price of transaction set in the contract in order to reflect the effect of the time value of money and costs to obtain or fulfill a contract.

IFRS 15 extends the disclosure requirements regarding revenue and requires, among other things, that entities disclose qualitative and quantitative information about significant judgments made by management in determining the amount and timing of the revenue.

The standard shall be applied retrospectively for annual reporting periods starting on January 1, 2017 or thereafter, taking into account the reliefs specified in the transitional provisions of IFRS 15. Under these provisions, early adoption of the standard is allowed. The Group examines the potential effects of IFRS 15 on its financial statements.

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

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

- c. New and amended standards not yet adopted by the Group for reporting periods starting January 1, 2014:

IFRS 9 - "Financial Instruments" (hereafter – IFRS 9).

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition.

The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact. The Group considers the impact of the remaining phases of IFRS 9 when completed by the Board.

NOTE 4 - SHAREOLDERS' EQUITY

Dividends

On July, 2014 the company distributed total dividends to its shareholders in amount of \$499 thousands, \$0.022 per share.

NOTE 5 - REVENUES FROM SALES:

Sales by customer location:

	Six months ended		Year ended
	June 30,		December 31,
	2014	2013	2013
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
North America	17,611	14,407	28,562
Europe	10,594	9,968	21,556
Australia	7,647	7,764	14,335
Asia	2,031	2,778	4,541
Israel	7,095	5,183	12,393
South America	2,546	8,054	8,658
Africa	2,362	2,001	4,773
Middle East	2,526	2,505	6,084
The Far East	7,805	9,086	17,885
Total	60,217	61,746	118,787

AMIAD WATER SYSTEMS LTD.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

NOTE 6 - CASH FLOWS FROM OPERATIONS:

APPENDIX A:

	Six months ended June 30		Year ended December 31,
	2014	2013	2013
	(Unaudited)		(Audited)
U.S. dollars in thousands			
Profit for the period	1,208	3,326	3,648
(a) Adjustments to reconcile net income to net cash generated from operating activities:			
Income and expenses not involving cash flows:			
Depreciation and amortization	1,873	1,879	3,839
Interest paid	433	382	815
Interest received	(41)	(78)	(273)
Income tax paid	842	1,462	926
Increase in put option	-,-	129	130
Share in loss of joint venture	-,-	50	188
Gain from disposal of investment	(120)	-,-	-,-
Decrease (Increase) in deferred income taxes, net	(331)	333	277
Accrued severance pay, net	(44)	82	120
Exchange rate differences on borrowings	(43)	(151)	(201)
Loss from sale of fixed assets	4	3	(3)
Loss (gain) from financial assets at fair value through profit or loss	459	(122)	611
Share based payment	61	132	242
Exchange rate differences on borrowings to related party and others	60	(18)	(33)
	<u>4,361</u>	<u>4,083</u>	<u>6,638</u>
Changes in working capital:			
Decrease (increase) in accounts receivable:			
Trade	(5,297)	(3,606)	(1,265)
Other	(1,924)	280	1,177
Decrease (increase) in prepaid expenses	-,-	(55)	54
Decrease in long-term receivable	(10)	-,-	-,-
Increase (Decrease) in accounts payable:			
Trade	(848)	(2,437)	482
Other	645	(1,876)	(1,361)
Decrease in inventories	(627)	3,015	174
	<u>(8,061)</u>	<u>(4,679)</u>	<u>(739)</u>
Cash generated from operations	<u>(3,700)</u>	<u>2,730</u>	<u>9,547</u>

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
	2014	2013	2013
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
Supplementary information on investing and financing activities not involving cash flows - Dividend	(499)	(1,360)	-,-

