

AMIAD WATER SYSTEMS LTD.

INTERIM FINANCIAL INFORMATION

(Unaudited)

JUNE 30, 2016

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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 2016 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 16% of total consolidated assets as of 30 June 2016 and whose revenues included in consolidation constitute approximately 17% 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.

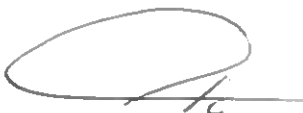
Haifa, Israel
September 6, 2016

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

A handwritten signature in black ink that reads 'Kesselman & Kesselman' in a cursive style.

AMIAD WATER SYSTEMS LTD.
CONDENSED CONSOLIDATED BALANCE SHEET
JUNE 30, 2016


	<u>June 30</u>		<u>December 31,</u>
	<u>2016</u>	<u>2015</u>	<u>2015</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
	<u>U.S. dollars in thousands</u>		
Assets			
CURRENT ASSETS:			
Cash and cash equivalents	16,201	14,452	17,018
Financial assets at fair value through profit or loss	220	477	148
Trade and other receivables:			
Trade	37,839	47,824	36,014
Other	4,167	5,716	4,488
Current income tax assets	165	322	430
Inventories	25,381	24,702	24,719
Total Current Assets	<u>83,973</u>	<u>93,493</u>	<u>82,817</u>
NON-CURRENT ASSETS:			
Investment in joint venture	10	10	10
Severance pay fund, net	93	49	95
Long-term receivables	47	55	43
Property, plant and equipment	10,354	10,913	10,731
Intangible assets	15,226	16,329	15,690
Deferred income tax assets	2,319	1,884	1,778
Total Non Current Assets	<u>28,049</u>	<u>29,240</u>	<u>28,347</u>
Total Assets	<u>112,022</u>	<u>122,733</u>	<u>111,164</u>



Eli Opper
 Chairman of the Board



Arik Dayan
 Chief Executive Officer
 and Director



Irit Ben-Day
 Chief Finance Officer

Date of approval of the interim financial information by the Company's Board of Directors: September 6, 2016

AMIAD WATER SYSTEMS LTD.
CONDENSED CONSOLIDATED BALANCE SHEET
JUNE 30, 2016

	<u>June 30</u>		<u>December 31,</u>
	<u>2016</u>	<u>2015</u>	<u>2015</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	10,438	21,252	14,188
Financial liabilities at fair value through profit or loss – derivatives	115	95	214
Trade and other payable:			
Trade	15,191	18,262	15,461
Other	10,602	13,202	9,946
Put option liability	--	2,927	--
Liability to the CEO of a subsidiary	1,306	--	1,367
Current income tax liability	772	371	321
T o t a l C u r r e n t L i a b i l i t i e s	<u>38,424</u>	<u>56,109</u>	<u>41,497</u>
NON-CURRENT LIABILITIES:			
Borrowings from banks (net of current maturities)	16,207	11,404	11,673
Liability to the CEO of a subsidiary	1,508	--	1,508
Deferred income tax liabilities	--	227	329
Accrued severance pay, net	380	377	321
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>18,095</u>	<u>12,008</u>	<u>13,831</u>
T o t a l L i a b i l i t i e s	<u>56,519</u>	<u>68,117</u>	<u>55,328</u>
EQUITY:			
Capital and reserves attributable to equity holders of the Company:			
Share capital	2,798	2,798	2,798
Capital reserves	28,483	28,372	28,437
Currency translation reserve	(180)	(2,881)	(180)
Transaction with non-controlling interest	(4,224)	(180)	(4,145)
Retained earnings	28,465	26,373	28,773
	<u>55,342</u>	<u>54,482</u>	<u>55,683</u>
Non-controlling interests	161	134	153
Total Equity	<u>55,503</u>	<u>54,616</u>	<u>55,836</u>
Total Liabilities and Equity	<u>112,022</u>	<u>122,733</u>	<u>111,164</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, 2016

	Six months ended June 30		Year ended December 31,
	2016	2015	2015
	(Unaudited)		(Audited)
U.S dollars in thousands except per share data			
Revenue	52,409	59,167	118,779
Cost of sales	31,876	35,461	70,630
Gross Profit	20,533	23,706	48,149
Research and development, net	1,680	1,497	2,932
Selling and marketing costs	12,237	12,613	25,460
Administrative and general expenses	4,794	5,746	11,049
Other gains (losses)	28	85	114
Operating Profit	1,850	3,935	8,822
Finance income	698	887	790
Finance costs	(879)	(1,283)	(2,960)
Finance costs, net	(181)	(396)	(2,170)
Profit (loss) before income taxes	1,669	3,539	6,652
Income (expenses) tax	449	(984)	1,581
Profit (loss) for the period	1,220	2,555	5,071
Other comprehensive income (loss)-			
Items that will not be reclassified to profit or loss:			
Re-measurements of post-employment benefit obligations	--	--	(92)
Items that may be subsequently reclassified to profit or loss:			
Currency translation differences	(81)	(694)	(1,963)
Other comprehensive income (loss) for the period	(81)	(694)	(2,055)
Total comprehensive income (loss) for the period	1,139	1,861	3,016
Profit (loss) attributable to:			
Equity holders of the Company	1,210	2,429	4,921
Non controlling interests	10	126	150
	1,220	2,555	5,071
Total comprehensive income (loss) attributable to:			
Equity holders of the Company	1,131	1,736	2,872
Non-controlling interest	8	125	144
	1,139	1,861	3,016
	U.S dollars		
Earnings (loss) per share attributable to the equity holders of the company during the period:			
Basic	0.053	0.107	0.217
Diluted	0.049	0.065	0.166

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, 2016

	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
	U.S. dollars in thousands								
BALANCE AT JANUARY 1, 2016 (audited)	22,663,651	2,798	28,437	(4,145)	(180)	28,773	55,683	153	55,836
CHANGES DURING THE SIX MONTH ENDED JUNE 30, 2016 (unaudited):									
Comprehensive income -									
Profit (loss) for the period				(79)		1,210	1,210	10	1,220
Currency translation differences				(79)			(79)	(2)	(81)
Total comprehensive income						1,210	1,131	8	1,139
Transaction with owners:									
Recognition of compensation related employee stock and option grants			46			(1,518)	46		46
Dividend (\$0.067 per share)						(1,518)	(1,518)		(1,518)
Total transactions with owners			46			(1,518)	(1,472)		(1,472)
BALANCE AT JUNE 30, 2016 (unaudited)	22,663,651	2,798	28,483	(4,224)	(180)	28,465	55,342	161	55,503
BALANCE AT JANUARY 1, 2015 (audited)	22,663,651	2,798	28,371	(2,188)	(180)	23,944	52,745	9	52,754
CHANGES DURING THE SIX MONTH ENDED JUNE 30, 2015 (unaudited):									
Comprehensive income -									
Profit for the period				(693)		2,429	2,429	126	2,555
Currency translation differences				(693)			(693)	(1)	(694)
Total comprehensive income						2,429	1,736	125	1,861
Transaction with owners:									
Recognition of compensation related employee stock and option grants			1				1		1
Total transactions with owners			1				1		1
BALANCE AT JUNE 30, 2015 (unaudited)	22,663,651	2,798	28,372	(2,881)	(180)	26,373	54,482	134	54,616

AMIAD WATER SYSTEMS LTD.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2016

	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 U.S dollars in thousands	Retained earnings			Total
Balance at 1 January 2015	22,663,651	2,798	28,371	(2,188)	(180)	23,944	52,745	9	52,754
Comprehensive income -									
Loss for the period						4,921	4,921	150	5,071
Currency translation differences				(1,957)		(92)	(1,957)	(6)	(1,963)
Remeasurement of net defined benefit liability				(1,957)		4,829	(92)		(92)
Total comprehensive income							2,872	144	3,016
Transaction with owners:									
Recognition of compensation related to employee stock and options grants			66				66		66
Total transaction with owners			66				66		66
Balance at 31 December 2015	22,663,651	2,798	28,437	(4,145)	(180)	28,773	55,683	153	55,836

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, 2016

	Six months ended June 30		Year ended December 31,
	2016	2015	2015
	(Unaudited)		(Audited)
U.S dollars in thousands			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash generated from (used in) operations (see note 5)	556	4,770	16,425
Interest paid	(374)	(570)	(781)
Interest received	24	58	130
Income tax received (paid)	114	(7)	(312)
Net cash generated from (used in) operating activities	<u>320</u>	<u>4,251</u>	<u>15,462</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	(856)	(898)	(2,084)
Purchase of intangible assets	(113)	(253)	(334)
Investments grants received	125	--	131
Restricted deposit	392	245	25
Proceeds from sale of property, plant and equipment	4	75	131
Net cash used in investing activities	<u>(448)</u>	<u>(831)</u>	<u>(2,131)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Receipt of long-term borrowings	9,014	3,000	10,000
Dividends paid to equity holders of the Company	(1,518)	--	--
Payments of long term borrowings	(6,977)	(4,451)	(8,522)
Increase (decrease) in bank credit and short term borrowing, net	(1,246)	(1,252)	(10,958)
Net cash generated from (used in) financing activities	<u>(727)</u>	<u>(2,703)</u>	<u>(9,480)</u>
EXCHANGE RATE GAIN (LOSS) ON CASH AND CASH EQUIVALENTS	<u>38</u>	<u>(355)</u>	<u>(923)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(817)</u>	<u>362</u>	<u>(2,928)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>17,018</u>	<u>14,090</u>	<u>14,090</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>16,201</u>	<u>14,452</u>	<u>17,018</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 45.84% 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 5, 2016.

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 2016 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 2015, 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, 2015.

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 2015 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,
	2016 (Unaudited)	2015 (Unaudited)	2015 (Audited)
U.S. dollars in thousands			
North America	13,448	15,135	30,922
Europe	9,501	9,665	19,949
Australia	5,930	6,362	11,423
Israel	5,090	4,506	8,430
South America	3,974	4,695	8,965
Africa	2,966	2,473	4,645
Middle East	1,702	5,294	13,309
The Far East	9,798	11,037	21,136
Total	<u>52,409</u>	<u>59,167</u>	<u>118,779</u>

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,
	2016	2015	2015
	(Unaudited)		(Audited)
	U.S. dollars in thousands		
Profit (loss) for the period	1,220	2,555	5,071
(a) Adjustments to reconcile net income to net cash generated from operating activities:			
Depreciation and amortization	1,694	1,707	3,446
Interest paid	374	570	781
Interest received	(24)	(58)	(130)
Income taxes paid (received), net	(114)	7	312
Share based payment, net	46	--	66
Distribution of profits to a CEO of a subsidiary	(114)	--	(102)
Changes in liability to the CEO of a subsidiary	53	--	50
Decrease (Increase) in deferred income taxes, net	(874)	256	442
Accrued severance pay, net	56	18	(155)
Exchange rate differences on borrowings	(102)	133	347
Loss (profit) from sale of property, plant and equipment	5	(83)	(111)
Decrease (increase) in assets at fair value through profit or loss	(171)	(996)	(548)
Share based payment	--	1	--
	<u>830</u>	<u>4,110</u>	<u>4,398</u>
Changes in working capital:			
Decrease (increase) in accounts receivable:			
Trade	(1,782)	(4,562)	6,383
Other	223	(2,400)	(1,101)
Decrease (increase) in prepaid expenses	--	(9)	--
Decrease (increase) in long-term receivable	(3)	1	(5)
Increase (Decrease) in accounts payable:			
Trade	(379)	3,941	1,617
Other	1,077	4,944	1,670
Decrease (increase) in inventories	(629)	(1,255)	(1,608)
	<u>(1,493)</u>	<u>660</u>	<u>6,956</u>
Cash generated from (used in) operations	<u>556</u>	<u>4,770</u>	<u>16,425</u>