2014
Annual Report and Accounts

For the year ended December 31, 2014

amiad® WATER SYSTEMS

ARKAL FILTOMAT AMIAD

Contents

Directors & Senior Management, Secretary & Advisers

Directors & Senior Management
Eli Opper **(Non-executive Chairman)**
Arik Dayan **(Chief Executive Officer)**
Irit Ben-Dov **(Chief Financial Officer)***
Simon Olswang **(Statutory External Director)**
Derek Zissman **(Statutory External Director)****
Dr. Izhar Ben-Shlomo **(Non-executive Director)**
Avraham Azani **(Non-executive Director)**
Amos Shalev **(Non-executive Director)**
Jenny Cohen Derfler **(Non-executive Director)**
Zehava Simon **(Non-executive Director)**
Dr. Gilead Fortuna **(Non-executive Director)*****

Company Secretary
Barnea & Co.

Registered and Head Office
Amiad Water Systems Ltd.
D.N. Galil Elyon 1, 1233500
Israel

Nominated Adviser and Broker
Stifel Nicolaus Europe Limited
One Broadgate
London EC2M 2QS
UK

Solicitors to the Company as to English Law
Berwin Leighton Paisner LLP
Adelaide House
London Bridge
London EC4R 9HA
UK

Solicitors to the Company as to Israeli Law
Barnea & Co.
Electra City Tower
58 Harekevet Street
Tel Aviv 6777016
Israel

Auditors and Reporting Accountants
Kesselman & Kesselman
(a member of PricewaterhouseCoopers International Ltd.)
Certified Public Accountant (Isr.)
Trade Tower, 25 Hamered Street, Tel Aviv 68125
P.O.Box 452, Tel Aviv 61003
Israel

Bankers
Bank Hapoalim Ltd.
Branch No. 472
Afula
Israel

United Mizrahi Bank Ltd.
Branch No. 487
Kiryat Shmona
Israel

Bank Leumi le-Israel B.M.
Branch No. 745
Afula
Israel

First International Bank Of Israel Ltd.
Branch No. 002
Tiberias
Israel

Registrar
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Financial Public Relations Adviser
Luther Pendragon
3 Priory Court
Pilgrim Street
London EC4V 6DE
UK

* Appointment effective February 15, 2015
** Appointment effective February 25, 2015
*** Appointment effective March 25, 2015

Financial and Operational Summary

Financial Summary – in line with market expectations

- Revenue was $118.5m (2013: $118.8m)
- Operating profit was $2.9m (2013: $5.7m)
- Adjusted* profit before tax was $2.3m
- Loss before tax, including currency-related finance expense and one-off restructuring charge, was $0.4m (2013: $5.1m profit)
- Gross margin was 38.9% (2013: 40.8%)
- Fully diluted loss per share of $0.065 (2013: $0.153 earnings)
- Net debt of $21.3m (June 30, 2014: $19.7m; December 31, 2013: $13.7m)
- Cash and cash equivalents at December 31, 2014 were $14.1m (June 30, 2014: $14.7m; December 31, 2013: $14.9m)

* Adjusted to exclude currency-related finance expense of $2.2m and one-off restructuring charge of $0.5m

Operational Summary

- Developed markets performed well, but developing markets experienced delays in, or cancellations of, certain orders in H2 2014
- Increased traction in Irrigation, Municipal and Oil & Gas segments (excluding extraordinary project in H1 2013), but slowdown in Industrial and Ballast Water segments, particularly in H2 2014
  - Irrigation segment continued to be largest contributor to revenues at $52.5m (2013: $50.9m), representing 44.3% of total sales
  - Municipal segment was broadly flat, but revenues in this segment in USA and Turkey increased significantly
  - Overall, Industrial segment sales were broadly flat compared with 2013, but grew 34% and 31% in the USA and Europe respectively
  - Sales in Oil & Gas segment declined slightly to $7.1m (2013: $8.0m), but excluding the exceptionally large project in Colombia in H1 2013 (valued at approximately $5m), Oil & Gas segment revenues grew 137%
  - Postponement in implementation of coastguard regulations by International Maritime Organization continued to impact sales in Ballast Water segment
- Implemented restructuring and cost cutting exercise, which is expected to reduce operating expenses by approximately $4m in 2015. The Company incurred a one-off finance expense of $0.5m in 2014

Chairman's Statement

In 2014 Amiad faced operational and financial challenges, however, we took important steps to address these challenges, which have put us on a stronger footing. Equally, the trends supporting Amiad's fundamental proposition remain intact. There is an ever-increasing demand for clean water, but only finite resources and a fragile environment. Amiad has the right technology and products, in the right markets and in the right geographies to address these demands.

The end of last year saw the close of the International Decade for Action – 'Water for Life' 2005-2015. Impressive gains were made during that period. Large beverage companies, for example, are improving their water use efficiency and have, over the past 10 years, substantially reduced the water used in their manufacturing plants. Governments have enacted laws that limit household use of water – and there has been a dramatic rise in green building initiatives.

However, despite this, millions of people still do not have access to clean water. This is particularly acute in developing countries, which is compounded by increasing urbanization – with nearly 40% of global urban expansion occurring in slums and many fast-growing cities having non-existent, inadequate or outdated wastewater infrastructure – and industrialization, with global water demand for manufacturing expected to increase by 400% from 2000 to 2050, primarily due to increases in emerging economies and developing countries.

Amiad has technology and products that address these issues – both independently and when forming part of other solutions. With our core segments of Irrigation, Industrial, Municipal, Oil & Gas and Ballast Water, we cater for a broad array of requirements. Equally, with our global footprint, and increasing diversification of our manufacturing capabilities, we can efficiently supply our solutions wherever they are needed. The new technologies and new products we introduced are gaining traction, opening up new markets and position Amiad to benefit from the sustained demand for clean water solutions.

As we look to the future, I would also like to express gratitude to those who have enabled us to reach this point. In particular, on behalf of the Board, I would like to thank my predecessor, Tal Yeshua, for the tremendous work he undertook and for what Amiad achieved under his chairmanship. We are also extremely grateful to Amir Harel, who stepped down from the position of CFO, for his outstanding contribution over the last three years – especially his tireless work to implement SAP and to integrate the financial systems of our various subsidiaries as well as being instrumental in the integration of the Arkal acquisition. Equally, I would like to thank all of our staff and shareholders for their ongoing support.

With the strengthening of Amiad's foundations and the long-term growth drivers showing no sign of abating, we look forward to leveraging our technical expertise and ability to innovate to grow our business and deliver shareholder value.

Eli Opper
Chairman
April 2015

Chief Executive's Review

Whilst we achieved growth in our key segments in developed countries, 2014 was a transitional year for Amiad.

Segment Performance

The Irrigation, Municipal and Oil & Gas segments gained traction during the year, with Irrigation continuing to be the largest segment, accounting for 44.3% of sales, with revenues up slightly at $52.5m. Sales in the Municipal segment were broadly flat at $10.7m, but there was an increase in geographies such as the US. Oil & Gas revenues were marginally down on last year at $7.1m compared with $8.0m – however, 2013 includes an extraordinary $5m project in Colombia, excluding which, the revenues in this segment would've shown an increase in 2014. Overall, we suffered from a slowdown in the Industrial and Ballast Water segments, particularly in the second half of the year. Again, however, while revenues in the Industrial segment were slightly lower at $46.9m, there was growth in this segment in the US and Europe. The Ballast Water segment remains weak due to the ongoing postponement in the implementation of coastguard regulations by the International Maritime Organization.

Global Activity

US and South America

Amiad performed well in the US, with revenues increasing 20% to $28.5m. This growth was due to projects such as that to supply Amiad automatic self-cleaning screen filters for the aircraft carrier John F. Kennedy, the second ship of the new class of US Navy aircraft carriers, as well as several projects in the Irrigation and Oil & Gas – for fracking, injection and cooling water – segments across the US.

In Latin America, sales continued to be depressed. However, we delivered an injection water project in the Oil & Gas segment in Brazil for $0.5m, and were awarded projects in Peru and Mexico. We are encouraged by our prospects here and continue to build an effective team and increase our presence in the region.

EMEA

Amiad performed well in most segments in Europe – undertaking significant work in Italy, Spain and France – reporting an increase in sales of 28% over 2013. We achieved a significant increase in Oil & Gas sales. In addition, the Irrigation sales office that was established during the year is performing well and resulted in modest growth in regional sales in this segment.

Asia

Revenues in China declined slightly in 2014, primarily due to weakness in the Industrial segment. However, this subsidiary is in a stronger operational position with an increase in production capabilities – which enables us to now offer local manufacturing for the region and globally. In India and South East Asia, we achieved slight growth in revenue, primarily due to the Industrial segment.

Australia

The Industrial segment suffered in Australia due to the reduced demand for raw materials from China, which has resulted in resource companies cancelling or postponing projects. However, the Irrigation segment more than doubled its sales due to several projects in protecting drip irrigation based on our new automatic self-cleaning filters, Omega and Sigma. In addition, a number of mining projects and a further project with Origin Energy, one of Australia's leading integrated energy companies, to provide filtration for a coal seam gas to liquefied natural gas plant, contributed towards a marked improvement in sales in the Oil & Gas segment.

Product Development

Amiad's portfolio of products launched in November 2011 continue to be well-received and are increasingly penetrating the market. In 2014, sales of Omega, Sigma and Super Galaxy products were higher at approximately $6m (2013: $2m), with a strong backlog for 2015. In particular, the growth in the Oil & Gas segment during the year was based on sales of the Omega. The recently-launched 6-inch and 8-inch Sigma are also achieving strong sales in the Irrigation market, particularly in the US and Australia.

Chief Executive's Review
(continued)

Outlook

The positive steps that we have taken to cut costs in response to the uncertainty around certain contracts towards the end of the year mean that Amiad entered 2015 in a better shape than at the same time in 2014. Equally, at December 31, 2014, our backlog was 18% higher than at the same point of the prior year – with the backlog in the Industrial and Oil & Gas segments being 30% higher respectively.

We are committed to running the streamlined operations effectively, maintaining tight cost control, to improve profits whilst realigning Amiad for growth through continuing to invest in targeted sales & marketing and product development. We believe that we have market-leading technology, products and the personnel that will enable us to capture opportunities across the majority of our segments and territories in which we operate. As a result, we expect revenues for full year 2015 to be in line with market expectations, and remain confident for the long term.

Arik Dayan
Chief Executive Officer
April 2015

Chief Financial Officer's Statement

Revenue for the twelve months ended December 31, 2014 was $118.5m compared with $118.8m for the full year 2013.

Amiad was significantly impacted by currency factors: a combination of hedging deals and adverse changes in exchange rates, mainly the US Dollar against the New Israeli Shekel, but also between the Australian and US Dollars as well as the Euro and US Dollar. The total adverse impact of currency exchange resulted in $2.2m in finance expenses during the year.

In response to the sustained weakness in some of key markets, we commenced, in November 2014, a restructuring and cost cutting exercise to reduce operational expenses and headcount in sales & marketing and G&A expenses at our headquarters. As a result of these measures, which are now complete, we reduced our headcount, primarily at our headquarters, and expect operating expenses to be approximately $4m lower in 2015. In addition, we incurred a one-off restructuring expense of $0.5m during the year.

Fully diluted loss per share was $0.065 (2013: $0.153 earnings). Operating profit was $2.9m compared with $5.7m in 2013 and loss before tax was $0.4m (2013: $5.1m profit), with the decline being a result of the currency fluctuation and one-off restructuring expense.

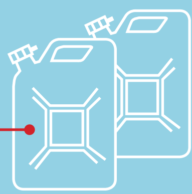
Gross margin was 38.9% compared with 40.8% in 2013. The decline was due to the weakness of the US Dollar against the Israeli Shekel as well as $0.5m in labour costs being moved from G&A expenses to cost of sales due to the restructuring.

As of December 31, 2014, cash and cash equivalents in the bank were $14.1m compared with $14.7m at June 30, 2014 and $14.9m at December 31, 2013. Net debt at year end was $21.3m (June 30, 2014: $19.7m).

Irit Ben-Dov
Chief Financial Officer, VP Finance
April 2015

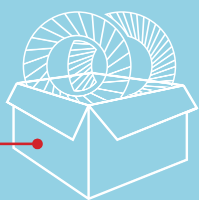
Corporate Social Responsibility

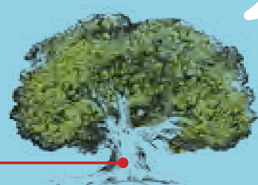
Charity: Water



"Lady with Baskets" &
Community Garden Project

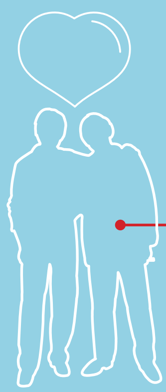
Occupation Centers for
Senior Kibbutz Members





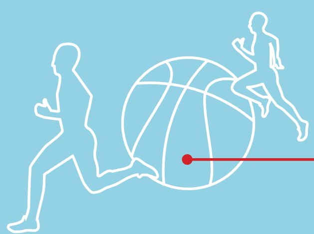
Founders' Grove

Amiad's social and environmental responsibility is a great privilege and opportunity to reach out, connect and empower our organization and the communities around us.

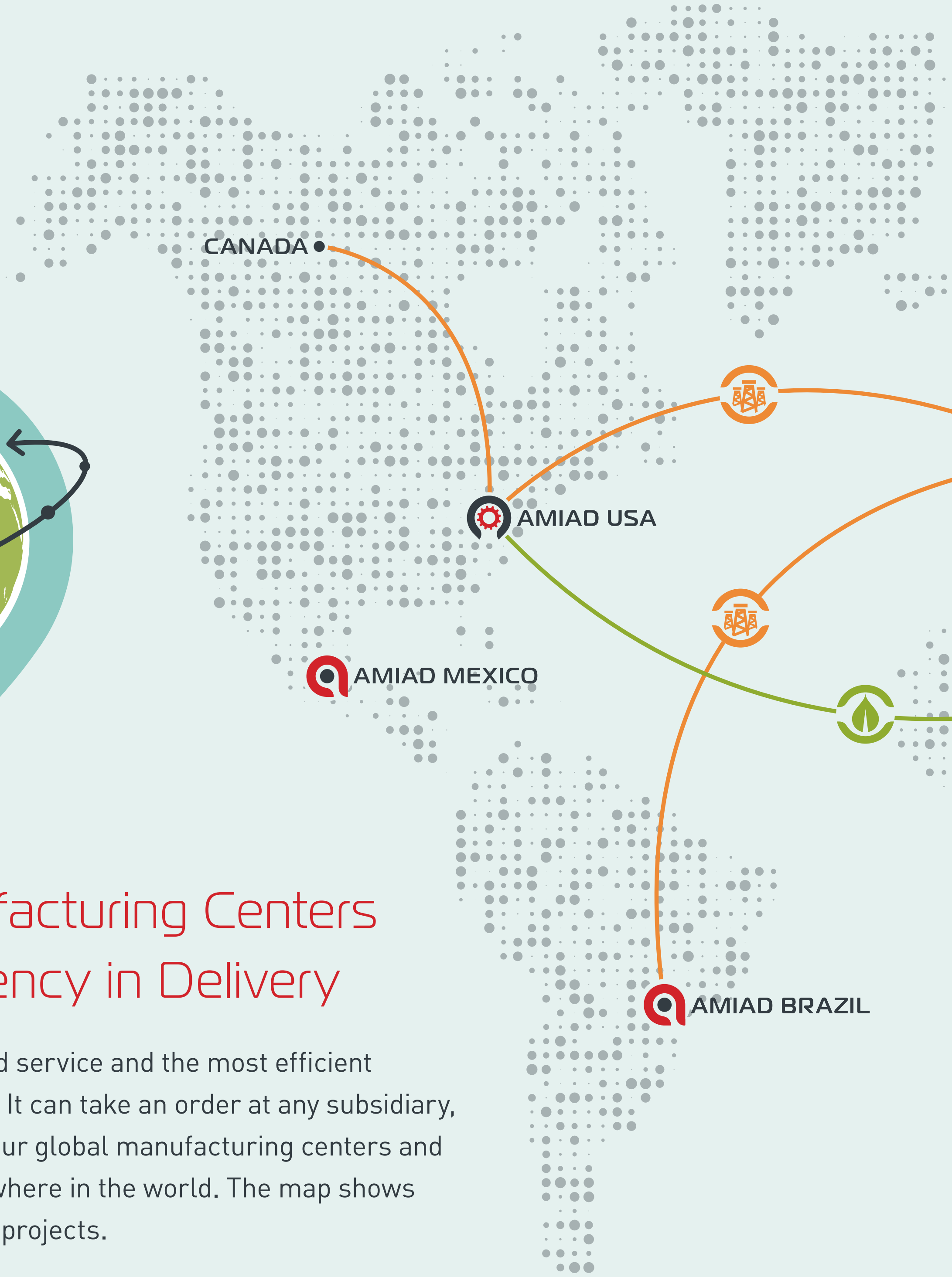


Involvement in Rehabilitation Projects

Involvement in Science Education



Involvement in Sports

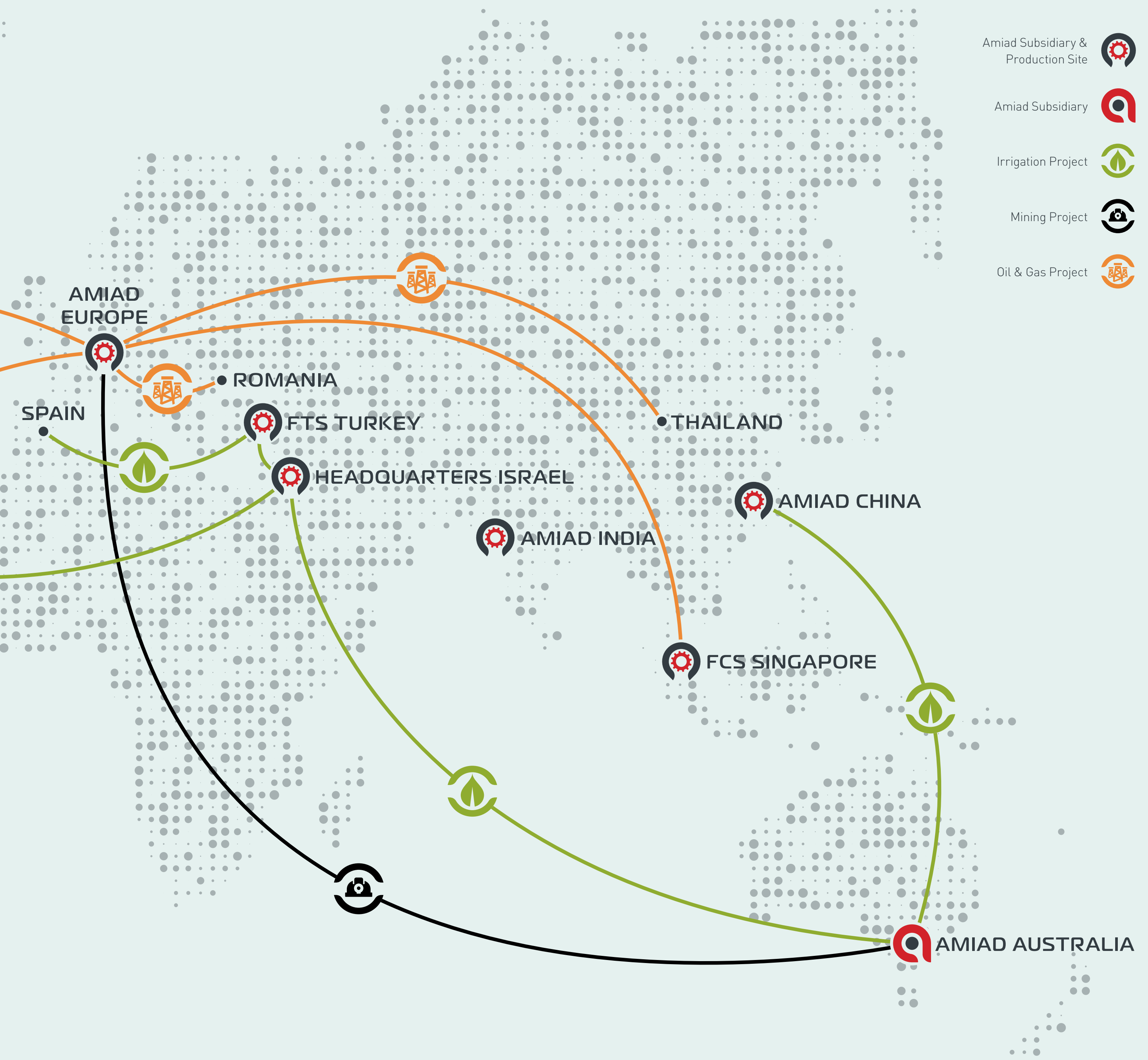


Global Manufacturing Centers Driving Efficiency in Delivery

Amiad offers a connected service and the most efficient solution to the customer. It can take an order at any subsidiary, get it built at any one of our global manufacturing centers and delivered efficiently anywhere in the world. The map shows some examples of these projects.

- Ordered at Amiad HQ Israel
- Manufactured at Amiad Turkey
- Installation in Spain

- Ordered at Amiad FCS Singapore
- Manufactured at Amiad Europe
- Installation in Thailand



- Ordered at Amiad Australia
- Manufactured at Amiad HQ Israel
- Installation in Australia

- Ordered at Amiad Europe
- Manufactured at Amiad Europe
- Installation in Romania

Directors' Report

For the year ended December 31, 2014

The Directors have pleasure in presenting their report together with the audited accounts of the Company and its subsidiaries for the year ended December 31, 2014.

1. Principal activities

The Company was incorporated in Israel in June 1997. On December 5, 2005, the Company's shares were admitted to trading on AIM, a market operated by London Stock Exchange plc.

The Company is a producer and global supplier of water filters and filtration systems used in two key markets, being the industrial market, which includes traditional industry, municipal, ballast water and oil and gas markets, and the irrigation market.

The Company specialises in automatic self-cleaning water filters that require low maintenance and can be adapted to provide bespoke solutions to a wide range of applications in a number of industries, in addition to a variety of other applications in the irrigation market.

2. Financial

A financial review of the results for the year 2014 is set out on page 5 and the full financial statements are from page 23 onwards.

3. Dividend

An interim dividend payment for the year 2013 of US$2.2 cents per share was paid on October 29, 2014 to shareholders on the register on October 10, 2014.

Despite the progressive dividend policy the Company adheres to, a final dividend for 2014 was not declared by the Board of Directors, as they believe that it would not be in the best interests of the Company or its shareholders to declare a final dividend for 2014 given the financial performance during the year, particularly in the second half of 2014.

4. Review of business and future prospects

The Company's financial position as at December 31, 2014 is considered satisfactory by the Directors. A review of the Company's activities during this period and a review of future prospects are contained in the Chairman's and Chief Executive's reports set out on pages 3 and 4-5, respectively.

5. Share capital

Details of the issued share capital of the Company and movements during the year 2014 are set out on page 52.

6. Research and development

As at December 31, 2014 the Company employed 25 people worldwide in research and development. It currently intends to invest about 3 per cent of revenues on R&D on an ongoing basis.

7. Directors

The following Directors held office on December 31, 2014:

• Eli Opper	Appointed September 2014
• Michael Rosenberg	Appointed November 2005
• Izhar Ben-Shlomo	Appointed July 2006
• Arik Dayan	Appointed July 2009
• Simon Olswang	Appointed April 2009
• Amos Shalev	Appointed July 2010
• Jenny Cohen Derfler	Appointed August 2013
• Zehava Simon	Appointed March 2014
• Avraham Azani	Appointed September 2014

Biographical details of the Directors are set out on pages 14-16.

Ms. Zehava Simon was appointed as a non-executive Director with effect from March 31, 2014.

Mr. Zeev Holender, who was appointed as non-executive director in April 2009, ceased to serve as a non-executive Director with effect from September 22, 2014.

Mr. Tal Yeshua, who was appointed to the Board in February 2009, stepped down from his position as the Chairman of the Board and a director of the Company with effect from September 22, 2014. Tal Yeshua was succeeded as Chairman of the Board on the same date by Mr. Eli Opper.

Mr. Avraham Azani was appointed as non-executive Director with effect from September 22, 2014. As of December 13, 2011 and until his appointment, following a request from Kibbutz Amiad Agricultural Cooperative Association ("Kibbutz Amiad"), Mr. Azani was invited to attend Board meetings as a non-voting observer. As a non-voting observer, Mr. Avraham Azani was subject to the same duties and obligations that apply to members of the Board of Directors as are prescribed by Israeli law. Furthermore, as a non-voting observer, Mr. Azani was not entitled to any payment, reward or reimbursement from the Company in relation to his attendance at Board meetings.

Following the year end, on February 25, 2015 Mr. Derek Zissman was appointed as a statutory external director of the Company; on March 2, 2015 Mr. Michael Rosenberg finished his third 3-years tenure as a statutory external director of the Company and had to retire from the Board due to the provisions of the Israeli Law limiting the tenure of statutory external directors for 9 years; and on March 25, 2015 Gilaed Fortuna was appointed as non-executive director of the Company.

8. Directors' Interests

As of December 31, 2014:

Director	Number of ordinary shares	Number of ordinary shares under option	Percentage of issued share capital on a fully diluted basis
Arik Dayan	43,961	125,000	0.73
Michael Rosenberg	Nil	Nil	Nil
Dr. Izhar Ben-Shlomo[1]	10,309,187	Nil	44.66
Simon Olswang	16,500	Nil	0.07
Amos Shalev[2]	2,042,693	Nil	8.85
Jenny Cohen Derfler	Nil	Nil	Nil
Zehava Simon	Nil	Nil	Nil
Eli Opper	Nil	50,000	0.21
Avraham Azani[3]	10,311,187	Nil	44.67

1. Dr. Ben Shlomo is a member of Kibbutz Amiad. Out of the 10,309,187 ordinary shares in which Dr. Ben-Shlomo is interested, 10,298,987 ordinary shares are registered in the name of A.M.SI Holdings (1997) Ltd, a company controlled by Kibbutz Amiad ("AMS"), and 10,200 ordinary shares are registered in the name of Kibbutz Amiad. Dr. Ben-Shlomo is a member of Kibbutz Amiad.
2. Mr. Shalev serves as business development manager in Bermad Industries A.C.S. Ltd. ("Bermad") and in Kibbutz Evron. Out of the 2,042,693 ordinary shares in which Mr. Shalev is interested, 3,250 ordinary shares are registered in his name and 2,038,443 ordinary shares are registered in the name of Bermad whose a party to a shareholders' agreement with Kibbutz Amiad, pursuant to which the parties have agreed to vote their shares together at all meetings of the shareholders of the Company, as shall be agreed between them or, in the absence of agreement, as shall be decided by Kibbutz Amiad.
3. Mr. Avraham Azani is a member of Kibbutz Amiad and its Board. Out of the 10,311,187 ordinary shares in which Mr. Azani is interested, 2,000 ordinary shares are registered in his name, 10,298,987 ordinary shares are registered in the name of AMS, and 10,200 ordinary shares are registered in the name of Kibbutz Amiad.

9. Directors' remuneration

Name	Salary/Fee benefits (in US $)		Pension contribution (in US $)		Total (in US $)	
	For the year ended		For the year ended		For the year ended	
	2013	2014	2013	2014	2013	2014
Michael Rosenberg	47,696	63,229	Nil	Nil	47,696	63,229
Izhar Ben-Shlomo	20,377	17,542	Nil	Nil	20,377	17,542
Tal Yeshua*	158,461	153,960	Nil	Nil	158,461	153,960
Zeev Holender *	20,699	16,597	Nil	Nil	20,699	16,597
Simon Olswang	55,866	66,429	Nil	Nil	55,866	66,429
Arik Dayan**	422,453	375,002	Nil	Nil	422,453	375,002
Amos Shalev	16,738	27,908	Nil	Nil	16,738	27,908
Jenny Cohen Derfler	8,393	33,692	Nil	Nil	8,393	33,692
Zehava Simon***	Nil	18,288	Nil	Nil	Nil	18,288
Avraham Azani****	Nil	5,917	Nil	Nil	Nil	5,917
Eli Opper****	Nil	43,817	Nil	Nil	Nil	43,817

* Mr. Tal Yeshua and Mr. Zeev Holender both ceased to serve as directors as of September 22, 2014.

** Mr. Arik Dayan also serves as the CEO of the Company.

*** Ms. Zehava Simon took office as of March 31, 2014.

**** Mr. Avraham Azani and Mr. Eli Opper took office as of September 22, 2014.

10. Health, safety and environmental policy

The Company recognises its legal responsibilities to ensure the well-being, safety and welfare of its employees and to maintain a safe environment for visitors and contractors. The Company has a health and safety policy which is available to all employees. In summary, the Company's policy is to behave in an environmentally responsible manner, consistent with local legislation and protocols.

11. Substantial shareholders

As at December 31, 2014, the Company had been notified of the following interests in 3 per cent or more of the issued ordinary share capital of the Company:

Name	Number of shares	% of issued ordinary share capital
Kibbutz Amiad Agricultural Cooperative Association	10,309,187	45.49
Kleinwort Benson Investors Dublin Ltd.	2,283,661	10.08
Bermad Industries Agricultural Cooperative Association	2,038,443	8.99
Impax Asset Management	1,207,763	5.33
J O Hambro Capital Management Group Limited	1,061,433	4.68
Kibbutz Beit Zera Agricultural Cooperative Association	1,019,223	4.50
Hunter Hall Investment Management Limited	920,000	4.06
RobecoSAM AG	749,817	3.31
SNS Asset Management	715,355	3.16

12. Creditor payment policy and practice

The Company's policy is that payments to suppliers are made in accordance with the terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with.

13. Going concern

The Directors have reviewed the latest forecast results and cash flow projections of the Company. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The financial statements have therefore been prepared on a going concern basis.

14. Directors' responsibilities

The Israeli Companies Law, 1999 requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the relevant financial year pursuant to applicable accounting standards.

15. Auditors

Kesselman & Kesselman, a member of PricewaterhouseCoopers International Limited, were appointed as the Company's auditors for the financial year ended December 31, 2014. The total fee paid to the Company's auditors for audit services rendered to the Company during that year was NIS 770,000.

16. Nominated adviser and broker

The Company appointed Oriel Securities Limited ("Oriel") as its nominated adviser and broker on September 25, 2013. Following the year end, as of March 3, 2015, the Company's nominated adviser and broker is Stifel Nicolaus Europe Limited ("Stifel"), as following the acquisition of Oriel by Stifel Financial Corp and further to a group reorganization, Oriel as a nominated adviser has been transferred to Stifel.

By order of the Board
April 2015

Eli Opper
Chairman

Arik Dayan
Chief Executive Officer

Directors' & Senior Management Biographies

Eli Opper

Non-executive Chairman

Mr. Opper was appointed Non-Executive Chairman in September 2014. He has over 45 years' experience in the global engineering and technology sectors. He has held an array of high profile roles, including Chief Scientist at the Ministry of Economy in Israel from 2002 – 2010 and Chairman of intergovernmental organisation for innovation funding, EUREKA, where he lead the promotion of industrial research and development from 2010–2011.

Mr. Opper began his career in 1968 as a Communication & Navigation Engineer in the Israeli Air Force before spending a year as a researcher at The Technion-Israel Institute of Technology. In 1973 he joined Rafael Advanced Defense Systems where he spent 27 years, holding several senior positions, including Vice President of Research and Development, Chief of Staff, Vice President of Advanced Topics and General Manager of the Electronic Systems Division. After leaving Rafael, he joined Giza Venture Capital before being appointed Chief Scientist.

More recently, Mr. Opper has held, and continues to hold, a number of advisory roles focusing on R&D and innovation policy for both government organisations and companies. He has also presented at numerous conferences and is a well-known lecturer on R&D Policy and Economical Growth Engines.

Arik Dayan

Chief Executive Officer

Mr. Dayan was appointed CEO of Amiad on March 25, 2009. He held various senior positions at the company since joining it in 1997 as the General Manager of FCS, Amiad's Singapore subsidiary. These positions included being appointed as International Business Development Executive in September 2003 and as VP of Sales and Marketing in March 2004. Mr. Dayan was part of the senior executive team that met with investors during the company's IPO in December 2005. In mid-2007, he became the Deputy CEO and Senior VP of Sales and Marketing. Prior to joining Amiad, Mr. Dayan was the Managing Director of SunGard Business Integration Asia Pacific from 2000-2003, and the Director of Sales and Marketing at Epilady from 1994-1997. Mr. Dayan holds a BA in Economics and Business Administration.

Irit Ben-Dov

Chief Financial Officer

Ms. Ben-Dov, a Certified Public Accountant, has approximately 20 years' financial management experience with public companies as well as private businesses, joined Amiad in February 1, 2015 from Baccara Geva A.C.S. Ltd., an Israeli manufacturer of pneumatics, automation and control solutions, where she was V.P. of Business and Finance.

Since 2010, Ms. Ben-Dov has been an External Director of Polyram Ltd, a TASE-listed manufacturer of components for the automotive, electrical, irrigation and construction industries, where she is Chairman of the Balance Sheet Committee. She has also been an External Director of Caesarstone Sdot-Yam Ltd., a NASDAQ-listed manufacturer of engineered quartz stone surfaces, since 2012 and currently holds the position of Chairman of the Audit Committee.

Prior to Baccara, Ms. Ben-Dov was CFO at Plassim, a manufacturer of multi-purpose plastic piping systems and solutions for domestic sanitation and waste discharge. Plassim is a wholly-owned subsidiary of Gaon Agro Industries Ltd., a holding company that was listed on TASE. From 2003-2010, Ms. Ben-Dov was CFO of Maytronics Ltd., a TASE-listed water treatment systems manufacturer and distributor, headquartered in Israel with operations in the US and France. At Maytronics, she was responsible for all financial management and regulatory obligations with regards to TASE. She also played a central role in leading strategic business processes, including the listing on TASE, the foundation of the subsidiary in the US and the establishment of its finance system, and the acquisition of a company in France. Prior to this, Ms. Ben-Dov was an accountant at Ernst & Young. She began her career in 1996 as Cost Accountant at Kibbutz Yizrael.

Directors' & Senior Management Biographies (continued)

Derek Zissman
Statutory External Director

Mr. Zissman, joined the board on March 3, 2015, as a statutory external director. Mr. Zissman, a UK Chartered Accountant, has over 45 years' experience in the capital markets in the UK. He joined KPMG UK ("KPMG") in 1971 and was promoted to Partner within five years – a position he held for over 30 years. During his time at KPMG, Mr. Zissman was a founding Partner of the UK's Corporate Finance Group and the Private Equity Group in the UK and US. Following his retirement in March 2008, he has held Directorships at Alchemy Partners, Barclays Wealth & Investment Management and Seymour Pierce. He is a current Director and member of the Audit Committee at a number of companies operating in the IT, leisure transportation and engineering sectors, including AIM-listed The 600 Group PLC.

Simon Olswang
Statutory External Director

Mr. Simon Olswang joined the Board on April 1, 2009 as a statutory external director following a distinguished career in law and business. Mr. Olswang is currently a director of Amdocs Ltd. and a member of the Advisory Board of Palamon Capital Partners LLP. He was previously a member of the Boards of DIC Entertainment Inc. and The British Library.

Dr. Izhar Ben-Shlomo
Non-executive Director

Dr. Ben-Shlomo has served as a Fulbright research fellow in the University of Maryland at Baltimore and as a visiting professor of Stanford University under the Feldman Foundation programme. He has been working as a director of Kibbutz Amiad since 2003 and served as a director of the company between 2004 - 2005 prior to its flotation on AIM.

Avraham Azani
Non-Executive Director

Mr. Azani joined the Board as a Non-Executive Director in September 2014. Mr. Azani is a member of Kibbutz Amiad and has over 40 years of business experience. He has spent the majority of his career at Kibbutz Amiad, including as Finance Director. Since 2010, Mr. Azani has served as a Director of Kibbutz Amiad and a member of its Economic Committee. He was appointed as Non-Executive Director of Amiad after having sat as an observer on the Board for two years.

Amos Shalev
Non-executive Director

Mr. Shalev joined the Board as a non-executive director on August 3, 2010. Mr. Shalev currently serves as the Chairman of Bermad Industries A.C.S. Ltd and Evron-Tamam Recycling Ltd. Partnership. He has previously served on the Board of Directors of Miluot Regional Cooperative and Arkal Filtration Systems A.C.S. Ltd, has held the position of CEO and International Marketing Manager of Bermad Industries A.C.S. Ltd and until recently served as Director in the Israel Export and International Cooperation Institute. Mr. Shalev studied Management, Administration, International Marketing & General Marketing at Tel Aviv University, Haifa University and Ruppin Academic Center.Amos Shalev

Directors' & Senior Management Biographies (continued)

Jenny Cohen Derfler
Non-executive Director

Ms. Cohen Derfler was appointed as non-executive director as of August 13, 2013. She has over 25 years' experience of conducting business at multinational companies, including over 18 years at Intel where she performed various management roles, such as General Manager of Intel's factory in Kiriat Gat, Israel. In 2008, Ms. Cohen Derfler left Intel to take-up a senior director and factory manager position at Numonyx BV, an Intel spin-off, which was subsequently acquired by Micron Semiconductors, where she spent six years as General Manager of the manufacturing facility. Her most recent role was Vice President of Global Operations at electric vehicle network services provider, Better Place. Ms. Cohen Derfler now divides her time between Dualis, a non-profit social investment fund, and JustGo, a start-up company.

Zehava Simon
Non-executive Director

Ms. Simon joined the Board as a non-executive director on March 31, 2014. She has significant experience in conducting business at multinational technology companies, most recently spending over 10 years at BMC Software Inc, which she joined in 2000 as VP of Finance & Operations for BMC Software Israel before being appointed Regional VP, CEO & President of the Israeli subsidiary and then promoted to VP of Corporate Development for BMC Software based at the company's headquarters in Houston, Texas. Prior to this, Ms. Simon held various positions at Intel Israel, including leading Finance & Operations where she was responsible for growing the business' footprint in Israel and expanding operations. During her career, Ms. Simon has held several advisory roles, including a Director of Insightec, M-Systems and Tower Semiconductor. In addition, she has advised the Israeli Trade Ministry and US-Israel Chamber of Commerce. Ms. Simon is currently a Director of AudioCodes Ltd (NASDAQ: AUDC; TASE: AUDC) and a Director of Nova Measuring Instruments Ltd. (NASDAQ:NVMI).

Dr. Gilead Fortuna
Non-executive Director

Dr. Fortuna joined the Board as a non-executive director on March 27, 2015. He has over 40 years' experience in business development, strategy and R&D, primarily in the technology, chemical engineering - including water treatment - and pharmaceutical sectors. He holds a BSc and MSc from the Technion - Israel's Institute of Technology - and a PhD in Chemical Engineering from the University of Illinois. During his career, he has held senior positions at ICL-Israel Chemicals Ltd. (NYSE and TASE: ICL) and at Teva Pharmaceutical Industries Ltd. (NYSE and TASE: TEVA). In 2000, he established Aquise Ltd., a water treatment company in Israel. Currently, Dr. Fortuna serves as a Senior Research Fellow, Founder and Head of the "Center for Industrial Excellence" at the Samuel Neaman Institute for National Policy Research. As part of this role, he is a consultant to Newtech, a government agency responsible for advancing Israel's national water and energy program. Dr. Fortuna is also a consultant of Elcon Recycling Center, a company that develops innovative industrial wastewater treatment solutions, and serves on the management board of the Technion and as member of the committee of Science R&D policy of the Israeli Ministry of Science.

Corporate Governance Report

For the year ended December 31, 2014

As the Company's shares are traded on AIM, the Company is not required to comply with the UK Corporate Governance Code published by the Financial Reporting Council (the "Code"). However, the Directors recognise the importance of sound corporate governance and intend that the Company will comply with the main provisions of the Code and Corporate Governance Code for Small and Mid-size Quoted Companies 2013 insofar as they are appropriate given the Company's size and stage of development and insofar as is permitted by the Israeli Companies Law, 1999 (the "Israeli Act"). Accordingly, a statement of how the Code has been applied by the Company and how it is intended it will continue to be applied is given below.

The Company also intends to comply with the applicable corporate governance requirements under the Israeli Act. Further details are set out below.

1. Board of Directors

During the course of 2014, the Company maintained a balanced board of directors (the "Board") comprising one executive director and the remainder non-executive directors.

The Company's executive Director is Arik Dayan (Chief Executive Officer).

The non-executive Directors of the Company during the year were:

- Tal Yeshua (Chairman) (ceased to serve as director on September 22, 2014)
- Eli Opper (Chairman) (appointed on September 22, 2014)
- Izhar Ben-Shlomo
- Michael Rosenberg
- Simon Olswang
- Zeev Holender (ceased to serve as director on September 22, 2014)
- Amos Shalev
- Jenny Cohen Derfler
- Zehava Simon (appointed on March 31, 2014)
- Avraham Azani (appointed on September 22, 2014)

Biographical details of the Directors are set out on pages 14-16.

Mr. Olswang, Mr. Rosenberg, Ms. Derfler and Ms. Simon are considered to be indepndent under the Code in accordance with the criteria set forth in this section. In addition, being statutory external directors, Mr. Olswang and Mr. Rosenberg are classified as independent in accordance with the criteria set forth in section 10 to this report.

The Board is responsible for promoting the success of the Company by directing and supervising the Company's affairs and formulating, reviewing and approving the Company's strategy, budgets and corporate actions.

The roles of Chairman and Chief Executive Officer have been separated and clearly defined. The principal differentiating factors in their respective responsibilities are:

Chairman
Reports to the Board
Only the Chief Executive Officer reports to him
Responsible for leadership of the Board

Chief Executive Officer
Reports to the Chairman and the Board
All executive management report to him, directly or indirectly
Responsible for managing the business and operations of the Company
Responsible for implementing the Board's decisions

The Code recommends that the board of directors of a listed company should include an appropriate combination of executive and non-executive directors (and, in particular, independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking. The Code states that the board should determine whether a director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement. The Board has considered the independence of its non-executive directors in line with the principles of the Code and, following careful consideration, assessed that, in the period between January 1, 2014 to December 31, 2014, four of the Company's directors were non-executive directors considered by the Board to be independent.

2. Board conduct

The Company seeks to hold Board meetings at least four times each financial year and at other times as and when necessary.

There were nine Board meetings in 2014, held on February 5, March 31, May 26, June 23-24, July 21, September 9, October 27, November 17 and December 11. Zeev Holender was absent from the meeting which took place on May 26. Amos Shalev and Simon Olswang were absent from the meeting which took place on October 27.

In 2014, the Board dedicated two days for meetings with senior management and to discuss strategy. In addition, each quarterly Board meeting has included a presentation and discussion on a focused strategic subject. The purpose of this process was to have an open Board discussion on the strategy of the Company, betweeb the officers of the Company and its non-executive directors.

At each Board meeting, there is a formal schedule of matters reserved for the Board's attention.

Board packs containing relevant financial and non-financial information are supplied to directors in advance of each Board/committee meeting. Additional requests for information from directors are met and directors are entitled to table agenda items at Board meetings.

The appointment and removal of the Company secretary is a matter for the Board as a whole.

The non-executive directors' terms of appointment entitle them to take independent professional advice as required, at the Company's expense.

3. Retirement and re-election

Other than those directors who are "external directors" for the purpose of the Israeli Act and whose appointment must be made in accordance with the provisions of the Israeli Act, directors are, under the Company's articles of association, required to stand for re-election at each Annual General Meeting.

Each of the directors (other than the external directors) will seek re-election at the forthcoming Annual General Meeting of the Company. The Board considers that the performance of each of these directors has, since their appointment, been effective and that they have demonstrated commitment to their roles.

4. Relations with shareholders

Mr. Arik Dayan, Chief Executive Officer, and Mr. Amir Harel, who was Chief Financial Officer until 25 January 2015 (and now his successor, Ms. Irit Ben Dov), have met regularly with institutional shareholders and analysts. Non-executive directors are also available for such meetings, subject to institutional shareholder requests.

Press releases were issued throughout the year and the Company maintained a website (www.amiad.com) during that period. Additionally, this annual report, which is sent to all registered shareholders and holders of depositary interests, contains extensive information about the Company's activities. Enquiries from individual shareholders on matters relating to their shareholdings and the business of the Company are welcomed.

The Annual General Meeting is a key forum for communication with shareholders. The notice of meeting and annual report and accounts will be sent out at least 20 UK working days before the meeting. Shareholders are encouraged to attend the Annual General Meeting to discuss the progress of the Company.

As was the case with the Company's 2014 Annual General Meeting, separate votes will be held for each proposed resolution at this year's Annual General Meeting and a proxy count will be given in each case.

5. Internal control

The Board has overall responsibility for the Company's internal control and effectiveness in safeguarding the assets of the Company. Internal control systems are designed to reflect the particular type of business and operations risks and to identify and manage risks, but not entirely all risks to which the business is exposed. As a result, internal controls can only provide a reasonable, but not absolute, assurance against material misstatements or loss.

The processes used by the Board to review the effectiveness of the internal controls are through the audit committee and the executive management reporting to the Board on a regular basis, where business plans, budgets and authorisation limits for the approval of significant expenditure, including investments, are appraised and agreed.

The Board also seeks to ensure that there is a proper organisational and management structure across the Company with clear responsibilities and accountability. The Board is also at liberty to engage independent professional advice on risk assessment matters.

6. Audit committee

Under the Israeli Act, the board of directors of a public company must appoint an audit committee from among its members. The number of members of the audit committee must be no fewer than three directors, including all the "external directors" which every Israeli public company is required to have and with the majority of independent directors (according to the definition of independency under the Israeli Act). The Company has established an audit committee of the Board. In the period between January 1, 2014 and December 31, 2014, the committee comprised Michael Rosenberg, Jenny Cohen Derfler and Simon Olswang, who serves as the chairman of the audit committee. Following the year end, upon Michael Rosenberg's retirement (as described in section 10 to this report), Derek Zissman was appointed as third member of the Audit Committee.

The audit committee has primary responsibility for monitoring the quality of internal controls and ensuring that the financial performance of the Company is properly measured and reported on. It receives and reviews reports from the Company's management and auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Company. The audit committee adheres to detailed terms of reference, which are available for inspection upon request. The audit committee is given unrestricted access to the Company's auditors. Under the Israeli Act, the audit committee's role also includes the review and approval of certain related party transactions.

The audit committee holds, twice a year, a discussion regarding deficiencies in the management of the Company's business in the presence of the internal auditor and the external auditor of the Company, and without the presence of the officers who are not members of the audit committee, after giving them the opportunity to express their views.

The audit committee regularly reports its decisions and recommendations to the Board.

There were four meetings of the audit committee in 2014, held on March 31, June 23, September 8 and December 10. All of the relevant committee members attended these meetings.

7. Remuneration committee

Under the Israeli Act, the Board of a public company must appoint a remuneraton committee from among its members. The number of members of the remuneration committee must be no fewer than three directors, including all the "external directors" which every Israeli public company is required to have and with the majority of independent directors (according to the definition of independency under the Israeli Act). In the period between January 1, 2014 and December 31, 2014, the committee comprised of Simon Olswang, Jenny Cohen Derfler and Michael Rosenberg, who serves as the chairman of the remuneration committee. Following the year end, upon Michael Rosenberg's retirement (as described in section 10 to this report), Derek Zissman was appointed as member and Chairman of the Remuneration Committee.

The remuneration committee responsibility is to make recommendations to the Board with respect to updates on the Company's remuneration policy for the terms of service and employment of officeholders and to examine the remuneration policy's implementation from time to time. In addition, the remuneration committee decides whether to approve transactions concerning the terms of service or employment of the office holders of the company and holds the authority to provide an exemption, under certain circumstances, from obtaining approval of the general meeting of the shareholders, to the appointment of a candidate to serve as the chief executive officer. The Remuneration Committee also serves a nomination committee. The Company's remuneration policy with respect to officeholders is published on the Company's website.

The remuneration committee regularly reports its decisions and recommendations to the Board.

There were seven meetings of the remuneration committee in 2014, held on February 5, March 31, May 26, June 23, June 27, September 8 and December 10. All of the relevant committee members attended these meetings.

8. Internal audit

Under the Israeli Act, the board of directors of a public company must appoint an internal auditor proposed by the audit committee. The role of the internal auditor is to examine whether such public company's actions comply with the law, integrity and orderly business procedure. The internal auditor must not be an interested party or office holder, or a relative of any interested party or office holder, or a member or representative of the Company's external auditors. The Israeli Act defines the term "interested party" for such purposes so as to include a person who holds five per cent or more of the Company's outstanding share capital or voting rights, a person who has the right to appoint one or more directors or the general manager or any person who serves as a director or as the general manager.

The Company's internal auditor is a certified accountant, nominated by the audit committee and approved by the Board. The internal auditor is invited to attend every meeting of the audit committee. The internal auditor performs an internal audit according to an annual plan that is based on a risk assesment that was conducted by the said internal auditor in the Company.

9. Share dealings

Since it was admitted to trading on AIM, the Company has maintained a code for directors' and employee share dealings.

10. External directors

The Israeli Act requires public companies to elect at least two members who qualify as "external directors" under the Israeli Act. At least one of the external directors must have "financial and accounting expertise" and the other external director must have either a "professional qualification" or "financial and accounting expertise". The conditions and criteria for a director qualifying as having financial and accounting expertise or a professional qualification (as the case may be) are set out in regulations which have been adopted under the Israeli Act. The evaluation of the external directors' expertise is carried out by the Board.

Each external director must meet certain standards of independence at the time of his or her appointment and during the two year period prior to such appointment. Pursuant to such standards, an external director must not have, at the time of his or her appointment and during a period of two years prior to his or her appointment, any affiliation with the Company, its controlling persons or any entity which was controlled by the Company or any of its controlling persons at the time of his or her appointment or at any time during the two year period immediately prior to his or her appointment. Affiliation includes employment relationships, business and professional relationships on a regular basis, control relationships and service as an office holder.

The term "affiliation" does not include an affiliation resulting from such person being appointed to serve as a director of the Company during a period that the Company's shares are about to be offered for the first time to the public. Also, and without derogating from the foregoing, an individual must not serve as an external director if he, his relative, his partner, his employer or the person to whom he is directly or indirectly subject or, if a body corporate of which he is a controlling member, has or had - on the date of the appointment or during the two years that preceded the appointment - business or professional ties with a person to whom an affiliation or relationship is prohibited as described above, even if those ties are not general except for negligible ties - and also an individual who received consideration in violation of the provisions of section 244(b) to the Israeli Act.

In addition, a person may not be appointed as an external director if his/her other activities or position create or are likely to create a conflict of interest with his/her service as a director.

Simon Olswang and Derek Zissman were re-elected on February 25, 2015 to serve as the Company's external directors for a third term and a first term, respectively, at a specially convened extraordinary general meeting. Micheal Rosenberg has retired from his position of statoutory extrenal director after his third 3-year due to the provisions of the Israeli Law limiting the tenur of statutory external directors for 9 years.

By order of the Board
April 2015

Eli Opper
Chairman

Arik Dayan
Chief Executive Officer

Independent Auditor's Report and Financial Statements 2014

For the year ended December 31, 2014

Independent Auditor's Report

To the shareholders of
AMIAD WATER SYSTEMS LTD.

We have audited the accompanying consolidated statements of financial position of Amiad Water Systems Ltd. (hereafter - the Company) as of December 31, 2014 and 2013, and the related consolidated statement of comprehensive income, statements of changes in equity and statements of cash flows for each of the two years in the period ended on December 31, 2014. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain consolidated companies, whose assets included in consolidation constitute approximately 11.3% and 10.1% of total consolidated assets as of December 31, 2014 and 2013 respectively, and whose revenues included in consolidation constitute approximately 18.3% and 16.5% of total consolidated revenues for each of the two years in the period ended December 31, 2014 respectively. The financial information of the above consolidated companies was audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to financial information included for these companies, is based on reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in Israel, including those prescribed by the Israeli Auditors (Mode of Performance) Regulations, 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2014 and 2013, and the consolidated results of their operations, changes in equity and their cash flows for each of the two years in the period ended on December 31, 2014, in accordance with International Financial Reporting Standards (IFRS).

Haifa, Israel	Kesselman & Kesselman
March 25, 2015	Certified Public Accountants (Isr.)
	A member firm of PricewaterhouseCoopers International Limited

Consolidated Statements of Financial Position

	Note	December 31 2014	December 31 2013
		$ in thousands	
Assets			
Current Assets			
Cash and cash equivalents	14a	14,090	14,871
Financial assets at fair value through profit or loss	14d	452	480
Trade and other receivables:	14b		
Trade		44,091	41,560
Other		3,230	3,501
Inventories	7	23,729	25,277
Current income tax assets		869	367
Total Current Assets		86,461	86,056
Non Current Assets			
Investment in joint venture		10	-,-
Loans to a related party		-,-	100
Severance pay fund, net	10	105	261
Long-term receivables		48	36
Property, plant and equipment	5	11,184	11,449
Intangible assets	6	16,849	16,846
Deferred income tax assets	13g	2,738	1,722
Total Non Current Assets		30,934	30,414
Total Assets		117,395	116,470

Eli Opper	Arik Dayan	Irit Ben-Dov
Chairman of the Board	CEO and Director	CFO

Date of approval of the financial statements by the board of directors: March 25, 2015.

Consolidated Statements of Financial Position

(continued)

	Note	December 31 2014	December 31 2013
		$ in thousands	
Liabilities and Equity			
Current Liabilities			
Bank credit and current maturities of borrowings from bank	14c	23,212	10,544
Financial liabilities at fair value through profit or loss- derivatives	14d	1,066	63
Trade and other payables:	14e		
Trade		15,064	19,670
Other		8,431	9,433
Put option liability	17a	2,927	2,204
Current income tax liability		463	529
Total Current Liabilities		51,163	42,443
Non Current Liabilities			
Borrowings from banks (net of current maturities)	8	12,205	17,988
Investment in associate	2b2	-,-	110
Accrued severance pay ,net	10	450	381
Deferred income tax liabilities	13g	823	1
Total Non Current Liabilities		13,478	18,480
Total Liabilities		64,641	60,923
Equity	12		
Capital and reserves attributable to equity holders of the Company:			
Share capital		2,798	2,798
Capital reserves		28,371	28,271
Transaction with non-controlling interests		(180)	(180)
Currency translation reserve		(2,188)	(1,416)
Retained earnings		23,944	26,082
		52,745	55,555
Non-controlling interests		9	(8)
Total Equity		52,754	55,547
Total Liabilities and Equity		117,395	116,470

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Comprehensive Income

	Note	Year ended December 31	
		2014	2013
		$ in thousands except per share data	
Revenue	14f	118,471	118,787
Cost of sales	14g	72,418	70,360
Gross Profit		46,053	48,427
Research and development, net	14h	3,158	3,357
Selling and marketing costs	14i	28,204	27,456
Administrative and general expenses	14j	11,359	11,929
Other gains (losses)	14k	(468)	27
Operating Profit		2,864	5,712
Finance income	14l	137	1,901
Finance costs		(3,430)	(2,278)
Finance costs, net		(3,293)	(377)
Share in loss of joint venture		-,-	(188)
Profit (loss) before income taxes		(429)	5,147
Income tax expenses	13h	559	1,499
Profit (loss) for the year		(988)	3,648
Other comprehensive income (loss) -			
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefit obligations		(135)	72
Items that may be subsequently reclassified to profit or loss:		(773)	(1,271)
Currency translation differences		(908)	1,199
Other comprehensive income (loss) for the year		(1,896)	2,449
Total comprehensive income (loss) for the year			
Profit (loss) attributable to:			
Equity holders of the Company		(1,006)	3,700
Non controlling interests		18	(52)
		(988)	3,648
Total comprehensive income (loss) attributable to:			
Equity holders of the Company		(1,913)	2,503
Non controlling interests		17	(54)
		(1,896)	2,449
Earnings (loss) per share attributable to the equity holders of the Company during the year (see note 15):		$	
Basic		(0.044)	0.163
Diluted		(0.065)	0.153

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes In Equity

	Attributable to equity holders of the Company								
	Number of shares	Share capital	Capital reserve	Currency translation reserve	Transaction with non-controlling interest	Retained earnings	Total	Non-controlling interest	Total equity
		$ in thousands							
Balance at January 1, 2013	22,663,651	2,798	28,029	(147)	(180)	24,826	55,326	46	55,372
Comprehensive income:									
Profit for the year						3,700	3,700	(52)	3,648
Currency translation differences				(1,269)			(1,269)	(2)	(1,271)
Remeasurement of net defined benefit liability						72	72		72
Total comprehensive income				(1,269)		3,772	2,503	(54)	2,449
Transaction with owners:									
Recognition of compensation related to employee stock and options grants			242				242		242
Dividend ($0.106 per share)						(2,516)	(2,516)		(2,516)
Total transaction with owners			242			(2,516)	(2,274)		(2,274)
Balance at December 31, 2013	22,663,651	2,798	28,271	(1,416)	(180)	26,082	55,555	(8)	55,547
Comprehensive income:									
Profit (loss) for the year						(1,006)	(1,006)	18	(988)
Currency translation differences				(772)			(772)	(1)	(773)
Remeasurement of net defined benefit liability						(135)	(135)		(135)
Total comprehensive income (loss)				(772)		(1,141)	(1,913)	17	(1,896)
Transaction with owners:									
Recognition of compensation related to employee stock and options grants			100				100		100
Dividend ($0.022 per share)						(997)	(997)		(997)
Total transaction with owners			100			(997)	(897)		(897)
Balance at December 31, 2014	22,663,651	2,798	28,371	(2,188)	(180)	23,944	52,745	9	52,754

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

	Note	Year ended December 31	
		2014	2013
		$ in thousands	
Cash flows from operating activities:			
Cash generated from (used in) operations	16	(302)	9,547
Interest paid		(816)	(815)
Interest received		162	273
Income taxes paid		(2,576)	(926)
Net cash generated from (used in) operating activities		(3,532)	8,079
Cash flows from investing activities:			
Purchase of property, plant and equipment		(2,581)	(2,406)
Purchase of intangible assets		(653)	(756)
Investment grants received		332	130
Proceeds from sale of property, plant and equipment		57	40
Restricted deposit		(266)	718
Collection of long-term loan to a related party		40	637
Net cash used in investing activities		(3,071)	(1,637)
Cash flows from financing activities:			
Dividends paid to equity holders of the Company		(997)	(2,516)
Receipt of long-term borrowings		3,072	8,570
Payments of long term borrowings		(9,016)	(7,452)
Increase (decrease) in bank credit and short term borrowing, net		12,988	(3,932)
Net cash generated from (used in) financing activities		6,047	(5,330)
Exchange rate loss on cash and cash equivalents		(225)	(496)
Net increase (decrease) in cash and cash equivalents		(781)	616
Cash and cash equivalents at beginning of year		14,871	14,255
Cash and cash equivalents at end of year		14,090	14,871

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated 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"), directly and through a Company controlled by the Kibbutz and A.M.S.I. Investments Ltd. (hereafter - "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 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, 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 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.

c. On June 30, 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 January 1, 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The principal accounting policies applied in the preparation of these consolidated financial statement, are set out below. These policies have been consistently applied through all the years presented, unless otherwise stated.

a. Basis of preparation

The Group's financial statements as of December 31, 2014 and 2013 and for each of the years in the period ended December 31, 2014, are in compliance with International Financial Reporting Standards (hereafter – IFRS) and interpretations to IFRS issued by the International Financial Reporting Interpretations Committee (IFRIC).

The financial statements have been prepared under the historical cost convention, subject to adjustments in respect of revaluation of amounts funded for severance pay and financial assets at fair value through profit or loss presented at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

1) New standards, amendments and interpretations adopted by the Group.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

The following standards have been adopted by the Group for the first time for the financial year beginning on or after January 1, 2014 and have no material impact on the Group:

- Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.
- IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognised. The Group is not currently subjected to significant levies so the impact on the Group is not material.

  Other standards, amendments and interpretations which are effective for the financial year beginning on January 1, 2014 are not material to the Group

.2) New standards and interpretations not yet adopted by the Group.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2013, and have not been applied in preparing these consolidated financial statement. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- IFRS 9, 'Financial instruments', The first part of IFRS 9, dealing with the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Group is yet to assess IFRS 9's full impact.
- IFRS 15, 'Revenue from contractswith customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts' and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

b. Consolidation:

1) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognize any non-controlling interest in the acquire on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquirer's identifiable net assets. Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (see note 6). If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of the non-controlling interest and the other comprehensive income of the subsidiary is recorded in equity.

Put option granted on July 10, 2008 non-controlling in subsidiary:

Non-controlling interest in subsidiary was granted a put option by the Company, entitling it with the right to sell some or all of their holdings in the subsidiary, under certain restrictions.

The Company recognized this option liability by measuring it according to the option's present value of its estimated compensation at the exercising date. The liability was recorded against the reduction of the non-controlling interest in the subsidiary.

Changes in the fair value of the put option liability are allocated to goodwill.

The option's vesting period ended on July 10, 2013 and it can be exercised as from that period.

In 2014 the Company recognized a $723 thousand increase in put option againts goodwill due to changes in Amiad Turkey's (hereafter –"FTS") forecasts.

Further to the put options described above, the Group consolidates 100% of the subsidiary in Turkey.

2) Joint arrangements

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The company has assessed the nature of its joint arrangements and determined them to be joint venture. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

c. Foreign currency translation:

1) Functional and presentation currency

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in U.S. dollar, which is the Group's functional and Group's presentation currency.

2) Transaction and balances

Foreign currency transactions are translated into the functional currency using the average exchange rates prevailing to the period of the financial statements of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in other comprehensive.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or costs'. All other foreign exchange gains and losses are presented in the income statement within 'Other (losses)/gains – net'.

Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

3) Group companies- Translation from Functional to presentation currency

The results and financial position of those Group entities (none of which has the currency of hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

a) Assets and liabilities for each statement of financial position presented are translated at the closing rate at that statement of financial position date;

b) Income and expenses for each statement of comprehensive income are translated at specific exchange .

c) All resulting exchange differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognized in other comprehensive income.

d. Property, plant and equipment:

1) property, plant and equipment (including leasehold improvements) items are stated at historical cost net of investment grants, property, plant and equipment is presented net of accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

2) The assets are depreciated using the straight-line method over their estimated useful lives.

Annual rates of depreciation are as follows:

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

	%
Machinery and equipment	7 - 20 (mainly 10%)
Office furniture and equipment	7 - 20 (mainly 10%)
Computers and peripheral equipment	10 - 33
Motor vehicles	15 - 20

Leasehold improvements (fixtures) in buildings under operating leases are depreciated using the straight-line method over the shorter of the term of the lease or the estimated useful lives of the improvements.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

3) Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other gains (losses)' in the income statement.

e. Intangible assets:

1) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over interest in fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (CGUs), or Groups of CGUs, that is expected to benefit from the synergies of the combination.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

2) Contractual customer relationships and know-how

Contractual customer relationships and know-how acquired in a business combination are recognized at fair value at the acquisition date. The contractual customer relations and know-how have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method (three to seven years).

3) Brand name

Brand names acquired in a business combination are recognized at fair value at the acquisition date. Brand name has a finite useful life and is carried at cost less accumulated amortization. Amortization of brand name is calculated using the straight-line method (amortization period- twenty two years).

4) Technology

Technology's acquired in a business combination is recognized at fair value at the acquisition date. Technology has a finite useful life and is carried at cost less accumulated amortization. Amortization of technology is calculated using the straight-line method (seven years).

5) Computer software and licenses

Acquired computer software and licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (three to ten years). Costs associated with maintaining computer software programs are recognized as an expense as incurred.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

6) Research and development expenses

Cost incurred in respect of development projects (attributable to the design and testing of new or improved products) are recognized as intangible assets when the following criteria are met:

- Technical feasibility exists for completing development of the intangible asset so that it will be available for use or sale.
- It is management's intention to complete development of the intangible asset for use or sale.
- The Company has the ability to use or sell the intangible asset.
- It is probable that the intangible asset will generate future economic benefits, including existence of a market for the output of the intangible asset or the intangible asset itself or, if the intangible asset is to be used internally, the usefulness of the intangible asset.
- Adequate technical, financial and other resources are available to complete development of the intangible asset, as well as the use or sale thereof.
- The Company has the ability to reliably measure the expenditure attributable to the intangible asset during its development.

Other development costs that do not meet the foregoing conditions are charged to operations as incurred. Development costs previously expensed are not recognized as an asset in subsequent periods.

f. Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are Grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of nonfinancial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

g. Financial assets:

1) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'loans to a related party', 'long term receivables', 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

2) Recognition and measurement

Regular purchases and sales of financial assets are recognized on the settlement date - the date on which an asset is delivered to or by the Group. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within - 'finance income/costs' in the period in which they arise.

3) Impairment of financial assets carried at amortized cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or Group of financial assets is impaired. A financial asset or a Group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and the loss event (or events) has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a Group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For the loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.

h. Derivative financial instruments

The Group does not designate it's derivatives as hedging instruments for accounting purposes.

Foreign currency derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently accounted at fair value through profit or loss. Changes in the fair value in any of these derivative instruments are recognized immediately in the statement of comprehensive income within 'finance income/costs.

i. Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

j. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks , with original maturities of three months or less.

k. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined as follows:

Raw materials, purchased products auxiliary, materials and packing materials - on the "average cost" basis.

Work in progress and finished products- on the basis of standard cost including materials, labor and other direct and indirect manufacturing costs (based on normal operating capacity).

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

l. Current and deferred income tax

The tax expenses for the reported years comprise of current and deferred tax. Tax is recognized in the income statement except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the statement of financial position date in the countries where the Company and the subsidiaries operate and generate taxable income. Management periodically evaluates tax issues related to its taxable income, based on relevant tax law, and makes provisions in accordance with the amounts payable to the Income Tax Authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

As stated in Note 13c, upon distribution of dividends from tax-exempt income of "approved enterprises" or "benefited enterprises", the amount distributed will be subject to tax at the rate that would have been applicable had the Company not been exempted from payment thereof. The amount of the related tax is charged as an expense in the statement of comprehensive income.

m. Employee benefits:

1) Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

A defined benefit plan is a pension plan that is not a defined contribution plan.

The companies in the Group operate a number of pension plans. The plans are funded through payments to insurance companies or pension funds that are managed in trust.

According to their terms, those pension plans satisfy the above definition of a defined contribution plan.

According to labor laws and agreements in Israel and the practices of the companies in the Group, Group companies are obligated to pay retirement benefits to employees dismissed or retiring in certain circumstances.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

According to the obligation of Group companies to employees who participate in a defined benefit plan, the amounts of benefits those employees are entitled to upon retirement are based on the number of years of services and the last monthly salary.

The obligation of the Group companies to all other employees is a defined contribution plan, in which regular contributions are made to a separate and independent entity, and the companies of the Group have no legal or constructive liability to make any further payments if the assets of the funds are insufficient to pay all employees the benefits for work services in the current and past periods.

The total retirement benefit obligation presented in the statement of financial position is the present value of defined benefit contribution as of the date of financial position, less the fair value of plan assets. The defined contributions benefit is measured on an annual basis by an actuary using the projected unit credit method.

The present value of the liability is determined by discounting expected future cash flows (after taking into account the expected rate of payroll hikes) based on the interest rate of government/corporate bonds denominated in the currency in which the benefits will be paid and whose terms to maturity approximate the term of retirement benefit obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

According to IAS 19 "Employee Benefits", the discount rate used for calculating the actuarial obligation is determined by using the market return of high-quality corporate bonds on the date of the statement of financial position. However, IAS 19 indicates that in countries where there is no deep market in such bonds, the market rates on government bonds are used.

The Group recognizes remeasurements of net obligations (the asset) for defined benefit plan to other comprehensive income in the period in which they incurred. Those remeasurements are created as a result of changes in actuary assumptions, difference between past assumptions and actual results and differences between plan assets return and the amounts included in net interest on net liabilities (the asset) for defined benefit.

Amount funded for severance benefits are measured at fair value. The amounts funded are plan assets as defined by IAS 19, and therefore were offset from the balance of retirement benefit obligation for presentation purposes in the statement of financial position.

As discussed above, the Group purchases insurance policies and makes contributions to pension and severance pay funds to fund its obligation under defined contribution plan. The Group has no further payment obligations once the contributions have been paid. The contributions are defined as an expense for employee benefits concurrently to receiving services from employees that entitle them for contributions. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

2) Vacation and recreation pay

Under Israeli law, each employee is entitled to vacation days and recreation pay, both computed on an annual basis. The entitlement is based on the length of the employment period. The Group recognizes a liability and an expense for vacation and recreation pay, based on the entitlement of each employee.

3) Profit-sharing and bonus plans

The Group recognizes a liability and an expense for bonuses and profit sharing based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

4) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

o. Share-based payments:

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted Excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

p. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimate of return of historical results, taking into consideration the type of customer, the type of transaction and the specific of each arrangement.

1) Sales of goods

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. Revenue is shown net of value added tax, rebates and after eliminating Inter-company sales. Revenue is recognized when the significant risks and reward of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement in regards to the goods, and the amount of revenue can be measured reliably.

2) Contract work performed

A construction contract is defined by IAS 11 as a contract specifically negotiated for the construction of an asset.

Revenue from works under construction contracts are recognized using the stage of completion method when all the following are present: revenue is known or can be measured reliably, collection of revenue is expected, costs associated with performance of the works are known or can be estimated reliably, no material uncertainly exists as to the ability of the Group (the construction contractor) to complete the work and meet the contractual terms and conditions with the customer, and the stage of completion can be estimated reliably. The stage of completion is determined based on engineering stages of the work.

When the conditions for revenue recognition from works under construction contract are not present, revenue is recognized at the amount of the costs incurred whose recovery is probable (the "zero margin method").

When a contract is expected to result in a loss, the entire amount of loss is recognized immediately in cost of sales, regardless of the stage of completion.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within 'trade and other receivables'.

.NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses).

3) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

p. Lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

q. Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

r. Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's board of directors.

s. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.
Accounts payable are classified as current liabilities if payment is due within one year or less.
Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

t. Basic and diluted earnings per share:

1) Basic

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares issued and outstanding during the year (note 15).

2) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares issued and outstanding to assume conversion of all dilutive potential ordinary shares. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. However, potential ordinary shares are only dilutive if their conversion would decrease the earnings per share. If the earnings per share increase, the shares are anti-dilutive, and are excluded from the diluted earnings per share calculation.

u. Provisions

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Where there are a number of similar obligations (provision for warranty), the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Provisions are measured at the present value of the cash flow expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS:

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

1) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(e)(1).

The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

2) Inventory Valuation

Inventory, which is a material part of the Group's total assets, is valued at the lower of cost and net realizable value. If actual market prices for finished products prove less favorable than those projected by management, inventory write-downs may be required. Inventory is written down for estimated obsolescence based upon assumptions about future demand and market conditions. Likewise, favorable future demand and market conditions could positively impact future operating results if inventory that has been written down is sold.

3) Provision for impairment of receivables

The Group follows the guidance of IAS 39 on determining whether a trade receivable is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the ageing analysis of the balances, historical bad debts, repayment patterns, the financial health and the near-term business outlook of the customer and industry trends.

The evaluation of the provision for impairment of receivables may have material effect on the Group's consolidated financial statements.

4) Deferred tax assets

The Group recognizes deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The Group regularly reviews its deferred tax assets for recoverability, based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and the implementation of tax planning strategies. If the Group is unable to generate sufficient future taxable income in certain tax jurisdictions, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, the Group could be required to eliminate a portion of the deferred tax assets, resulting in an increase in its effective tax rate and an adverse impact on operating results.

5) Revenue recognition

The group uses the percentage-of-completion method in accounting for its fixedprice contracts to deliver filtration solutions. Use of the percentage-of-completion method requires the group to estimate the work performed to date as a proportion of the total work to be performed

NOTE 4 - FINANCIAL RISK MANAGEMENT:

a. Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge (not for accounting purposes) certain risk exposures.

Risk management is carried out by a central treasury department (Group treasury) under policies approved by the board of directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

1) Market risk:

a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the NIS, Euro and Australian Dollar. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

Management has set up a policy which requires the Group treasurer to manage Group foreign exchange risk against the Company's functional currency and the local currency in Israel. To manage the foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, the treasurer uses various derivatives. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group treasury's risk management policy is to hedge (not for accounting purposes) up to 80% of anticipated cash flows (mainly net sales over purchase of inventory and other expenses) in each major foreign currency strengthening for the subsequent 12 months mainly in NIS, Euro and Australian Dollar.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

The following table presents currency exposure in respect of balance denominated in currencies that are different than the functional currency of the reporting company and also the effect on income after taxes. At December 31, 2014 and 2013, if the currencies specified below had weakened/strengthened by 1% against the other functional currencies of group companies, with all other variables unchanged:

	December 31, 2014		
	$ in thousands		
	NIS	**Euro**	**Australian dollar**
Financial asset (liabilities), net	(7,522)	5,218	2,901
Gain (loss) from change:			
Impact of 1% weakening	(296)	(42)	(13)
Impact 1% strengthening	295	43	15

NOTE 4 - FINANCIAL RISK MANAGEMENT (continued):

	December 31, 2013		
	$ in thousands		
	NIS	Euro	Australian dollar
Financial asset(liabilities), net	(7,482)	3,127	1,722
Gain (loss) from change:			
Impact of 1% weakening	142	10	*
Impact 1% strengthening	(136)	(10)	*

* Represents amounts lower than $1 thousand.

b) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

During 2014 Most of the Group's long-term borrowings are at variable rate. At December 31, 2014, the Group's long-term borrowings at variable rate are $17,692 thousand and long term borrowings at fixed rates are $2,901 thousand. During 2014 and 2013, the Group's borrowings were denominated in USD dollar, NIS and Euro.

At December 31, 2014, if interest rates on USD-denominated floating rate borrowings had been 1% higher/lower with all other variables held constant, pre-tax profit for the year would have been $171 thousands (2013: $210 thousands) lower/higher, as a result of higher/lower interest expenses on floating rate borrowings;

At December 31, 2014, if interest rates on Euro-denominated floating rate borrowings had been 1% higher/lower with all other variables held constant, pre-tax profit for the year would have been $6 thousands (2013: $20 thousands) lower/higher, as a result of higher/lower interest expenses on floating rate borrowings;

2) Credit risk

Credit risk is monitored on Group basis and managed based on the currency exposure analysis as reflected at the Company's books. Credit risk arises from cash and cash equivalents, borrowings to related parties, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. With regards to customer credit control, the company defines credit limits to its customers based on credit insurance coverage, securities from customers and management decision, based on its financial position, past experience and other factors. The utilization of credit limits is regularly monitored. The Group insures part of its outstanding receivables.

The balance of trade receivables as of December 31, 2014 includes a balance with principal customer in amount of $ 9,423.

3) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group treasurer maintains flexibility in funding by maintaining availability under committed credit lines.

The table below analyses the Group's non derivative financial liabilities into relevant maturity Groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Notes to Consolidated Financial Statements

(continued)

NOTE 4 - FINANCIAL RISK MANAGEMENT (continued):

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
At December 31, 2014:			
Banks credit and borrowings	23,819	6,488	6,349
Trade and other payables	22,790		
Put option liability	2,927		
At December 31, 2013:			
Banks credit and borrowings	11,327	8,614	10,365
Trade and other payables	28,525		
Put option liability	2,204		

b. Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates:

The account receivables of the Company consist mostly of customers defined as big customers with no defaults in the past.

	December 31	
	2014	2013
	$ in thousands	
Cash at bank and short-term bank deposits:		
Group A	7,469	7,528
Group B	3,555	5,338
Group C	3,031	1,959
	14,055	14,825
Financial assets:		
Group A	452	480

Definitions according to Group are external rating:

Group A = Israeli banks rated as AA+ and AA.
Group B = international banks and First class local bank in subsidiaries countries.
Group C = international banks and lower then First class local bank in subsidiaries countries.

None of the financial assets that are fully performing has been renegotiated in the last year.

c. Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

NOTE 4 - FINANCIAL RISK MANAGEMENT (continued):

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data the instrument is included in level 3.

The Group assets and liabilities that are measured at fair value at December 31, 2014 and 2013 are trading derivatives and are classified as level 2 measurements.

The Group liabilities that are measured at fair value are put option and are classified as level 3 measurements.

The following table presents the changes in level 3 instruments (put option) for the year ended December 31, 2014:

	Trading derivatives at fair value through profit or loss
Open balance	2,204
Changes in profit valuation	723
Closing Balance	2,927

The following table presents the changes in level 3 instruments (put option) for the year ended 31 December 2013:

	Trading derivatives at fair value through profit or loss
Open balance	1,795
Changes in profit valuation	279
Gains and losses recognized in profit or loss	130
Closing Balance	2,204

Notes to Consolidated Financial Statements

(continued)

NOTE 5 – PROPERTY PLANT AND EQUIPMENT:

Composition of assets, grouped by major classifications, and changes therein is as follows:

Year ended December 31, 2014:

	Cost[1]				
	Balance at beginning of year[1]	Additions during the year	Disposals during the year	Exchange differences	Balance at end of year[1]
	$ in thousands				
Machinery and equipment	20,759	1,542	(313)	(3)	21,985
Computers and peripheral equipment	3,807	184	(20)	(23)	3,948
Office furniture and equipment	2,288	45	(8)	(125)	2,200
Motor vehicles	880	214	(157)	(25)	912
Leasehold improvements	4,648	264	-,-	(44)	4,868
	32,382	2,249	(498)	(220)	33,913

Year ended December 31, 2013

	Cost[1]				
	Balance at beginning of year[1]	Additions during the year	Disposals during the year	Exchange differences	Balance at end of year[1]
	$ in thousands				
Machinery and equipment	19,722	1,230	(52)	(141)	20,759
Computers and Peripheral equipment	3,654	188	(38)	3	3,807
Office furniture and equipment	2,078	258	(17)	(31)	2,288
Motor vehicles	962	91	(144)	(29)	880
Leasehold improvements	4,148	509	(4)	(5)	4,648
	30,564	2,276	(255)	(203)	32,382

1) Net of investments grants amounting to $5,964 thousands (2013 - $5,632 thousands) which the Company and a subsidiary received by virtue of the law for Encouragement of Capital Investments, 1959 - see note 13(c).

2) Bank borrowings are secured by charges placed on machinery and equipment (see Note 11(b)).

Notes to Consolidated Financial Statements

(continued)

NOTE 5 – PROPERTY PLANT AND EQUIPMENT (continued):

Year ended December 31, 2014

	Accumulated depreciation					Net book amount	
						December 31	
	Balance at beginning of year	Additions during the year	Disposals during the year	Exchange differences	Balance at end of year	2014	2013
	$ in thousands					$ in thousands	
Machinery and equipment	14,131	1,412	(299)	(3)	15,241	6,744	6,628
Computers and Peripheral equipment	3,425	276	(18)	(35)	3,648	300	382
Office furniture and equipment	1,567	154	(3)	(44)	1,674	526	721
Motor vehicles	450	144	(123)	(13)	458	454	430
Leasehold improvements	1,360	390	-,-	(42)	1,708	3,160	3,288
	20,933	2,376	(443)	(137)	22,729	11,184	11,449

Year ended December 31, 2013

	Accumulated depreciation					Net book amount	
						December 31	
	Balance at beginning of year	Additions during the year	Disposals during the year	Exchange differences	Balance at end of year	2013	2012
	$ in thousands					$ in thousands	
Machinery and equipment	12,951	1,276	(52)	(44)	14,131	6,628	6,771
Computers and Peripheral equipment	3,111	347	(35)	2	3,425	382	543
Office furniture and equipment	1,437	149	(9)	(10)	1,567	721	641
Motor vehicles	460	127	(122)	(15)	450	430	502
Leasehold improvements	996	365		(1)	1,360	3,288	3,152
	18,955	2,264	(218)	(68)	20,933	11,449	11,609

NOTE 6 - INTANGIBLE ASSETS:

	Know-how	Customer relation-ship	Goodwill	Backlog and brand name	Software and licenses	Technology	Capitalization of development	Total
				$ in thousands				
Year ended December 31, 2014:								
Opening net book amount	213	122	7,121	839	3,296	4,817	438	16,846
Change in profit valuation (Put Option)			723					723
Additions during the year					653			653
Amortization during the year	(16)	(101)		(51)	(611)	(517)	(18)	(1,314)
Currency translation differences	(1)		(54)	(6)	2			(59)
Closing net book amount	196	21	7,790	782	3,340	4,300	420	16,849
Closing net book amount at								
December 31, 2014:								
Cost	3,092	1,956	7,981	1,154	7,285	6,715	438	28,621
Accumulated amortizations	(2,896)	(1,935)	(191)	(372)	(3,945)	(2,415)	(18)	(11,772)
Depreciated cost at								
December 31, 2014	196	21	7,790	782	3,340	4,300	420	16,849
Year ended December 31, 2013:								
Opening net book amount	221	342	6,919	907	3,320	5,335	438	17,482
Change in profit valuation (Put Option)			279					279
Additions during the year					756			756
Amortization during the year	(18)	(205)		(54)	(781)	(517)		(1,575)
Currency translation differences	10	(15)	(77)	(14)	1	(1)		(96)
Closing net book amount	213	122	7,121	839	3,296	4,817	438	16,846
Closing net book amount at								
December 31, 2013:								
Cost	3,098	2,014	7,312	1,199	6,629	6,715	438	27,405
Accumulated amortizations	(2,885)	(1,892)	(191)	(360)	(3,333)	(1,898)		(10,559)
Depreciated cost at								
December 31, 2013	213	122	7,121	839	3,296	4,817	438	16,846

Amortization of $773 thousands (2013: $1,045 thousands) in 'administrative expenses' and $541 thousands in (2013: $530) in 'Cost of sales'. Goodwill is allocated to the Group's cash-generating units (CGUs).

NOTE 6 - INTANGIBLE ASSETS (continued):

Impairment tests for goodwill:

A CGUs summary of the goodwill allocation is presented below.

	2014	2013
	Total	
	$ in thousands	
FTS	1,356	686
USA	1,530	1,530
Israel	4,904	4,904
	7,790	7,120

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections covering a five years period based on one year period financial budgets approved by management. Cash flows beyond the five yeasr period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The key assumptions used for value-in-use calculations in 2014 and 2013 are as follows:

	2014			2013		
	USA	Israel	FTS	USA	Israel	FTS
Ebitda margin	3%	6%	21%	6%	4%	17%
Growth rate long-term	2%	2%	2.5%	2%	2%	2.5%
Discount rate	18%	14%	13.5%	19.5%	14.7%	13.5%

These assumptions have been used for the analysis of each CGU within the operating.

Management determined budgeted gross margin based on past performance and its expectations of market development. The discount rates used are pretax and reflect specific risks relating to the relevant CGU.

The result of the above analysis As of December 31, 2014 and 2013 show that the value of goodwill of each of the said CGU has not been impaired, both in the basic calculations and in the calculations performed for the purpose of sensitivity test.

NOTE 7 - INVENTORIES:

Composition of inventories Grouped by major classification:

	December 31	
	2014	2013
	$ in thousands	
Raw materials, auxiliary materials and packing materials	4,186	6,437
Work-in-progress	13,146	13,425
Finished products	4,182	3,075
Purchased products	2,215	2,340
	23,729	25,277

The cost of inventories recognized as expense and included in "cost of sales" amounted to $46,914 thousands (2013: $46,406 thousands).

The total amount of inventory includes provision for slow moving inventory in amount of $2,849 thousands (2013: $2,568 thousands).

NOTE 8 - LONG-TERM BORROWING FROM BANKS:

a. The long term borrowings from banks may be classified by currency and interest as follows:

	Weighted average interest rates	December 31 2014	Weighted average interest rates	December 31 2013
	%	$ in thousands	%	$ in thousands
In U.S. dollars	2.8%	19,964	2.4%	24,571
Denominated in Euro	2.7%	576	2.9%	2,048
Other	1.4%	53	1.3%	77
		20,593		26,696
Current maturities of long-term borrowings from banks		8,388		8,708
		12,205		17,988

The borrowings bear interest at variable rates mostly linked to the Libor rate.
The carrying amounts of the long-term borrowings approximate their fair value.

b. The loans mature in the following years after balance sheet dates:

	December 31	
	2014	2013
	$ in thousands	
2015	6,126	8,082
2016	3,178	5,665
2017	2,355	2,539
2018 and thereafter	546	1,702
	12,205	17,988

NOTE 9 - LIABILITIES SECURED BY PLEDGES AND RESTRICTIONS PLACED IN RESPECT OF LIABILITIES:

a. Financial covenants

As to December 31, 2014 and 2013 the Group has no financial covenants in respect to banks.

b. Charges:

1) As collateral for liabilities to banks, a fixed charge was recorded on all of the machinery, equipment and share capital of the Group's companies and a floating charge was recorded on all of the Group's assets.

The balances of secured liabilities to banks as of December 31, 2014 are as follows:

	$ in thousands
Current liabilities	14,737
Long-term liabilities (including current maturities)	20,593
	35,330

2) As for charges with respect to grants received under the Law for the Encouragement of Capital Investments, 1959, see note 13c(1).

NOTE 10 - SEVERANCE PAY ASSETS AND OBLIGATIONS:

a. Labor laws and agreements in Israel and abroad require companies in the Group to pay a certain multiple of monthly pay as severance benefits to employees who are dismissed, resign or retire from their employment. This obligation is covered partly by regular deposits with severance pay funds and by purchase of insurance policies.

b. As described in note 18d(1), under the manpower service agreement with the Kibbutz Bet Zera, the Kibbutz members are employed through the manpower agreement. There are no liabilities for severance pay obligation with respect to members of Kibbutz Bet Zera or candidates for membership in Kibbutz Bet Zera.

c. The Company's obligation in Israel to make pension payments with respect to retiring employees is covered by regular deposits with defined contribution plans. The amounts deposited are not reflected in the statement of financial position.

The amount recorded as an employee benefit expense in respect of defined contribution plans for the years 2014 and 2013 was $751 thousand and $757 thousands, respectively.

d. Changes in net liability (asset):

	Present value of obligation	Fair value of plan assets	Net liability (asset)
		$ in thousands	
Balance as of January 1, 2014	5,996	(5,876)	120
Current service cost	484	-,-	484
Interest expenses (income)	167	(161)	6
	6,647	(6,037)	610
Remeasurements of the net liability (asset):			
Return on plan assets, excluding amounts included in interest expense (income)	-,-	(77)	(77)
Loss (gain) from change in financial Assumptions	253	-,-	253
Experience loss (gain)	(25)	-,-	(25)
	6,875	(6,114)	761
Exchange differences	(647)	655	8
Employer's contributions	-,-	(424)	(424)
Benefit payments	(373)	373	-,-
Balance as of December 31, 2014	5,855	(5,510)	345

NOTE 10 - SEVERANCE PAY ASSETS AND OBLIGATIONS (continued):

	Present value of obligation	Fair value of plan assets	Net liability (asset)
		$ in thousands	
Balance as of January 1, 2013	5,437	(5,322)	115
Current service cost	490	-,-	490
Interest expenses (income)	220	(205)	15
	6,147	(5,527)	620
Remeasurements of the net liability (asset):			
Return on plan assets, excluding amounts included in interest expense (income)	-,-	(174)	(174)
Loss (gain) from change in financial Assumptions*	79	-,-	79
Experience loss (gain)*	26	-,-	26
	6,252	(5,701)	551
Exchange differences	371	(408)	(37)
Employer's contributions	-,-	(384)	(384)
Benefit payments	(627)	617	(10)
Balance as of December 31, 2013	5,996	(5,876)	120

*Reclassification

The following amounts were recognized in the statement of financial position for post-employment defined benefit plans:

	Year ended December 31	
	2014	2013
	$ in thousands	
Present value of obligations arising from fully or partially funded plans	5,855	5,996
Fair value of plan assets	(5,510)	(5,876)
Balance of liability recognized in the statement of financial position	345	120

Employee benefit expenses of $215 thousands (2013: $212 thousands) is included in 'cost of sales', $248 thousands (2013: $229 thousands) in the 'selling, and marketing costs' and $29 thousands (2013: $28 thousands) in 'administrative expenses'.

The principal actuarial assumptions used were as follows:

	2014	2013
Retirement rate	7.5%	7.5%
Discount rate	2.9%	3.6%
Future salary increases	4.0%	4.0%

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the statement of financial position date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

NOTE 10 - SEVERANCE PAY ASSETS AND OBLIGATIONS (continued):

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions assuming all other assumptions remained unchanged and which were reasonably possible and the end of the reported period is:

	Increase (decrease) in defined benefit obligation
	December 31, 2014
	$ in thousands
Discount rate:	
1% increase	350
1% decrease	(463)
Salary growth rate:	
1% increase	(676)
1% decrease	223

The change in the rate of retiring employees at the end of the reported period did not have a material effect on the defined benefit liability.

NOTE 11 - CONTINGENT LIABILITIES AND COMMITMENTS:

a. Commitments:

1) The Group has lease agreements in respect of motor vehicles the term of the agreements end, between 2015 and 2017. The estimated annual lease payments are $69 thousands.

2) As to sublease agreement and services agreement with the kibbutz see Note 18c.

3) Certain subsidiaries have lease contracts for various periods with estimated monthly lease payments of $194 thousands.

4) The future aggregate minimum lease payments under non-cancellable operating lease agreements subsequent to the statement of financial position date are as follows:

	December 31	
	2014	2013
	$ in thousands	
Not later than 1 year	2,327	2,192
Later than 1 year and not later than 5 years	8,626	8,412
Later than 5 years	3,681	6,912
	14,634	17,516

Operating lease expenses for 2014 were $ 5,098 thousands (2013: $4,976).

5) As for other agreements with Kibbutz Beit Zera, see Note 18d.

6) The Company participates in programs sponsored by the Israeli Government for the support of research and development activities. The Company obtained grants from the Office of the Chief Scientist in the Israeli Ministry of Industry, Trade and Labor ("the OCS")

The Company is obligated to pay royalties to the OCS on some of those programs (old programs) amounting to 2% of the sales of the products and other related revenues generated from such projects, up to an amount equal to 100% of grants received, linked to the exchange rate of the U.S. dollar and the Libor rate.

NOTE 11 - CONTINGENT LIABILITIES AND COMMITMENTS (continued):

The Israeli Government awarded a subsidiary grants for participation in foreign marketing expenses, for which the subsidiary is obligated to pay royalties at the rate of 3% of the increase in export sales in relation to the base year, up to the amount of the grants received, linked to the U.S. dollar.

7) In 2013 The Europe foundation awarded a grant for participation in foreign marketing expenses, for which the Company is obligated to pay royalties at the rate of 3% of the increase in export sales in relation to the base year, up to the amount of the grants received, linked to the U.S. dollar.

As of December 31, 2014, the Company had recorded a liability for grants received in the amount of $52 thousand (2013: 103$).

8) In 2014, The Industrial Research and Development Administration at the Office of the Chief Scientist awarded the Company with a grant for development of an automated electrical filtering device that operates in a 30% liquid environment. In respect of that grant, the Company is committed to pay royalties on any revenue derived from that system up to the dollar-linked amount of the grant. As of December 31, 2014, the Company still has an outstanding grant liability of $108 thousands.

b. Contingent liabilities:

1) The Company has assumed all of the liabilities in connection with investment grants that the Partnership received from the State of Israel up to the date of transfer under the Law for the Encouragement of Capital Investments, 1959 (hereafter – "the law").

The Company has also received grants from the State of Israel under the law.

The receipt of grants by the Partnership, as above, and the receipt of other grants by the Company, is conditional upon the fulfillment of the conditions set out in the instruments of approval. In the event of failure to comply with the conditions of the approval, the Company may be required to refund the amount of the grants, including interest and linkage differences from the date of receipt. As Collateral for the fulfillment of the conditions relating to the receipt of investment grants, the Company recorded floating charges on all of Company's assets in favor of the State of Israel. The Company's management believes that as of the date of the approval of the financial statements, the Company meets the conditions of the instruments of approval.

2) The Group has a contingent liability in respect of performance guarantees provided by banks to customers in the amount of $3,241 thousands at December 31, 2014 ($1,382 thousands at 31 December, 2013).

NOTE 12 - SHAREHOLDERS' EQUITY:

a. Composed of ordinary shares of NIS 0.5 par value, as follows:

	Number of shares	
	December 31	
	2014	2013
	$ in thousands	
Authorized	24,000,000	24,000,000
Issued and fully paid*	22,663,651	22,663,651

* The shares are quoted on the London Stock Exchange Alternative Market (AIM), as of December 31, 2014 at GBP 1.15 (USD 1.79) per ordinary share of NIS 0.5 par value.

The ordinary shares confer upon their holders voting rights and the right to participate in shareholders' meetings (the holders of shares of NIS 0.5 par value are entitled to one vote per share), the right to receive profits and the right to a share in excess assets upon liquidation of the Company.

NOTE 12 - SHAREHOLDERS' EQUITY (continued):

b. Share based payment:

1) The company has three option grants (1) under the first grant (hereinafter - the first grant) 385,000 options were granted in December 2012, (2) second grant (hereinafter - second grant) 40,000 options were granted in March 2014, (3) under the third grant (hereinafter - third plan) 80,000 options were granted in December 2014. The options were granted to several senior employees and services providers as approved by the board of the Company. Each option is exercisable into 1 ordinary share of the Company.

The options vest over 4 years, in 4 equal batches. The exercise price for each share will be equal to the average price of one of the Company's shares on the AIM in the 30 days prior to the date of actual grant. The options will be held during the vesting period by a trustee and will be released in accordance with the terms of the option plan. Unexercised options expire with 7 years after date of grant. Vested options shall expire 3 months after the termination of employer-employee relations.

The Optionee shall exercise all or part of his vested Options only through a cashless mechanism, whereby the Optionee shall waive and surrender part of his vested Options and may exercise the remaining Options by payment of the nominal value of the underlying Shares, in lieu of payment of the Purchase Price ("Cashless Exercise") pursuant to the formula set forth in the option grants.

For the first plan, the weighted average fair value of the options as at the grant date is $1.32 per share, and was estimated using the Black and Scholes option pricing model based on the following significant data and assumptions: Share price - $4.71; exercise price - $4.85, expected volatility – 37%; risk-free interest rate – 2.96%, expected dividends – 2.4% and expected average life of grants 4 years.

For the second grant, the weighted average fair value of the options as at the grant date is $0.89 per share, and was estimated using the Black and Scholes option pricing model based on the following significant data and assumptions: Share price - $4.48; exercise price - $4.61, expected volatility – 29%; risk-free interest rate – 1.73%, expected dividends – 2.62% and expected average life of options 4 years.

For the third grant, the weighted average fair value of the options as at the grant date is $0.29 per share, and was estimated using the Black and Schole option pricing model based on the following significant data and assumptions: Share price - $2.19; exercise price - $2.65, expected volatility – 27%; risk-free interest rate – 1.62%, expected dividends – 2.6% and expected average life of options 4 years.

2) As of December 31, 2014 (i) 90,000 options expired, thus making the total amount of outstanding options equal to 415,000 outstanding potential shares;

(ii) from the first plan, two batches have vested and out of the 415,000 outstanding potential shares to be issued, 147,500 options are exercisable.

Set forth below are the number of outstanding potential shares to be issued in respect to equity grants, having the following expiry dates and exercise prices as of December 31, 2014 and 2013.

Plan	December 31	Expiry date	Exercise price	Number of potential shares
First grant	2013	December 18, 2019	$4.85	345,000
First grant	2014	December 18, 2019	$4.85	295,000
Second grant	2014	March 31, 2021	$4.61	40,000
Third grant	2014	December 11, 2021	$2.65	80,000

The options granted to some of the senior employees and the services providers were granted in the framework of the Company's option grant that was submitted to the Israeli Tax Authorities, in accordance with the provisions of Section 102 to the Israeli Income Tax Ordinance and the remaining options were granted under the provisions of section 3(i) of the Income Tax Ordinance.

NOTE 12 - SHAREHOLDERS' EQUITY (continued):

Under section 102, the grantee's income will be taxed at a reduced tax rate of 25% and the Company will not be allowed to deduct the corresponding expense for tax purposes with the exception of the work–income benefit component, if any, determined on the grant date.

The following table summarizes information about exercise price and the contractual terms of options outstanding at December 31, 2014:

Share rights outstanding					Share rights exercisable		
Plans	December 31	Exercise Prices	Number outstanding	average remaining contractual life	Weighted average exercise price	Number exercisable	average remaining contractual life
		$		Years	$		Years
1	2013	$4.85	345,000	6	$4.85	86,250	6
1	2014	$4.85	295,000	5	$4.85	147,500	5
2	2014	$4.61	40,000	6.25			
3	2014	$2.65	80,000	7			

c. Dividends

The Company's board of directors has adopted a dividend policy, pursuant to which the Company, subject to future performance and funding requirements, will distribute annual dividends of up to 50% of the net income in the calendar year.

In July, 2014 the Company distributed dividends to its shareholders in the amount of $498 thousands, $0.022 per share.

In October, 2014 the Company distributed dividends to its shareholders in the amount of $499 thousands, $0.022 per share.

NOTE 13 - TAXES ON INCOME:

a) Corporate taxation in Israel

1. Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985 (hereafter - the Inflationary Adjustments Law)

Commencing on fiscal year 2008, the results of the Company and its Israeli subsidiary is accounted, for tax purposes, at nominal values. Until the end of fiscal year 2007, the results for tax purposes were measured in real terms, adjusted for the changes in the Israeli CPI, based on the Inflationary Adjustments Law (1985).

2. Tax rates applicable to income

The income of the Company and its Israeli subsidiaries (other than income from "approved" or "beneficiary enterprises") is taxed at the regular rate; under the provisions of the Law for Amendment of the Income Tax Ordinance, 2005, of August 2005 and the provisions of the Economic Rationalization Law (Legislation Amendments for the Implementation of the Economic Plan for the years 2009 and 2010), of July 2009, the corporate tax rates is to be gradually reduced as from 2010 and thereafter, as follows: 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and thereafter - 18%.

On December 6, 2011, the "Tax Burden Distribution Law" Legislation Amendments (2011) was published in the official gazette. Under this law, the previously approved gradual decrease in corporate tax is discontinued. Corporate tax rate will increase to 25% as from 2012.

NOTE 13 - TAXES ON INCOME (continued):

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:

Raising the corporate tax rate beginning in 2014 and thereafter to 26.5% (instead of 25%).

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%).

b) Subsidiaries outside Israel

Subsidiaries that are incorporated outside Israel are assessed for tax under the tax laws in their countries of residence.The principal tax rates applicable to subsidiaries outside Israel are as follows:

USA- tax rates are: Federal tax is 34% and state tax average is 6.88%.
Australia - tax rate is 30%.
France- tax rate is 33.3%.
Singapore- tax rate of 17%
China- corporate tax rate is 25%
Turkey- tax rate is 20%.
India - tax rate is 30.9%

c) The Law for the Encouragement of Capital Investment, 1959:

1) As part of the purchase agreement (as discussed in Note 1(c)), the partnership transferred to the Company all of the rights and obligations relating to two investment plans of the partnership which have been granted "approved enterprise" status under the Law for the Encouragement of Capital Investments, 1959 and which are entitled to grants and tax benefits. By virtue of this status, the Company is entitled to reduced tax rates on taxable income derived from the approved enterprises.

The portion of income qualifying for the above tax-rate benefits is determined using the ratio between the turnover attributed to the "approved enterprise" or the "benefited enterprise" and the overall turnover of the Company.

The main benefit, which relates to income derived from the approved enterprises, is a tax exemption during the first two years and a reduced tax rate of 25%, instead of the statutory tax rate, during the following five years. The benefit period begins in the year in which taxable income is first earned, and it is limited to 12 years from the year that the approved enterprise began operations, or 14 years from the year in which the approval was granted, whichever is earlier. The Company is also eligible for accelerated depreciation on assets used by the approved enterprises

In the event of distributions of dividends out of income derived from an approved enterprise, which was tax exempt, the Company shall be liable to pay tax at the rate of 25% on the distributed earnings. The Company did not distribute dividend from tax exempt income during 2014 and 2013.

Dividend distributions derived from an approved enterprise are subject to 15% withholding tax.

The above benefits are conditional upon the fulfillment of the conditions stipulated by the law, regulations published thereunder and the instruments of approvals for the specific investment in the approved enterprises. In the event of failure to comply with these conditions, the benefits may be cancelled and the amounts of the benefits refunded, including interest.

NOTE 13 - TAXES ON INCOME (continued):

2) The Law for Encouragement of Capital Investments, 1959 was amended as part of the Economic Policy Law, which was passed in the Knesset on December 29, 2010 (hereafter - the amendment). The amendment becomes effective as from January 1, 2011.

The amendment sets alternative benefit tracks to the ones currently in place under the provisions of the Law for the Encouragement of Capital Investments, 1959 (hereafter - the law), as follows: investment grants track designed for enterprises located in national development zone A and two new tax benefits tracks (preferred enterprise and a special preferred enterprise), which provide for application of a unified tax rate to all preferred income of the Company, as defined in the law.

Benefits granted to the preferred enterprises will be unlimited in time, unlike the benefits granted to special preferred enterprises, which will be limited for a period of 10 years. The benefits shall be granted to companies that will qualify under criteria set in the law; for the most part, those criteria are similar to the criteria that were set in the law prior to its amendment.

Under the transitional provisions of the law, a company is allowed to continue and enjoy the tax benefits available under the law prior to its amendment until the end of the period of benefits, as defined in the law. The Company is allowed to set the "year of election" no later than tax year 2012, provided that the minimum qualifying investment was made not later than the end of 2010. On each year during the period of benefits, the Company will be able to opt for application of the amendment, thereby making available to itself the tax rates as above. Company's opting for application of the amendment is irrecoverable.

The Company's management decided to adopt the application of the amendment commencing tax year 2011.

d) The Law for the Encouragement of Industry (Taxation), 1969

The Company and its Israeli subsidiary are an "industrial Company" as defined by this law. According to this status and by virtue of regulations published, the Companies are entitled to a deduction for accelerated depreciation on equipment used in industrial activity, as determined in the regulations effective under the Inflationary Law.

Pursuant to regulations prescribed under Amendment 147 to the Income Tax Ordinance, the Group is entitled to claim accelerated depreciation at the rate of 50% on equipment which was acquired during the year 2009. The Company elected to apply the accelerated depreciation starting from 2010 tax year.

e) Tax loss carry forwards

As of December 31, 2014 and 2013, the tax loss carry forwards of the Group were approximately $ 5,312 thousands and $ 1,059 thousands respectively. The Group created deferred tax asset for tax loss carry forward to the extent that the realization of the related tax benefit through future taxable profits is probable.

f) Tax assessments

The Company received final tax assessments through 2011.
Amiad USA received final tax assessments through 2013.
Amiad FTS (Turkey) final tax assessments through 2013.
Filtration & Control Systems (s) Pte Ltd. (Amiad Singapore) received final tax assessments through 2014. Amiad filtration systems (India) received final tax assessments through 2011. Amiad Australia Pty Ltd. (Australia) received final tax assessments through 2013.
Amiad France SARL (France) received final tax assessments through 2010.
Yixing Taixing Environtec Co. Ltd received final tax assessments through 2011.
The remaining of the foreign subsidiaries have not received final tax assessments since their incorporation.

Notes to Consolidated Financial Statements

(continued)

NOTE 13 - TAXES ON INCOME (continued):

g) Deferred income tax assets (liabilities):

1) The deferred income tax assets (liabilities) balance and deferred tax benefit (expenses) recognized in the statement of comprehensive income are as follows::

	Provisions for employee rights	Fixed assets	Depreciable intangibles	Loss for tax purposes	Other provisions	Inventory	Total
	Balance Figures $ in thousands						
	$ in thousands						
Balance at December 31, 2012	422	(339)	(397)	59	782	1,507	2,034
Changes during the year ended December 31, 2013:							
Amounts attributed to Profit & Loss	(86)	(145)	(109)	24	392	(356)	(280)
Differences from translation of foreign currency financial statements of subsidiaries	(33)						(33)
Balance at December 31, 2013	303	(484)	(506)	83	1,174	1,151	1,721
Changes during the year ended December 31, 2014:							
Amounts attributed to Profit & Loss	(51)	(124)	53	109	(152)	359	194
Balance at December 31, 2014	252	(608)	(453)	192	1,022	1,510	1,915

2) Deferred income tax balances are measured using the enacted tax rates expected to be in effect when the differences are expected to reverse and are mostly calculated according to 9% tax rate which is the weighted average tax rate of the Group.

3) Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable.

4) Deferred taxes are presented in the statements of financial position as follows:

	December 31 2014	December 31 2013
	$ in thousands	
Among non-current assets	2,738	1,722
Among non-current liabilities	(823)	(1)
	1,915	1,721

NOTE 13 - TAXES ON INCOME (continued):

h) Taxes on income:

1) As follows:

	Year ended December 31	
	2014	**2013**
	$ in thousands	
For the reported year:		
Current	971	1,432
Deferred income taxes:		
Recognition and reversal of tax assets	(194)	171
The influence of change in the tax rate	-,-	109
	777	1,712
For previous years - current	(218)	(213)
	559	1,499

2) Theoretical tax reconciliation:

Following is a reconciliation of the theoretical tax expense, assuming all income is taxed at the regular tax rates applicable to companies in Israel (note 13a above) and the actual tax expense:

	Year ended December 31	
	2014	**2013**
	$ in thousands	
Income before taxes on income	(429)	5,147
Theoretical tax expense(benefit) in respect of the profit or loss - at 26.5% (2013: 25%)	(114)	1,287
Increase (decrease) in taxes on income due to:		
Reduced tax rates on approved enterprises	-,-	(121)
Different tax rates applicable to foreign subsidiaries	457	82
Deferred tax balance that was measuredusing tax rates that are different from the theoretical tax rate	281	23
Adjustment to deferred tax balances due to changes in tax rates, in the following years		
Taxes in respect of currency differences	-,-	109
Taxes in respect of previous years	28	224
Non-deductible expenses and other differences	(218)	(213)
Income tax expense	125	108
	559	1,499

i) Effect of adoption of IFRS on the tax liability

The Company prepares its financial statements in accordance with IFRS.

IFRS standards differ from accounting principles generally accepted in Israel and accordingly, the preparation of financial statements in accordance with IFRS may reflect a financial position, results of operations and cash flows that are materially different from those presented in financial statements presented in accordance with accounting principles generally accepted in Israel.

NOTE 13 - TAXES ON INCOME (continued):

In accordance with the law for the amendment of the Income Tax Ordinance which was published in the official gazette in the years 2010, 2012 and 2014 (hereinafter together – the temporary provision), the provisions of Israel Accounting Standard No. 29 of the Israel Accounting Standards Board do not apply in determining taxable income for tax years 2007 to 2013, even if applicable in financial statements for those tax years. The meaning of the temporary provision is that IFRS do not apply in practice when calculating the reported income for tax purposes in the specified tax years.

On October 31, 2011 the Government of Israel published a law memorandum in connection with the amendment to the Income Tax Ordinance (hereafter – the law memorandum) resulting from application of IFRS in the financial statements. Generally, the law memorandum adopts IFRS. However, its suggests several amendments to the Income Tax Ordinance that will serve to clarify and determine the manner of computing taxable income for tax purposes in cases where the manner of computation is unclear and IFRS is incompatible with the principles of the tax method applied in Israel. At the same time, the law memorandum generally adopts IFRS. The legislation process involving the law memorandum has not been completed, and is not likely to be completed in the near future.

The amendment to the ordinance did not have a material effect on the tax expenses reported in these financial statements.

NOTE 14 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION:

a. Cash and cash equivalent:

	December 31	
	2014	**2013**
	$ in thousands	
Cash at bank and on hand	9,613	8,932
Short-term bank deposits	4,477	5,939
	14,090	14,871

The cash and cash equivalents consist of currencies as follows:

	December 31	
	2014	**2013**
	$ in thousands	
U.S. dollars	5,964	8,991
NIS	992	80
Euro	1,872	1,354
Chinese RMB	1,743	2,039
Australian dollar	3,000	1,986
Singapore dollar	13	88
Turkish pound	218	117
Other	288	216
	14,090	14,871

NOTE 14 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

b. Trade and other receivables:

1) Trade:

Open accounts*	37,626	40,999
Checks receivable	7,845	1,825
	45,471	42,824
Less - provision for impairment of trade receivables	(1,380)	(1,264)
	44,091	41,560

* Include balance from primary customer as of December 31, 2014 and 2013 in amount of $9,423 thousands and $10,731 thousands respectively. .

Movements on the Group provision for impairment of trade receivables are as follows:

	2014	2013
	$ in thousands	
At January 1	1,264	1,179
Provision for receivables impairment	194	193
Receivables written off	(9)	(22)
Collection of receivables	(18)	(86)
Exchange Diffrences	(51)	-,-
At December 31	1,380	1,264

The creation and release of provision for impaired receivables have been included in 'Administrative and general and expenses' in the statement of comprehensive income (note 14j). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

As of December 31, 2014, trade receivables of $11,773 thousands (2013: $7,501 thousands) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trades receivables is as follows:

	December 31	
	2014	2013
	$ in thousands	
Up to 3 months	7,299	5,347
3 to 6 months	1,301	883
Over 6 months	3,173	1,271
	11,773	7,501

As of December 31, 2014, trade receivables of $1,380 thousands (2013: $1,337 thousands) were impaired and provided for. The amount of the provision was $1,380 thousands as of December 31, 2014 (2013: $1,264 thousands). The ageing of these receivables is as follows:

NOTE 14 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

	December 31	
	2014	2013
	$ in thousands	
Up to 6 months	12	-,-
Over 6 months	1,368	1,337
	1,380	1,337
2) Other:		
Government authorities	1,248	949
Prepaid expenses	520	513
Advances to suppliers	241	364
Investment grants receivable	-,-	14
Employees	151	144
Restricted deposit	975	772
Other	95	745
	3,230	3,501

The amounts above do not include neither allowance for doubtful debt nor amounts that past their due date.

The carrying amounts of trade and other receivables are denominated in the following currencies:

	December 31	
	2014	2013
	$ in thousands	
Trade:		
NIS	2,589	3,791
U.S. dollar	23,164	21,435
Euro	4,261	5,410
Australian dollar	4,404	2,726
Chinese RMB	6,815	5,909
Singapore dollar	321	200
Turkish pound	1,569	1,462
Other	968	627
	44,091	41,560
Other:		
NIS	1,488	1,611
U.S. dollar	310	109
Euro	332	181
Australian dollar	631	851
Chinese RMB	120	251
Turkish pound	206	388
Other	143	110
	3,230	3,501

NOTE 14 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above, excluding prepaid expenses and advances to suppliers. The Group does not hold any collateral as security.

The carrying amounts of the trade and other receivables (excluding prepaid expenses and advances to suppliers) represent their fair value since it they are short term receivables.

c. Bank credit and borrowings from banks:

	December 31	
	2014	2013
	$ in thousands	
1) Composed as follows:		
Bank credits	14,824	1,836
Current maturities of long-term borrowings from Banks	8,388	8,708
	23,212	10,544

2) Classified by currency, linkage terms and interest rates, the short-term bank borrowings (excluding current maturities of long-term loans (note 8(a)) are as follows:

	Weighted average interest rates*	December 31 2014	Weighted average interest rates*	December 31 2013
	%	$ in thousands	%	$ in thousands
In U.S. dollars	1.38%	14,633	1.22%	1,652
Denominated in Euro	4.35%	92		-,-
Denominated in NIS		-,-	5.41%	141
In Other currencies	1.63%	99	1.48%	43
		14,824		1,836
Current maturities of long-term loans from banks and others (see note 8)		8,388		8,708
		23,212		10,544

* The credit bears interest at variable rates. The weighted average interest rates are as of 31 December for each of the years.

3) The Group has the following undrawn borrowing facilities:

	December 31	
	2014	2013
	$ in thousands	
Floating rate:		
Expiring within one year	6,891	19,834

The carrying amounts of the short-term borrowings from banks are approximately their fair value.

NOTE 14 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

d. Financial assets at fair value through profit or loss:

The Group assesses the value of the derivative financial instrument at each cutoff date and uses the services of an external expert for that purpose.

The valuation of the derivative forward contracts was based on translating the ILS amount of the hedging instrument at current forward rate for the remaining hedging period (level 2 fair value hierarchy). The valuation of option derivatives fair value calculation was be based on Garman-Kohlhagen model (a theoretical model for options valuation that is an expansion of Black–Scholes model for foreign exchange options) in which the fair value of each option is equal to the premium that will be received or paid for the option, based on observable market data, such as spot rate, yield curves, exchange rate volatility and quoted prices for similar options, as of the fair value calculation date (level 2 fair value hierarchy).

	December 31	
	2014	**2013**
	$ in thousands	
Derivatives:		
Assets	452	480
Liabilities	(1,066)	(63)

	December 31	
	2014	**2013**
	$ in thousands	
e. Trade and other payables:		
1) Trade payables:	14,914	19,207
Open accounts	150	463
Checks payables	15,064	19,670
2) Other accounts payable:		
Employee benefit expenses and other Liabilities relating to wages and salaries (including accrued vacation pay)	3,638	3,656
Customer advances	705	577
Related parties (the Kibbutz)	1,228	1,576
Commissions and other accrued expenses	2,021	3,154
Provision for governments grants (see note 11a(7))	160	103
Sundry	679	367
	8,431	9,433

NOTE 14 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

	Year ended December 31	
	2014	2013
	$ in thousands	
f. Sales by customer location:		
North America	32,777	28,562
Europe	18,958	21,556
Australia	17,063	14,335
Israel	11,123	12,393
South America	7,911	8,658
Africa	4,713	4,773
Middle east	6,110	6,084
The Far East	19,816	22,426
Total	118,471	118,787

Revenues of approximately $17,138 thousands in 2014 and $20,994 thousands in 2013 are derived from a single external customer.

	Year ended December 31	
	2014	2013
	$ in thousands	
g. Cost of sales:		
Materials consumed	42,081	41,185
Subcontractors	2,478	1,329
Employee benefit expenses	15,613	14,424
Manpower services provided by Kibbutz Beit Zera	429	493
Amortization and depreciation	2,218	1,976
Rent and maintenance	3,676	3,712
Other manufacturing expenses	3,568	3,349
	70,063	66,468
Decrease (increase) in inventories of work in progress	(327)	542
Increase in inventories of finished products	(410)	(88)
Total changes in inventories	(737)	454
Cost of purchased products	3,092	3,438
Total	72,418	70,360

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(continued)

NOTE 14 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

	Year ended December 31	
	2014	2013
	$ in thousands	
h. Research and development costs:		
Materials consumed	367	557
Subcontractors	240	342
Employee benefit expenses	1,618	1,613
Manpower services provided by the Kibbutz	128	148
Professional fees	75	23
Motor vehicle maintenance including depreciation	357	353
Patents &Trademarks	235	386
Sundry	398	448
	3,418	3,870
Less- OCS participation in research and development costs	(260)	(513)
	3,158	3,357
i. Selling and marketing costs:		
Employee benefit expenses	15,814	14,294
Distribution, commissions and maintenance of sales offices	1,953	2,599
Delivery, packing, release and insurance	2,231	2,131
Advertising	1,002	1,031
Travel Abroad	1,019	1,127
Motor vehicle maintenance including depreciation	1,313	1,304
Manpower services provided by Kibbutz Beit Zera	509	566
Sundry	4,363	4,404
	28,204	27,456
J. Administrative and general expenses:		
Employee benefit expenses	5,118	5,410
Rent and maintenance	584	400
Professional fees	2,266	2,234
Amortization and depreciation	1,204	1,517
Manpower services provided by Kibbutz Beit Zera	175	184
Doubtful accounts and bad debts	176	107
Telephone and communication	208	181
Office expenses	85	94
Sundry	1,543	1,802
	11,359	11,929

NOTE 14 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

	Year ended December 31	
	2014	2013
	$ in thousands	
k. Other gains (loss):		
Sales of assets	3	25
Sundry*	(471)	2
	(468)	27

* The amount includes incremental costs relating to dismissal of employees in the amount of $360 thousands. A total of $101 thousands out of the said amount was not paid at the balance sheet date and shall be paid in 2015.

l. Finance income and costs:

	Year ended December 31	
	2014	2013
	$ in thousands	
Finance income:		
Interest income on short-term bank deposits	126	150
Interest income on severance pay fund, net	11	-,-
Foreign currency derivative	-,-	1,569
Foreign exchange differences	-,-	71
Other	-,-	111
Total finance income	137	1,901
Finance costs:		
Interest expenses- borrowings	838	858
Foreign exchange differences	846	930
Interest expenses on severance pay fund, net	-,-	5
Bank and other commissions	352	313
Foreign currency derivative	1,385	17
Increase in the present value of PUT options	-,-	130
Other	9	25
Total finance costs	3,430	2,278
Net finance costs	(3,293)	(377)
m. Non-Current assets located in other countries:		
Israel	22,772	23,503
United State	2,461	2,583
Turkey	1,692	1,063
Other	1,156	1,282
	28,081	28,431

NOTE 14 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

	December 31	
	2014	2013
	$ in thousands	
n. Construction contracts:		
1. Balance sheet		
Current assets		
Trade and other receivables	6,151	2,627
Current Liabilities		
Prepayments	268	2,681

	Year ended December 31	
	2014	2013
	$ in thousands	
2. Income statement		
Contract revenue	12,411	10,228
Contract costs	7,831	6,477
Gross profit	4,580	3,811

	Year ended December 31	
	2014	2013
	$ in thousands	
3. Construction contract		
The aggregate costs incurred and recognised profits	8,654	9,635
Less: Progress billings	8,380	9,648
Net balance sheet position for ongoing contracts	274	(13)

NOTE 15 - EARNINGS PER SHARE:

Basic:

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of issued and outstanding ordinary shares.

	Year ended December 31	
	2014	**2013**
	$ in thousands	
Number of shares at the beginning of the period	22,664	22,664
Number of shares used for calculation of earnings per share – basic	22,664	22,664

Diluted:

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares - share options. The calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Year ended December 31	
	2014	**2013**
	$ in thousands	
Number of shares used for calculation of earnings per share – basic	22,664	22,664
Number of shares used for calculation of earnings per share - diluted	22,664	22,664
Net income (loss) attributable to equity holders of the parent (in U.S. dollars) – basic	(1,006)	3,700
Net income (loss) attributable to equity holders of the parent (in U.S. dollars) – diluted	(1,494)	3,462
Basic earnings (loss) per share (in U.S. dollars)	(0.044)	0.163
Diluted earnings (loss) per share (in U.S. dollars)	(0.065)	0.153

NOTE 16 - CASH FLOWS FROM OPERATING ACTIVITIES:

	Year ended December 31	
	2014	2013
	$ in thousands	
Profit (loss) for the year	(988)	3,648
(a) Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	3,690	3,839
Interest paid	816	815
Interest received	(162)	(273)
Income taxes paid	2,576	926
Share based payment	100	242
Increase in put option	-,-	130
Share in loss of joint venture	(60)	188
Decrease (increase) in deferred income taxes, net	(217)	277
Accrued severance pay, net	127	120
Exchange rate differences on borrowings	(133)	(201)
Decrease in assets at fair value through profit or loss	1,031	611
Profit from sale of property, plant and equipment	(2)	(3)
Exchange rate differences on loans to related party and others	-,-	(33)
	7,766	6,638
Changes in working capital:		
Decrease (increase) in accounts receivable:		
Trade	(3,604)	(1,265)
Other	(118)	1,177
Decrease in prepaid expenses	-,-	54
(Increase) in long term receivable	(13)	-,-
Increase (decrease) in accounts payable:		
Trade	(3,579)	482
Other	(893)	(1,361)
Decrease in inventories	1,127	174
	(7,080)	(739)
Cash generated from (used in) operations	(302)	9,547

NOTE 17 - BUSINESS COMBINATION:

a. On July 10, 2008 the Group entered into a share purchase agreement with the owners of Filterasyon Aritim Sistemleri Sanayi ve Ticaret (hereafter- FTS), a Turkish Company, to purchase 51% of the shares of FTS that confer ownership and control in FTS. The acquisition was made through EFS European Filtration Solutions Cooperatief U.A, a Dutch subsidiary that was incorporated for that purpose.

FTS is engaged in producing, marketing, distributing, installation, and support of water filters and filtration systems used in the industrial & municipal market and the irrigation market.

The seller serves in the position of FTS's general manager and he is obliged to do so for at least 5 years from the acquisition according to the shareholders agreement.

The Group has an option to acquire from the seller (call option) the remaining 49% of FTS's share capital. The call option is exercisable in an event that the seller position as general manager is terminated for any reason, but not earlier than two years commencing at the acquisition date.

The exercise price of the option would be seven times the net profit of FTS after taxes for the preceding financial year, according to FTS's last audited financial statement multiplied by the percentage of the seller's holdings in FTS's outstanding share capital at such date.

The seller has the option to sell to the Group (put option) his share in FTS. The Put option is exercisable in an event that seller position as general manager is terminated for any reason, but not earlier than five years commencing at the acquisition date.

The exercise price of the option would be multiple of six times the net profits of FTS's after taxes for the preceding financial year, according to FTS's last audited financial statement multiplied by the seller's holdings in FTS's outstanding share capital at such date.

Further to the put options described above, the Group consolidates 100% of the subsidiary in Turkey.

The option is exercisable as of July 10, 2013.

b. In February 2013, the Company established Cor – a wholly owned subsidiary (100%) in order to enhance the sale and marketing of the Company products and solutions in the Netherlands.

NOTE 18 - RELATED PARTIES:

a. Transactions with related parties:

	Year ended December 31	
	2014	2013
	$ in thousands	
1) Income:		
Financial income from the Kibbutz	-,-	23
2) Expenses:		
Lease fees to the Kibbutz (see c below and note 19c)	614	607
Maintenance fees to the Kibbutz (see c below)	226	223
Manpower services provided by Kibbutz Bet Zera	1,241	1,392
Lease fees to the Kibbutz Bet Zera (see d below)	870	889
Maintenance fees to the Kibbutz Bet Zera (see d below)	245	238
Raw materials purchases from Bermad	1,760	1,810
Sales of goods to Bermad	145	219
Key management compensation:		
Salaries and other short-term employee benefits	2,138	2,235
Termination benefits	147	117
Other long-term benefits	53	55
	7,439	7,566

b. Balances with related parties

	December 31	
	2014	2013
	$ in thousands	
1) Current receivables from related parties - presented in the statement of financial position among current assets:		
Jointly-controlled entity	-,-	100
	-,-	100
2) Current payables to related parties - presented in the statement of financial position among current liabilities:		
Other accounts payables to related parties	1,228	1,576
Other accounts payables to key management	164	81
	1,392	1,657

c. Agreements between the Kibbutz and the Company:

According to several agreements between the Kibbutz and the Company, the Kibbutz provides the Company with use of land and buildings, utilities and maintenance services.

These agreements were amended or renewed in September 1, 2011.

NOTE 18 - RELATED PARTIES (continued):

1. Sublease agreement

   According to a sublease agreement between the Company, the Kibbutz and Amiad Assets 2005 LLP (formerly Amiad Filtration Systems LLP); (hereafter - the "Lessor") the monthly rent is $47.2 thousands which is linked to the Israeli consumer price index. The rent is reviewed every 3 years. The term of the sublease is until July 31, 2021 with an option to extend until July 31, 2031.

   The Company is obliged to finance, by granting a loan, all changes made to the leased property by the Lessor at the request of the Company. Such loan is repayable to the Company by the Lessor offsetting against any increased rent due by virtue of the changes to the property having increased the value of the leased property. The outstanding loan accrues interest at the minimum rate stipulated by the applicable Israeli law and is linked to the Consumer Price Index. In October 2013 the Kibbutz repaid the total balance of the loan. A of December 2013 there are no outstanding loans and no new loans were extended in respect of changes in the lease property.

2. Service agreement

   According to a service agreement, the Kibbutz agreed to provide the Company with various services including utilities, maintenance, etc. The term of the agreement is until July 31, 2021 with an option to extend for an additional period of 10 years In accordance with the addendum, the cost of services is $17.3 thousand per month linked to the Consumer Price Index.

d. Agreements between Kibbutz Beit Zera and the Company:

As part of the purchase of Arkal on April 28, 2010 the Company has entered into several agreements with Kibbutz Beit Zera ("Beit Zera") pursuant to which Beit Zera provides the Company with use of land and buildings, utilities, maintenance and manpower services. The sublease and services agreements were amended in August 3, 2011.

1. Manpower Services Agreement

   According to manpower agreement between the Company and Beit Zera, Beit Zera supplies the Company with manpower. The term of the agreement is 10 years commencing on April 28, 2010. The agreement is automatically renewable for additional periods of 10 years each, unless either party notifies the other party its on intention not to renew the term of the agreement by six months prior to the end of the term of the agreement. Beit Zera may terminate the agreement by issuing four months written notice at any time. Upon termination, all workers supplied by Beit Zera may become employees of the Company. The cost of the manpower services under the agreement is paid monthly based on a formula which varies depending on the number of workers and the function each worker undertakes at the Company.

2. Sublease agreement

   According to a sublease agreement between the Company and Beit Neta Cooperative Agricultural Society Ltd. (hereafter - the "Lessor") the monthly rent is $66.6 thousands and is linked to the Israeli consumer price index. The rent is reviewed every 3 years. The term of the sublease is 10 years as from the date on which the additional land and buildings that the Company is supposed to rent will be made available to the Company, with an option to extend the term for additional 10 years. The Company is obliged to finance, by granting a loan, all changes made to the leased property by the Lessor at the request of the Company. Such loan shall be repayable to the Company by the Lessor offsetting against any increased rent due by virtue of the changes to the property having increased the value of the leased property. As from 31 December, 2012 no loans were extended in repsect of changes in the leased property.

3. Services agreement

   According to a service agreement, Beit Zera agreed to provide the Company with various services including utilities, maintenance, etc. The term of the agreement shall be the same as the abovementioned sublease agreement and shall terminate on the date of the termination of the sublease agreement. In accordance with the addendum, the cost of services is $18.6 thousands per month linked to the Israeli consumer price index.

e. Agreements between with Bermad and the Company

The Company purchases from Bermad valves incorporated in the Company's products, and supplies Bermad certain products. All these transactions are made at market terms and prices.

APPENDIX

LIST OF SUBSIDIARIES AND JOINT VENTURE:

Name of Company	Country	Percentage of shareholding and control	
		December 31	
		2014	2013
		%	%
Amiad USA Inc.	USA	100%	100%
Filtration & Control Systems PTE Ltd	Singapore	100%	100%
Yixing Taixing Environtec Co. Ltd	China	100%	100%
Amiad Australia Pty Ltd	Australia	100%	100%
Amiad Filtration Solutions Ltd	Germany	100%	100%
Amiad Filtration Solutions Ltd 2004	Israel	100%	100%
Amiad France SARL	France	100%	100%
Fitrasyon Aritim Sistemleri Sanayive Ticaret FTS	Turkey	51%	51%
European filtration Solutions Cooperatief U.A EFS	Holland	100%	100%
Amiad Andina S.A,	Chile	-,-	50%
PEP Filters Inc (USA)	USA	100%	100%
Amiad Filtration Systems (India)	India	60%	60%
JSK Engg. Private Limited	India	40%	40%
Amiad Sistemas de Agua LTDA	Brazil	100%	100%
Amiad Mexico	Mexico	100%	100%
C.O.R Filtration.Netherlands B.V	Holland	100%	100%

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