

AMIAD WATER SYSTEMS LTD.

INTERIM FINANCIAL INFORMATION

(Unaudited)

JUNE 30, 2015

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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 2015 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.

We did not review the condensed interim financial information of certain consolidated companies, whose assets included in consolidation constitute approximately 14% of total consolidated assets as of 30 June 2015 and whose revenues included in consolidation constitute approximately 21% of total consolidated revenues for the six month periods ended on that date, respectively. The condensed financial information of these companies was reviewed by other auditors, whose review reports have been furnished to us; and our conclusion, insofar as it relates to the financial information included for these companies, is based on review reports of the other auditors.

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 8, 2015

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

AMIAD WATER SYSTEMS LTD.
CONDENSED CONSOLIDATED BALANCE SHEET
JUNE 30, 2015

	June 30		December 31,
	2015	2014	2014
	(Unaudited)		(Audited)
U.S. dollars in thousands			
Assets			
CURRENT ASSETS:			
Cash and cash equivalents	14,452	14,743	14,090
Financial assets at fair value through profit or loss	477	44	452
Trade and other receivables:			
Trade	47,824	46,916	44,091
Other	5,716	5,105	3,230
Current income tax assets	322	775	869
Inventories	24,702	26,097	23,729
T o t a l Current Assets	93,493	93,680	86,461
NON-CURRENT ASSETS:			
Investment in joint venture	10	10	10
Severance pay fund, net	49	254	105
Long-term receivables	55	46	48
Property, plant and equipment	10,913	11,094	11,184
Intangible assets	16,329	16,508	16,849
Deferred income tax assets	1,884	2,064	2,738
T o t a l Non Current Assets	29,240	29,976	30,934
T o t a l Assets	122,733	123,656	117,395


Eli Opper
Chairman of the Board


Arik Dayan
Chief Executive Officer
and Director


Irit Ben-Dov
Chief Finance Officer

Date of approval of the interim financial information by the Company's Board of Directors: September 8, 2015

AMIAD WATER SYSTEMS LTD.
CONDENSED CONSOLIDATED BALANCE SHEET
JUNE 30, 2015

	<u>June 30</u>		<u>December 31,</u>
	<u>2015</u>	<u>2014</u>	<u>2014</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
	<u>U.S. dollars in thousands</u>		
Liabilities and equity			
CURRENT LIABILITIES:			
Bank credit and current maturities of borrowings from banks	21,252	20,987	23,212
Financial liabilities at fair value through profit or loss – derivatives	95	86	1,066
Trade and other payable:			
Trade	18,262	18,956	15,064
Other	13,202	9,891	8,431
Put option liability	2,927	2,204	2,927
Current income tax liability	371	735	463
Dividend payable	--	499	--
T o t a l C u r r e n t L i a b i l i t i e s	<u>56,109</u>	<u>53,358</u>	<u>51,163</u>
NON-CURRENT LIABILITIES:			
Borrowings from banks (net of current maturities)	11,404	13,444	12,205
Deferred income tax liabilities	227	--	823
Accrued severance pay, net	377	340	450
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>12,008</u>	<u>13,784</u>	<u>13,478</u>
T o t a l L i a b i l i t i e s	<u>68,117</u>	<u>67,142</u>	<u>64,641</u>
EQUITY:			
Capital and reserves attributable to equity holders of the Company:			
Share capital	2,798	2,798	2,798
Capital reserves	28,372	28,332	28,371
Currency translation reserve	(2,881)	(1,218)	(2,188)
Transaction with non-controlling interest	(180)	(180)	(180)
Retained earnings	26,373	26,830	23,944
	<u>54,482</u>	<u>56,562</u>	<u>52,745</u>
Non-controlling interests	134	(48)	9
Total Equity	<u>54,616</u>	<u>56,514</u>	<u>52,754</u>
Total Liabilities and Equity	<u>122,733</u>	<u>123,656</u>	<u>117,395</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, 2015

	Six months ended		Year ended
	June 30		December 31,
	2015	2014	2014
	(Unaudited)		(Audited)
U.S dollars in thousands			
except per share data			
Revenue	59,167	60,217	118,471
Cost of sales	35,461	36,477	72,418
Gross Profit	23,706	23,740	46,053
Research and development, net	1,497	1,759	3,158
Selling and marketing costs	12,613	14,349	28,204
Administrative and general expenses	5,746	5,586	11,359
Other gains (losses)	85	52	(468)
Operating Profit	3,935	2,098	2,864
Finance income	887	275	137
Finance costs	(1,283)	(713)	(3,430)
Finance costs, net	(396)	(438)	(3,293)
Profit (loss) before income taxes	3,539	1,660	(429)
Income (expenses) tax	(984)	(452)	559
Profit (loss) for the period	2,555	1,208	(988)
Other comprehensive income (loss)-			
Items that will not be reclassified to profit or loss:			
Re-measurements of post-employment benefit obligations	--	--	(135)
Items that may be subsequently reclassified to profit or loss:			
Currency translation differences	(694)	(197)	(773)
Other comprehensive income (loss) for the period	(694)	(197)	(908)
Total comprehensive income (loss) for the period	1,861	1,405	(1,896)
Profit (loss) attributable to:			
Equity holders of the Company	2,429	1,247	(1,006)
Non controlling interests	126	(39)	18
	2,555	1,208	(988)
Total comprehensive income (loss) attributable to:			
Equity holders of the Company	1,736	1,445	(1,913)
Non-controlling interest	125	(40)	17
	1,861	1,405	(1,896)
U.S dollars			
Earnings (loss) per share attributable to the equity holders of the company during the period:			
Basic	0.107	0.053	(0.044)
Diluted	0.065	0.049	(0.065)

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, 2015

	Number of shares	Share capital	Capital Reserve	Attributable to owners of the parent				Retained earnings	Non-controlling interest	Total equity
				Currency translation reserve	Transaction with		Total			
					Non-controlling interest	U.S dollars in thousands				
BALANCE AT JANUARY 1, 2015 (audited)	22,663,651	2,798	28,371	(2,188)	(180)	23,944	9	52,745	52,754	
CHANGES DURING THE SIX MONTH ENDED JUNE 30, 2015 (unaudited):										
Comprehensive income -										
Profit for the period						2,429	126	2,429	2,555	
Currency translation differences				(693)		(693)	(1)	(693)	(694)	
Total comprehensive income				(693)		2,429	126	2,429	2,555	
Transaction with owners:										
Recognition of compensation related employee stock and option grants			1					1	1	
Total transactions with owners										
BALANCE AT JUNE 30, 2015 (unaudited)	22,663,651	2,798	28,372	(2,881)	(180)	26,373	134	54,482	54,616	
BALANCE AT JANUARY 1, 2014 (audited)	22,663,651	2,798	28,271	(1,416)	(180)	26,082	(8)	55,555	55,547	
CHANGES DURING THE SIX MONTH ENDED JUNE 30, 2014 (unaudited):										
Comprehensive income -										
Profit for the period						1,247	(39)	1,247	1,208	
Currency translation differences				198		198	(1)	198	197	
Total comprehensive income				198		1,247	(40)	1,445	1,405	
Transaction with owners:										
Recognition of compensation related employee stock and option grants			61					61	61	
Dividend (\$0.022 per share)			61			(499)		(499)	(499)	
Total transactions with owners						(499)		(438)	(438)	
BALANCE AT JUNE 30, 2014 (unaudited)	22,663,651	2,798	28,332	(1,218)	(180)	26,830	(48)	56,562	56,514	

AMIAD WATER SYSTEMS LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2015

	Attributable to owners of the parent						Total equity		
	Number of shares	Share capital	Capital reserve	Currency translation reserve	Transaction			Non-controlling interest	
					with non-controlling interest	Retained earnings			Total
				U.S dollars in thousands					
Balance at 1 January 2014	22,663,651	2,798	28,271	(1,416)	(180)	26,082	55,555	(8)	55,547
Comprehensive income -									
Loss for the period						(1,006)	(1,006)	18	(988)
Currency translation differences				(772)		(135)	(772)	(1)	(773)
Remeasurement of net defined benefit liability				(772)		(1,141)	(135)		(135)
Total comprehensive income						(1,913)	(1,913)	17	(1,896)
Transaction with owners:									
Recognition of compensation related to employee stock and options grants			100			(997)	100		100
Dividend (\$0.106 per share)			100			(997)	(997)		(997)
Total transaction with owners			28,371	(2,188)	(180)	23,944	(897)	9	(897)
Balance at 31 December 2014	22,663,651	2,798	28,371	(2,188)	(180)	23,944	52,745	9	52,754

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, 2015

	Six months ended		Year ended
	June 30		December 31,
	2015	2014	2014
	(Unaudited)		(Audited)
U.S dollars in thousands			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash generated from (used in) operations (see note 5)	4,770	(3,700)	(302)
Interest paid	(570)	(433)	(816)
Interest received	58	41	162
Income tax paid	(7)	(842)	(2,576)
Net cash generated from (used in) operating activities	<u>4,251</u>	<u>(4,934)</u>	<u>(3,532)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	(898)	(838)	(2,581)
Purchase of intangible assets	(253)	(357)	(653)
Investments grants received	-	-	332
Restricted deposit	245	(48)	(266)
Proceeds from sale of property, plant and equipment	75	29	57
Collection of long-term loan to a related party	-	40	40
Net cash used in investing activities	<u>(831)</u>	<u>(1,174)</u>	<u>(3,071)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid to equity holders of the Company	-	-	(997)
Receipt of long-term borrowings	3,000	51	3,072
Payments of long term borrowings	(4,451)	(4,488)	(9,016)
Increase (decrease) in bank credit and short term borrowing, net	(1,252)	10,368	12,988
Net cash generated from (used in) financing activities	<u>(2,703)</u>	<u>5,931</u>	<u>6,047</u>
EXCHANGE RATE GAIN (LOSS) ON CASH AND CASH EQUIVALENTS	<u>(355)</u>	<u>49</u>	<u>(255)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>362</u>	<u>(128)</u>	<u>(781)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>14,090</u>	<u>14,871</u>	<u>14,871</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>14,452</u>	<u>14,743</u>	<u>14,090</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 September 8, 2015.

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 2015 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 2014, 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, 2014.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies and computation methods used in preparing the interim financial information are consistent with those used in preparing the 2014 annual financial statements, except for the following:

NOTE 4 - REVENUES FROM SALES:

Sales by customer location:

	Six months ended June 30,		Year ended December 31,
	2015	2014	2014
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
EMEA	21,938	22,577	40,904
Americas	19,830	20,157	40,688
APAS	17,399	17,483	36,879
Total	59,167	60,217	118,471

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

NOTE 5 - CASH FLOWS FROM OPERATIONS:

APPENDIX A:

	Six months ended		Year ended
	June 30		December 31,
	2015	2014	2014
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
Profit (loss) for the period	2,555	1,208	(988)
(a) Adjustments to reconcile net income to net cash generated from operating activities:			
Depreciation and amortization	1,707	1,873	3,690
Interest paid	570	433	816
Interest received	(58)	(41)	(162)
Income tax paid	7	842	2,576
Share in loss of joint venture	-	(60)*	(60)
Decrease (Increase) in deferred income taxes, net	256	(331)	(217)
Accrued severance pay, net	18	(44)	127
Exchange rate differences on borrowings	133	(43)	(133)
Loss (profit) from sale of property, plant and equipment	(83)	4	(2)
Decrease (increase) in assets at fair value through profit or loss	(996)	459	1,031
Share based payment	1	61	100
Exchange rate differences on borrowings to related party and others	-	-,*	-
	<u>4110</u>	<u>4,361</u>	<u>7,766</u>
Changes in working capital:			
Decrease (increase) in accounts receivable:			
Trade	(4,562)	(5,297)	(3,604)
Other	(2,400)	(1,924)	(118)
Decrease (increase) in prepaid expenses	(9)	-	-
Decrease in long-term receivable	1	(10)	(13)
Increase (Decrease) in accounts payable:			
Trade	3,941	(848)	(3,579)
Other	4,944	645	(893)
Decrease (increase) in inventories	(1,255)	(627)	1,127
	<u>660</u>	<u>(8,061)</u>	<u>(7,080)</u>
Cash generated from (used in) operations	<u>4,770</u>	<u>(3,700)</u>	<u>(302)</u>

* Classification

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

NOTE 5 - CASH FLOWS FROM OPERATIONS (continued):
APPENDIX B:

	Six months ended 30 June		Year ended 31 December
	2015	2014	2014
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
Supplementary information on investing and financing activities not involving cash flows - Dividend	-	(499)	-