

**AMIAD WATER SYSTEMS LTD.**

**INTERIM FINANCIAL INFORMATION**

**(Unaudited)**

**JUNE 30, 2017**

**AMIAD WATER SYSTEMS LTD.**  
**INTERIM FINANCIAL INFORMATION**  
**(Unaudited)**  
**JUNE 30, 2017**

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

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## 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 2017 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 25% of total consolidated assets as of 30 June 2017 and whose revenues included in consolidation constitute approximately 20% 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 4, 2017

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

**AMIAD WATER SYSTEMS LTD.**  
**CONDENSED CONSOLIDATED BALANCE SHEET**  
**JUNE 30, 2017**

	<b>June 30</b>	<b>December 31,</b>
	<b>2017</b>	<b>2016</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>U.S. dollars in thousands</b>	
<b>Assets</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	15,674	16,201
Financial assets at fair value through profit or loss	452	220
Trade and other receivables:		
Trade	37,909	37,839
Other	5,145	4,167
Current income tax assets	446	165
Inventories	25,941	25,381
<b>T o t a l Current Assets</b>	<b>85,567</b>	<b>83,973</b>
<b>NON-CURRENT ASSETS:</b>		
Investment in joint venture	10	10
Severance pay fund, net	396	93
Long-term receivables	60	47
Property, plant and equipment	11,065	10,354
Intangible assets	14,034	15,226
Deferred income tax assets	2,493	2,319
<b>T o t a l Non Current Assets</b>	<b>28,058</b>	<b>28,049</b>
<b>T o t a l Assets</b>	<b>113,625</b>	<b>112,022</b>

  
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**Eli Opper**  
**Chairman of the Board**

  
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**Dori Iyzori**  
**CEO and Director**

  
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**Irit Ben-Dov**  
**Chief Finance Officer**

Date of approval of the interim financial information by the Company's Board of Directors: September 4, 2017

**AMIAD WATER SYSTEMS LTD.**  
**CONDENSED CONSOLIDATED BALANCE SHEET**  
**JUNE 30, 2017**

	<u>June 30</u>		<u>December 31,</u>
	<u>2017</u>	<u>2016</u>	<u>2016</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
	<u>U.S. dollars in thousands</u>		
<b>Liabilities and equity</b>			
<b>CURRENT LIABILITIES:</b>			
Bank credit and current maturities of borrowings from banks	11,314	10,438	11,253
Financial liabilities at fair value through profit or loss – derivatives	104	115	66
Trade and other payable:			
Trade	16,138	15,191	13,854
Other	12,856	10,602	10,278
Liability to the CEO of a subsidiary	-	1,306	-
Current income tax liability	675	772	816
<b>T o t a l C u r r e n t L i a b i l i t i e s</b>	<u>41,087</u>	<u>38,424</u>	<u>36,267</u>
<b>NON-CURRENT LIABILITIES:</b>			
Borrowings from banks (net of current maturities)	12,432	16,207	13,596
Liability to the CEO of a subsidiary	-	1,508	-
Deferred income tax liabilities	6	-	6
Accrued severance pay, net	409	380	369
<b>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</b>	<u>12,847</u>	<u>18,095</u>	<u>13,971</u>
<b>T o t a l L i a b i l i t i e s</b>	<u>53,934</u>	<u>56,519</u>	<u>50,238</u>
<b>EQUITY:</b>			
<b>Capital and reserves attributable to equity holders of the Company:</b>			
Share capital	2,798	2,798	2,798
Capital reserves	28,531	28,483	28,520
Transaction with non-controlling interest	(259)	(180)	(259)
Currency translation reverse	(5,539)	(4,224)	(6,288)
Retained earnings	31,358	28,465	29,857
	<u>56,889</u>	<u>55,342</u>	<u>54,628</u>
<b>Non-controlling interests</b>	<u>2,802</u>	<u>161</u>	<u>2,902</u>
<b>Total Equity</b>	<u>59,691</u>	<u>55,503</u>	<u>57,530</u>
<b>Total Liabilities and Equity</b>	<u>113,625</u>	<u>112,022</u>	<u>107,768</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, 2017**

	<b>Six months ended</b>		<b>Year ended</b>
	<b>June 30</b>		<b>December 31,</b>
	<b>2017</b>	<b>2016</b>	<b>2016</b>
	<b>(Unaudited)</b>		<b>(Audited)</b>
<b>U.S dollars in thousands</b>			
<b>except per share data</b>			
Revenue	55,670	52,409	105,590
Cost of sales	33,627	31,876	64,077
<b>Gross Profit</b>	<b>22,043</b>	<b>20,533</b>	<b>41,513</b>
Research and development, net	1,795	1,680	3,402
Selling and marketing costs	12,698	12,237	24,423
Administrative and general expenses	4,791	4,794	9,953
Other gains (losses)	34	28	(34)
<b>Operating Profit</b>	<b>2,793</b>	<b>1,850</b>	<b>3,701</b>
Finance income	1,100	698	1,009
Finance costs	(656)	(879)	(1,622)
<b>Finance income (costs), net</b>	<b>444</b>	<b>(181)</b>	<b>(613)</b>
<b>Profit (loss) before income taxes</b>	<b>3,237</b>	<b>1,669</b>	<b>3,088</b>
Income tax expense	725	449	677
<b>Profit for the period</b>	<b>2,512</b>	<b>1,220</b>	<b>2,411</b>
<b>Other comprehensive income (loss)-</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Re-measurements of post-employment benefit obligations	--	--	260
<b>Items that may be subsequently reclassified to profit or loss:</b>			
Currency translation differences	769	(81)	(2,147)
<b>Other comprehensive income (loss) for the period</b>	<b>769</b>	<b>(81)</b>	<b>(1,887)</b>
<b>Total comprehensive income for the period</b>	<b>3,281</b>	<b>1,139</b>	<b>524</b>
<b>Profit attributable to:</b>			
Equity holders of the Company	2,226	1,210	2,342
Non-controlling interests	286	10	69
	<b>2,512</b>	<b>1,220</b>	<b>2,411</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Company	2,975	1,131	459
Non-controlling interest	306	8	65
	<b>3,281</b>	<b>1,139</b>	<b>524</b>
<b>U.S dollars</b>			
<b>Earnings (loss) per share attributable to the equity holders of the company during the period:</b>			
Basic	0.098	0.053	0.103
Diluted	0.098	0.049	0.095

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, 2017

	Attributable to owners of the parent						Non-controlling interest		
	Number of shares	Share capital	Capital Reserve	Currency translation reserve	Transaction with Non-controlling Interest	Retained earnings	Total	Non-controlling interest	Total equity
BALANCE AT JANUARY 1, 2017 (audited)	22,663,651	2,798	28,520	(6,288)	(259)	29,857	54,628	2,902	57,530
CHANGES DURING THE SIX MONTH ENDED JUNE 30, 2017 (unaudited):									
Comprehensive income - Profit for the period						2,226	2,226	286	2,512
Currency translation differences				749		749	749	20	769
Total comprehensive income				749		2,226	2,975	306	3,281
Transaction with owners: Recognition of compensation related employee stock and option grants			11				11	(406)	11
Dividend to a non-controlling interest						(725)	(725)	(406)	(406)
Dividend (\$0.032 per share)						(725)	(714)	(406)	(725)
Total transactions with owners			11			(725)	(714)	(406)	(1,120)
BALANCE AT JUNE 30, 2017 (unaudited)	22,663,651	2,798	28,531	(5,539)	(259)	31,358	56,889	2,802	59,691
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 for the period						1,210	1,210	10	1,220
Currency translation differences				(79)		(79)	(79)	(2)	(81)
Total comprehensive income				(79)		1,210	1,131	8	1,139
Transaction with owners: Recognition of compensation related employee stock and option grants			46				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

**AMIAD WATER SYSTEMS LTD.**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2017**

	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 1 January 2016	22,663,651	2,798	28,437	(4,145)	(180)	28,773	55,683	153	55,836
<b>Comprehensive income -</b>									
Loss for the period				(2,143)		2,342	2,342	69	2,411
Currency translation differences				(2,143)		260	(2,143)	(4)	(2,147)
Remeasurement of net defined benefit liability						2,602	459	65	2,605
<b>Total comprehensive income</b>				(2,143)	(79)		(79)	2,684	2,605
<b>Transaction with owners:</b>									
Transaction with non-controlling interests			83			(1,518)	83		83
Recognition of compensation related to employee stock and options grants					(79)	(1,518)	(1,514)		(1,518)
Dividend (\$0.067 per share)					(259)	29,857	54,628	2,902	1,170
<b>Total transaction with owners</b>					(259)				
Balance at 31 December 2016	22,663,651	2,798	28,520	(6,288)					

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, 2017**

	<b>Six months ended June 30</b>		<b>Year ended December 31,</b>
	<b>2017</b>	<b>2016</b>	<b>2016</b>
	<b>(Unaudited)</b>		<b>(Audited)</b>
<b>U.S dollars in thousands</b>			
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash generated from operations (see note 5)	3,590	556	6,166
Interest paid	(365)	(374)	(764)
Interest received	102	24	124
Income tax received (paid)	(557)	114	(635)
Net cash generated from operating activities	<u>2,770</u>	<u>320</u>	<u>4,891</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property, plant and equipment	(1,426)	(856)	(2,564)
Purchase of intangible assets	(68)	(113)	(225)
Investments grants received	89	125	127
Restricted deposit	(144)	392	465
Proceeds from sale of property, plant and equipment	18	4	38
Net cash used in investing activities	<u>(1,531)</u>	<u>(448)</u>	<u>(2,159)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Receipt of long-term borrowings	2,015	9,014	9,014
Dividends paid to equity holders of the Company	(725)	(1,518)	(1,518)
Dividends paid to minority interests	(406)	-	-
Payments of long term borrowings	(3,421)	(6,977)	(11,394)
Increase (decrease) in bank credit and short term borrowing, net	305	(1,246)	1,370
Net cash generated used in financing activities	<u>(2,232)</u>	<u>(727)</u>	<u>(2,528)</u>
<b>EXCHANGE RATE GAIN (LOSS) ON CASH AND CASH EQUIVALENTS</b>	<u>576</u>	<u>38</u>	<u>(1,131)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(417)</u>	<u>(817)</u>	<u>(927)</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<u>16,091</u>	<u>17,018</u>	<u>17,018</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u>15,674</u>	<u>16,201</u>	<u>16,091</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 of the report release date, are Kibbutz Amiad (hereafter -The "Kibbutz"), who holds directly 3% of the company's outstanding shares, and HaChoshlim Foundation – Agricultural Cooperative Society for Business Ltd. (hereafter 'HaChoshlim Foundation'), an affiliate of Kibbutz Amiad, who holds A.M.S.I. Investments Ltd. (hereafter - "AMSI"), the holding company through which the Kibbutz held shares representing 45.4% of the Company's outstanding shares. The Kibbutz has transferred HaChoshlim Foundation the entire issued share capital of AMSI on December 21, 2016 as part of its assets re-organization (hereafter - the "Share Transfer").
- c. On 30 June, 1998, the Company entered into an agreement ("the purchase agreement") with the Kibbutz and with the limited partnership (hereinafter – "Partnership"), in which the Kibbutz is the general partner whereby all of the Partnership's business activities, assets, including goodwill and intellectual property, but excluding property rights (lease rights and/or ownership to land and buildings) were transferred to the Company in effect as from 1 January, 1998. All of the Partnership's liabilities were also transferred to the Company as of the same date, except for certain guarantees and charges that remained in the Partnership.
- d. HaChoshlim Foundation and AMSI are engaged in a shareholders agreement with Kibbutz Beit Zera Cooperative Agricultural Society Ltd. and two cooperative societies held by Beit Zera (hereinafter – "Beit Zera") which own 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 at April 2010 between the Kibbutz, AMSI, upon Beit Zera and Bermad becoming shareholders in the Company pursuant to the acquisition of Arkal Filtration Systems Cooperative Agricultural Society Ltd. The Shareholders Agreement was assigned from the Kibbutz to HaChoshlim Foundation upon the Share Transfer described above. AMSI remained a party to the Shareholders Agreement.

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 shareholders 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 4, 2017.

**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 2017 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 2016, 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, 2016.

**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 2016 annual financial statements.

**NOTE 4 - REVENUES FROM SALES:**

Sales by customer location:

	<b>Six months ended</b>		<b>Year ended</b>
	<b>June 30,</b>		<b>December 31,</b>
	<b>2017</b>	<b>2016</b>	<b>2016</b>
	<b>(Unaudited)</b>		<b>(Audited)</b>
	<b>U.S. dollars in thousands</b>		
North America	13,224	13,448	26,308
Europe	10,534	9,501	20,384
Australia	6,761	5,930	12,837
Israel	6,597	5,090	9,711
South America	3,844	3,974	7,175
Africa	2,592	2,966	5,068
Middle East	3,133	1,702	4,794
The Far East	8,985	9,798	19,313
<b>Total</b>	<b>55,670</b>	<b>52,409</b>	<b>105,590</b>

**AMIAD WATER SYSTEMS LTD.**

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

**NOTE 5 - CASH FLOWS FROM OPERATIONS:**

**APPENDIX A:**

	<b>Six months ended</b>		<b>Year ended</b>
	<b>June 30</b>		<b>December 31,</b>
	<b>2017</b>	<b>2016</b>	<b>2016</b>
	<b>(Unaudited)</b>		<b>(Audited)</b>
	<b>U.S. dollars in thousands</b>		
Profit for the period	2,512	1,220	2,411
<b>(a) Adjustments to reconcile net income to net cash generated from operating activities:</b>			
Depreciation and amortization	1,658	1,694	3,431
Interest paid	365	374	764
Interest received	(102)	(24)	(124)
Income taxes paid (received), net	557	(114)	635
Share based payment, net	11	46	83
Distribution of profits to a CEO of a subsidiary	--	(114)	(371)
Changes in liability to the CEO of a subsidiary	--	53	151
Increase in deferred income taxes, net	(213)	(874)	(814)
Accrued severance pay, net	(13)	56	65
Exchange rate differences on borrowings	(183)	(102)	91
Loss (profit) from sale of property, plant and equipment	(16)	5	19
Increase in assets at fair value through profit or loss	(329)	(171)	(85)
	<u>1,735</u>	<u>829</u>	<u>3,845</u>
<b>Changes in working capital:</b>			
Decrease (increase) in accounts receivable:			
Trade	(3,351)	(1,782)	878
Other	(532)	223	(491)
Decrease (increase) in long-term receivable	2	(3)	(18)
Increase (Decrease) in accounts payable:			
Trade	1,617	(379)	(980)
Other	2,263	1,077	1,127
Increase in inventories	(656)	(629)	(606)
	<u>(657)</u>	<u>(1,493)</u>	<u>(90)</u>
Cash generated from operations	<u>3,590</u>	<u>556</u>	<u>6,166</u>

## AMIAD WATER SYSTEMS LTD.

### NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

#### NOTE 6 - SHARE PURCHASE AGREEMENT OF FTS

At the end of 2016, the Group and the owners of FTS (hereafter "the seller"), decided to cancel the conditional share purchase agreement that was in force, and the Company derecognized the liability to purchase the share of the seller, against recognition of minority interest at their carrying amount. The resulting negligible difference was recognized according to IFRS to an equity reserve.

See also Note 17 to the 2016 annual financial statements, signed on March 28, 2017.

#### NOTE 7 - IFRS15

In May 2014, the IASB issued IFRS 15 ("IFRS 15"). IFRS 15 replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", IFRIC 13, "Customer Loyalty Programs", IFRIC 15, "Agreements for the Construction of Real Estate", IFRIC 18, "Transfers of Assets from Customers" and SIC-31, "Revenue - Barter Transactions Involving Advertising Services".

The IFRS 15 introduces a five-step model that will apply to revenue earned from contracts with customers:

Step 1: Identify the contract with a customer, including reference to contract combination and accounting for contract modifications.

Step 2: Identify the separate performance obligations in the contract

Step 3: Determine the transaction price, including reference to variable consideration, financing components that are significant to the contract, non-cash consideration and any consideration payable to the customer.

Step 4: Allocate the transaction price to the separate performance obligations on a relative stand-alone selling price basis using observable information, if it is available, or using estimates and assessments.

Step 5: Recognize revenue when the entity satisfies a performance obligation over time or at a point in time.

The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method).

IFRS 15 will be implemented in periods commencing January 1, 2018. The Company is currently evaluating the possible impact of IFRS 15; this assessment will be completed by the end of 2017. At this stage, the company has identified few possible impacts on its financial statements, as follows:

##### 1. Contract work performed

Until the 2017 year-end, the company is implementing the provisions of IAS 11 according to which revenue from works under construction contracts are recognized using the stage of completion method. See also note 2(O)2 and note 14 to the annual financial statements.

The Company is currently evaluating whether revenues from contract work performed should be recognized over time or at point in time.

## AMIAD WATER SYSTEMS LTD.

### NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. Presentation of revenue in gross or net value, mainly in connection with sale taxes

In any event, should adjustments are needed in relation to sales taxes in the financial statements, this will not have impact on operating profit that the Company presented in previous financial statements.

#### NOTE 8 – EVENTS OCCURRED DURING THE PERIOD

On May 31, 2017 the company announced that its French subsidiary company (the "Subsidiary") has been notified about issues with the certification used to confirm compliance of certain products ("Products"), sold by the Subsidiary in France, with the French Attestation de Conformité Sanitaire (ACS) standard, which is the safety standard required in France for products and equipment that come in contact with drinking water. The Products are produced and supplied in full compliance with all relevant safety standards and are certified by NSF International, the US-based Public Health and Safety Organization.

The company has initiated an urgent investigation into the matter and instructed the Subsidiary to ensure it has the requisite ACS certification for the relevant Products.

Following the initial investigation, the company has put in place new management oversight of its French and European operations, and has appointed Company's VP Operations & COO as interim President of the Subsidiary. The former President of the Subsidiary left the Company with immediate effect. In addition, application for the requisite ACS certification for the relevant Products has been submitted. The company continues to work with its customers to minimize the disruption to ongoing projects and is in the process of supplying information to, and answering queries from, the relevant authorities, such as the French Ministry of Health and Solidarity.

The Company's results for the period of 6 months ended on June 30, 2017, include costs related to the aforementioned event which amount approximately \$400 thousand (out of which \$140 thousand are included in "Cost of sales" and the rest are included in the "Operating expenses").

Based on currently available information, the Company does not anticipate there to be a material impact on the Company's results for the following periods.

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