



Annual Report and Accounts  
**2019**



## Contents

- 4** Directors & Senior Management, Secretary & Advisers
- 5** Financial and Operational Summary
- 6** Chairman's Statement
- 7** Chief Executive's Review
- 9** Chief Financial Officer's Statement
- 10** New Branding Guidelines
- 11** Solutions Across Two Segments
- 12** Project Case Studies – Irrigation
- 13** Project Case Studies – Industry
- 14** Directors' Report
- 18** Directors' & Senior Management Biographies
- 21** Corporate Governance Report
- 26** Audit Committee Report
- 30** Independent Auditor's Report
- 31** Consolidated Statements of Financial Position
- 33** Consolidated Statements of Comprehensive Income
- 34** Consolidated Statements of Changes In Equity
- 35** Consolidated Statements of Cash Flows
- 36** Notes to Consolidated Financial Statements
- 84** Appendix - List of Subsidiaries

## Directors & Senior Management, Secretary & Advisors

### Directors & Senior Management

Yariv Avisar (Non-executive Chairman)  
Derek Zissman (Statutory External Director)  
Arie Schor (Statutory External Director)  
Oded Rosen (Non-executive Director)  
Amos Shalev (Non-executive Director) (1)  
Dr. Gilead Fortuna (Non-executive Director) (2)  
Lilach Asher-Topilsky (Non-executive Director) (3)  
Ran Shahor (Non-executive Director) (3)  
Jenny Cohen Derfler (Non-executive Director) (4)  
Zehava Simon (Non-executive Director) (4)  
Ishay Davidi (Non-executive Director) (5)  
Dori Ivzori (Chief Executive Officer)  
Avishay Afriat (Chief Financial Officer)

### Company Secretary

Ben Gilad

### Registered and Head Office

Amiad Water Systems Ltd.  
D.N. Galil Elyon 1, 1233500  
Israel

### Nominated Adviser and Broker

Stifel Nicolaus Europe Ltd.  
150 Cheapside  
London EC2V 6ET  
UK

### Solicitors to the Company as to English Law

Bryan Cave Leighton Paisner LLP  
Adelaide House  
London Bridge  
London EC4R 9HA  
UK

### Solicitors to the Company as to Israeli Law

Gross, Kleinhendler, Hodak, Halevy, Greenberg, Shenhav & Co.  
One Azrieli Center  
Round Building  
Tel Aviv 6701101  
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

Link Asset Services  
The Registry  
34 Beckenham Road  
Beckenham BR3 4ZF  
UK

### Financial Public Relations Advisor

Luther Pendragon  
48 Gracechurch Street  
London EC3V 0EJ  
UK

(1) Mr. Shalev resigned May 2019

(2) Dr. Fortuna retired December 2019

(3) Appointment effective April 2, 2020

(4) Ms. Simon and Ms. Cohen-Derfler  
resigned May 2020

(5) Appointment effective May 1, 2020

# Financial & Operational Summary

## Financial Summary

- Revenue of \$115.6m (2018: \$113.9m)
- Gross margin of 38.9% (2018: 42.1%)
- Operating profit of \$3.1m (2018: \$6.1m)
- Profit before tax of \$0.1m (2018: \$4.8m)
- Cash generated from operations was \$12.9m (2018: \$1.1m)
- Net debt at 31 December 2019 reduced to \$12.5m (30 June 2019: \$14.4m; 31 December 2018: \$13.8m)
- Cash and cash equivalents at 31 December 2019 increased to \$15.0m (30 June 2019: \$14.1m; 31 December 2018: \$13.5m)

## Operational Summary

- Growth in revenue reflecting increased sales in APAC and EMEA regions and Industry business unit:  
  
Sales in the APAC region – which was the largest contributor to revenue – increased by 8.6%, driven by return to normal business in Amiad India following successful reorganisation of that subsidiary  
  
Industry business unit sales, which accounted for 48.7% of Company revenue, increased by 4.8%, based on significant growth of 35.8% in the Municipal segment
- Sustained execution on strategy to improve operations and recognised initial benefits:  
  
Increased efficiency where manufacturing process automation has been introduced  
  
Maintained tight cost control and implemented internal efficiency measures  
  
Towards year-end, implemented cost cutting measures that are expected to deliver annualised savings of \$4.6m, which will be almost fully realised in 2020
- Post period, as announced on 1 May 2020, Amiad has completed a capital raising resulting in gross proceeds for the Company of approximately £15.63 million from FIMI Opportunity Funds pursuant to a subscription agreement for subscription for new Ordinary Shares by FIMI and £1.97 million from certain existing shareholders under an Open Offer.



## Chairman's Statement

### Revenues

2019 has seen a period of modest growth for Amiad resulting with \$115.6m in revenue, however we finished 2019 with an increased backlog for 2020. Amiad continued implementing its strategic plans to increase focus in our selected segments and to improve our customer's intimacy and total customer's experience. We are starting to see a positive effect in sales of our Industrial business as well as in some key territories, notably APAC and Turkey. Looking ahead, and due to the Covid-19 outbreak affecting the world, we will expect to experience some weakness in certain markets, however the foundations of the business have been strengthened and the global demand for clean water solutions will continue to grow.

### Strategy and future growth

Over the last few years, we have been implementing various strategic transformations, which were cemented during the year. Concentrating our efforts in both the Irrigation and Industrial markets and segments, we aim to increase our offerings and expertise, as well as getting closer to our customers while improving our value to them.

During 2019 we increased our penetration rates with our new products introduction of the Mini Sigma, the Sigma Pro and the Adi-P controller, which brings IOT innovation to customers, enabling remote access and data collection. These new products are seeing an increasing demand continuously. We will continue to invest in R&D in order to broaden our portfolio in the leading segments that we target. Amiad will keep scouting for inorganic opportunities to accelerate our growth and leadership position in the market.

We are proud to have made significant progress with FIMI Opportunity Funds, the leading private equity investor in Israel ("FIMI"), who have recently become the major shareholder in the Company. We are confident that this change will enhance our strategic and execution capabilities. The additional capital will enable further investments in products and technologies, scale up production and improve efficiencies, thus, supporting Amiad's growth opportunities. FIMI's extensive experience will provide a boost of additional knowledge and contribute greatly to Amiad's board of directors.

### Outlook

Looking ahead, previously identified trends of an increasing global water shortage, sustainability and regulatory drivers,

show no sign of abating. In an age of rising awareness on how we influence climate change, Amiad's solutions provide answers to some of the world's pressing problems and we are well-placed to achieve significant growth going forward. In the near-term, we will expect to experience some weakness due to the Covid-19 outbreak which has impacted worldwide economies and markets. However, with our focused plans, FIMI's capital and experience, R&D investments and our unceasing efforts to improve our cost structure, efficiencies and performance – Amiad is very well positioned to accelerate its strategy and grow profitably in the coming years.

I would like to thank all our staff and shareholders for their ongoing support. We wish our customers, business partners, employees and shareholders health.

Yariv Avisar  
**Chairman**  
11 June, 2020



## Chief Executive's Review

Amiad delivered modest revenue growth during 2019, primarily reflecting a good performance in APAC and an increase in sales in the Industry business unit. We achieved good growth in sales of the new Sigma series for the Irrigation market, but the significant pipeline established for the new TEQUATIC™ PLUS Filter acquisition in the Industry business unit, did not translate into the expected orders. We also continued to enhance our operational efficiency and benefitted from the manufacturing process automation introduced in 2018 and in the first half of 2019. Tight cost control and further cost saving measures were introduced, including the reorganisation of several positions and closing certain non-core activities. These measures are expected to deliver savings of \$4.6m on an annualised basis, which will be almost fully realized in 2020.

In response to COVID-19, the Company has acted to ensure the safety of its employees and has complied with the regulatory requirements in each of the territories in which it operates, while preserving business continuity as much as possible. To date, the Company has not been materially impacted by the COVID-19 outbreak, however the situation is evolving, and the Company is monitoring and adapting to developments as they occur.

### Performance by Segment

The Irrigation business unit generated \$59.3m in 2019 (2018: \$60.3m), accounting for 51.3% of our revenue (2018: 52.9%). This primarily reflects growth in APAC and the US being offset by reductions in other regions. Revenue generated under the Netafim channel was broadly flat at \$20.2 (2018: \$20.6).

The new Sigma product series, launched in 2018 and targeting the Irrigation market, performed well with good sales through the Company's direct channels, but lower than anticipated through its distributors. The Company remains confident that its new products sales will increase in 2020.

Our Industry business unit, which comprises sales into the Petrol, Petrochemical, Oil & Gas ("PPOG"), Municipal and General (other industry) segments, generated \$56.2m in 2019 (2018: \$53.7m), accounting for 48.7% of the Company's revenue (2018: 47.1%). Sales growth was noted in the Municipal segment, driven primarily by projects in the US and Singapore, and in the PPOG segment due to increased sales in the APAC region. The General industry segment sales were reduced mainly due to lower sales in the US.

As noted, the significant pipeline established for the new

TEQUATIC™ PLUS Filter, did not translate to orders. Although disappointing, the Company continues to explore the market demand for these filters and expects some of this pipeline to result in orders in 2020. However, we remain cautious about the potential impact of the COVID-19 outbreak on this market and on the depressed oil price.

### Performance by Region

#### Americas

In the Americas, we delivered sales of \$29.8m (2018: \$30.9m), which accounted for 25.8% of total Company revenue (2018: 27.2%). The decline resulting from lack of capital investments in certain projects due to macroeconomic factors impacting the Americas.

In our key geography of the US, sales were \$26.2m (2018: \$26.8m), reflecting a slight decrease in the Industry business unit to \$13.8m (2018: \$14.4m). Within the Industry unit in the US, sales significantly increased in the Municipal segment to \$7.6m (2018: \$5.1m). This was offset by a reduction in sales for the General industry segment and a slight reduction in the PPOG segment. Sales in the Irrigation unit in the US were flat year-on-year at \$12.4m (2018: \$12.4m).

In Latin America, sales were \$3.6m for 2019 compared with \$4.1m in 2018. Towards the end of 2019, we took the decision to close the subsidiary in Brazil as part of our re-organization.

#### EMEA

Revenue in EMEA grew slightly to \$35.1m (\$34.2m). This growth was due to higher sales in the Industry business unit, which generated \$20.1m (2018: \$18.2m), reflecting increased sales in the Municipal and General segments at \$2.8m (2018: \$1.2m) and \$16.5m (2018: \$16.1m) respectively. In the Irrigation business unit, sales were \$15.0m (2018: \$16.0m). Geographically, slight reductions in sales in Amiad Europe, Amiad UK and from the Company headquarters into EMEA were offset by sales growth in Turkey and increased sales in the domestic Israeli market across all segments.

#### APAC

Revenue in APAC increased by 8.6% to \$30.6m (2018: \$28.1m), reflecting growth in the Irrigation unit to \$9.9m (2018: \$8.8m) and in the Industry unit to \$20.7m (2018: \$19.3m). The main contributor to this growth was Amiad India, which increased sales by \$1.2m to

## Chief Executive's Review (continued)

\$2.8m (2018: \$1.6m) as a result of the subsidiary resuming normal business activity following the reorganization that commenced in 2018. Australia continued to be the overall largest contributor to regional revenue, accounting for 46.9% of total sales (2018: 49.1%), with sales increasing to \$14.3m (2018: \$13.8m).

Within the Industry business unit, there was an increase in revenue in the PPOG and General segments with sales of \$4.9m (2018: \$3.7m) and \$11.5m (2018: \$11.3m) respectively. Sales in the Municipal segment were \$4.2m (2018: \$4.4m).

### Outlook

Amiad entered 2020 with a higher backlog than at the same point the previous year. However, we are continuously reviewing the extent of potential disruption to trade caused by the COVID-19 outbreak as well as the impact of the oil prices and fluctuation of the different currencies. Consequently, it is too early to assess the impact these factors will have on revenue growth.

Meanwhile, we continue to execute our strategy to improve efficiency and maintain strict cost control. As a result, macroeconomic conditions notwithstanding, Amiad expects an improvement in gross and operating margins for 2020.

Additionally, Amiad expects to benefit from the potential of the investment made by FIMI in 2020. The funding will be used to help develop the business in several ways, including investment in new technologies and channels to market and expediting the company's long long-term plan.

Dori Ivzori

**Chief Executive Officer**

11 June, 2020



## Chief Financial Officer's Statement

Revenue for the year ended December 31, 2019 increased by 1.5% to \$115.6m compared with \$113.9m for 2018.

Gross margin was 38.9% (2018: 42.1%) with the reduction due to the negative impact of several factors:

- Impact of currency exchange rate: primarily the strengthening of New Israeli Shekel against the US Dollar, resulting in increased cost of sales based in Israel, and the sales erosion due to the strength of the US Dollar against the Australian Dollar and Euro as mentioned above
- Shift in sales mix, with variation by product and territory: such as the reduction in sales of certain high-margin products in the US, which were replaced with sales of other lower margin products; as well as a certain number of specific low-margin projects completed in the first half of the year
- The receipt of government grants in 2018, which wasn't repeated in 2019

The gross margin for the full year was slightly lower than that for the half-year period primarily due to the greater currency impact in the second half. In addition, the margin didn't recover in the second half as expected due to the ramp in sales of the new products, which carry a higher margin, being less than initially anticipated as described above. The lower sales in the second half also meant that the Company was unable to offset the large, lower-margin projects completed in the first half of the year.

Because of the lower gross margin, gross profit for the year was \$45.0m (2018: \$48.0m).

Total operating costs were maintained at \$41.8m (2018: \$41.8m). Sales and marketing costs were slightly lower at \$28.5m for 2019 (2018: \$28.8m). R&D costs were level at \$3.6m (2018: \$3.6m) and administrative and general expenses were slightly higher at \$9.8m (2018: \$9.5m).

Operating profit was \$3.1m (2018: \$6.1m), with the reduction due to the lower gross margin. Profit before tax was \$0.1m (2018: \$4.8m) due to the lower operating profit as well as financial expenses of \$2.3m mostly due to the implementation of IFRS 16. Excluding IFRS 16, profit before tax would have been \$1.7m. Fully diluted loss per share was \$0.08 (2018: \$0.10 earnings per share).

Cash generated from operations increased significantly to \$12.9m (2018: \$1.1m), with approximately \$10m of the increase

due to less cash being absorbed into working capital compared with the prior year. It was also positively impacted by the application of IFRS 16 in 2019 due to the reallocation of lease charges from operating activities to finance activities.

Due to the low level of profit before tax generated, especially in Israel where there is a lower tax rate than in the subsidiary countries, the Company had tax expenses of \$1.0m on profit before tax of \$0.01m in 2019 compared with tax expenses of \$1.1m on profit before tax of \$4.8m in 2018.

Additionally, the adoption of IFRS 16 had a negative impact on the Company's reported net profit, including a negative currency impact on finance costs resulting from the revaluation of the operating leases that are denominated in the New Israeli Shekel. As a result, the Company reported a net loss for 2019 of \$0.9m (2018: \$3.8m net profit). Excluding the impact of IFRS 16, net profit was \$0.6m.

As at 31 December 2019, cash and cash equivalents were \$15.0m (30 June 2019: \$14.1m; 31 December 2018: \$13.5m). Net debt at 31 December 2019 was \$12.5m (30 June 2019: \$14.4m; 31 December 2018: \$13.8m). This reduction was due to the strong increase in the generation of cash from operations with a \$1.1m increase trade receivables.

Avishay Afriat  
**Chief Financial Officer**  
11 June, 2020

## New Branding Guidelines at Amiad

During the course of 2019, Amiad carried out the process of updating its main messages across the various business sectors, as well as refreshing its visual design concept.

The goal was to reinforce Amiad's position as a market leader in the world of water filtration. Below are some examples of our new key messages and how they are now presented in our marketing materials.

### Our Value Proposition



A well-known brand



Strong R&D with focus on innovative technological solutions



Over 57 years of proven experience and a rich heritage in filtration



A global company, with local presence, supporting our customers around the world



A house of technologies offering all filtration solutions under one roof



Reliable and durable high-quality products

### Our Core Messages

# MASTERS OF FILTRATION

#### We focus on doing what we do best

Masters of Filtration gives validity to Amiad as the leading water filtration company.



#### Only Amiad is the original

In an ever evolving competitive market, there is only one original brand. This is what led us to create this image, and it accompanies all of our marketing materials and filters.

Amiad Original filters offer the best performance, quality and service, backed by years of field experience.

Amiad Delivers Products and Solutions Across Two Segments:

## **amiad**<sup>®</sup> IRRIGATION

**FARMING IS  
OUR HERITAGE.  
FILTRATION  
IS OUR  
LEGACY.**



Anywhere



Any Technology



Any Crop



Any Water Source



## **amiad**<sup>®</sup> INDUSTRY

**YOUR WATER  
CHALLENGE.  
OUR FILTRATION  
SOLUTION.**



Anywhere



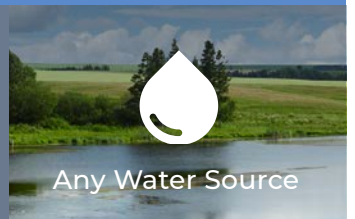
Any Technology



Any Challenge



Any Water Source



## Project Case Studies – Irrigation

Protecting Drip Irrigation in a Pecan Grove

Kibbutz Sasa, Israel

### Customer Challenge

The grove was being irrigated by using two manual 3" filters and as the irrigation pipes were very old, the crumbling pipes and other debris were constantly and severely clogging the filters. This resulted in frequent and costly maintenance and cleaning. The grove manager needed to find a solution that would make the irrigation process more efficient by saving time, money and water.

### Amiad Solution

By installing two 3" Mini Sigma automatic self-cleaning filters equipped with the ADI-P Controller, Amiad's solution provided lower water and energy consumption, easy installation and low maintenance, and advanced monitoring capabilities. There was an immediate impact on the manager's workload and profitability.



Recycling Dairy Farm Wastewater for Irrigation

High Plains Ranch Dairy, USA

### Customer Challenge

The dairy farm uses fresh water for washing the cows, the milk-producing process and for the supply of drinking water for the cows, producing wastewater. The wastewater is collected into local ponds, with the responsibility of emptying the ponds falling on the farm, and they decided to use the water for irrigation purposes. Filtration was required prior to the center pivot irrigation system, with the ability to handle high loads of suspended solids as well as the suspended organic loads from the pond.

### Amiad Solution

Two ABF-6000 automatic filters were installed, and the dairy farm was able to pump a total of 15,000,000 gallons (56,781,176 liters) of wastewater with no clogged nozzles and the collection pond remained empty of water. Amiad provided a solution for efficient filtration with very low total water loss, proper self-cleaning of the screen, low power consumption and better filtration performances.



## Project Case Studies – Industry

Plastic Extrusion Industry

Telford Shropshire, England

### Customer Challenge

One of the UK's largest manufacturers and suppliers of PVC windows and doors expanded production and added a new extrusion hall of up to 24 extrusion lines, requiring a new cooling water filtration system.

### Amiad Solution

The filtration system includes 18 x 4" Galaxy disc filters, 2 x 8" Brushaway semi-automatic screen filters, 5 x TAF 750 automatic screen band filters, 2 automatic stainless-steel paper band filters and an Amiad PLC control board with HMI and pneumatic solenoid panel. This solution provides protection of the heat exchanger, improved product quality and a reduction in factory downtime, chemical use and water consumption.



Specialist Steel Manufacturer

North Yorkshire, England

### Customer Challenge

The mill's existing bag filter housing required the bags to be changed every 12 hours, resulting in high operational costs and significant time impact for the site personnel. They needed a solution that would reduce costs, save on maintenance, and improve water quality to the spray nozzles.

### Amiad Solution

After the ABF-3000 installation, the bag filter housing downstream was able to go a full week between bag changes instead of only 12 hours.

Later, the entire water feed system was upgraded with an ABF-10000 filter, to treat all incoming water supply to the mill, and both filters continue providing the mill with high quality water.



# Directors' Report

For the year ended December 31, 2019

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, 2019.

## 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 the 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 irrigation market and the industrial market, which includes municipal, oil & gas and other industrial markets.

The Company specialises in automatic self-cleaning 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 2019 is set out on page 5 and the full financial statements are from page 31 onwards.

## 3. Dividend

As noted in the Chairman and Chief Executive's statements, the Company is continuously reviewing the extent of potential disruption to trade caused by the COVID-19 outbreak and the impact it may have on revenue growth. As a result, the Board of Directors believes that it would be in the best interests of the Company and its shareholders not to declare a final dividend for 2019 thereby strengthening the Company's current financial position. The Company strives to implement a progressive dividend policy and, assuming the Company crosses the global COVID-19 outbreak and grows as anticipated, the Board expects to resume dividend payments.

## 4. Business and strategic review

The information that fulfils the requirements of the strategic report and business review, including details of the results for the year ended December 31, 2019, principal risks and uncertainties, research and development, financial KPIs and the outlook for future years, are set out in the Chairman's, Chief Executive Officer's and Chief Financial Officer's statements on pages 6-9, and in this Directors' Report.

## 5. Risk management

The Company's financial risk management is discussed in

Note 4 to the financial statements. The Directors regularly assess the Company's key commercial risks, which are considered to be changing industry standards and the ability of larger competitors, with greater financial resources, to develop and market products and services that compete with those offered by the Company in terms of technology or pricing. Commercial risks are managed through ongoing research and development, enhancing know-how and technical capability resulting in the introduction of new products and services, and by maintaining high levels of customer service and commitment to understanding the needs of customers.

## 6. Share capital

Details of the issued share capital of the Company and movements during the year 2019 are set out on pages 65-68.

## 7. Research and development

As at December 31, 2019 the Company employed 24 people worldwide in research and development and engineering. It currently intends to invest approximately 2.7 per cent of sales revenues on R&D on an ongoing basis.

## 8. Directors

The following Directors held office for the year ended December 31, 2019 and up to the date of the signing of this annual report unless otherwise stated:

- Yariv Avisar
- Derek Zissman
- Arie Schor
- Oded Rosen
- Amos Shalev (Resigned May 2019)
- Gilead Fortuna (Retired December 2019)
- Lilach Asher Topilsky (Appointed April 2020)
- Ran Shahor (Appointed April 2020)
- Jenny Cohen Derfler (Resigned May 2020)
- Zehava Simon (Resigned May 2020)
- Ishay Davidi (Appointed May 2020)
- Dori Ivzori (Resigned May 2020)

Biographical details of the current Directors are set out on pages 18-20.

## Directors' Report (continued)

For the year ended December 31, 2019

### 9. Directors' Interests

As of December 31, 2018:

Director	Number of ordinary shares	Number of ordinary shares under option	Percentage of issued share capital on a fully diluted basis
Yariv Avisar	Nil	50,000	0.22
Dori Ivzori	Nil	125,000	0.55
Jenny Cohen Derfler	Nil	Nil	Nil
Zehava Simon	Nil	Nil	Nil
Derek Zissman	12,500	Nil	0.05
Gilead Fortuna	Nil	Nil	Nil
Oded Rosen	11,106,687	Nil	48.89
Arie Schor	Nil	Nil	Nil

1. Mr. Oded Rosen is a member of Kibbutz Amiad and HaChoshlim Foundation, as well as a member of the Board of Kibbutz Amiad and HaChoshlim Foundation. Out of the 11,106,687 ordinary shares in which Mr. Rosen had an interest as of December 31, 2019, 10,298,987 ordinary shares were held by A.M.S.I. Investments (1997) Ltd., a wholly-owned subsidiary of HaChoshlim Foundation - Agriculture Cooperative Society for Business Ltd., which is an affiliate of Kibbutz Amiad, and 807,700 ordinary shares were registered in the name of Kibbutz Amiad.

### 10. Directors' remuneration

Name	Salary/Fee benefits (in US \$)		Pension contribution (in US \$)		Total (in US \$)	
			For the year		For the year	
	2018	2019	2018	2019	2018	2019
Amos Shalev	20,526	8,666	Nil	Nil	20,526	8,666
Jenny Cohen Derfler	24,000	28,282	Nil	Nil	24,000	28,282
Zehava Simon	19,603	25,723	Nil	Nil	19,603	25,723
Derek Zissman	52,252	68,646	Nil	Nil	52,252	68,646
Dr. Gilead Fortuna	20,539	20,932	Nil	Nil	20,539	20,932
Oded Rosen	20,267	22,137	Nil	Nil	20,267	22,137
Dori Ivzori	364,093	346,738	19,164	19,184	397,249	365,037
Yariv Avisar	29,081	121,795	Nil	Nil	29,081	121,795
Arie Schor	17,427	30,131	Nil	Nil	17,427	30,131

### 11. Remuneration of Executives

The remuneration of the Company's five most highly compensated executives in 2019 was as follows:

Name	Position	Scope of employment	Current number of ordinary shares	Share based compensation (in US\$)	Employment cost (in US\$)	Grants/Bonuses (in US\$)	Total (in US\$)
Dori Ivzori <sup>(1)</sup>	Chief Executive Officer	Full time	Nil	5,689	365,037	Nil	370,726
Michael Poth <sup>(2)</sup>	President Amiad USA, Inc.	Full time	Nil	11,600	254,791	49,534	315,925

## Directors' Report (continued)

For the year ended December 31, 2019

Name	Position	Scope of employment	Current number of ordinary shares	Share based compensation (in US\$)	Employment cost (in US\$)	Grants/Bonuses (in US\$)	Total (in US\$)
Nir Lang <sup>(3)</sup>	VP APAC Region Manager	Full time	6,660	608	232,986	56,505	290,099
Issey Ende <sup>(4)</sup>	VP Marketing	Full time	Nil	11,600	229,598	15,336	256,533
Noam Shlasky <sup>(5)</sup>	VP Chief Operations Officer	Full time	Nil	319	223,667	14,468	238,454

(1) Mr. Ivzori is employed as the Company's CEO as of November 2016. Under his employment agreement, Mr. Ivzori is entitled to a mobile phone, reimbursement for meals and a car, including gasoline and related expenses associated with the car that are borne by the Company. Upon his appointment, Mr. Ivzori was granted 125,000 options exercisable into 125,000 ordinary shares of the Company par value NIS 0.5 each ("Ordinary Shares") under the Company's 2012 Share Option Plan, that are subject to a 4 year vesting schedule. Mr. Ivzori may be eligible to receive a bonus upon achieving certain targets in accordance with the Company's Remuneration Policy.

(2) Mr. Poth is employed as the President of Amiad USA, Inc., a wholly owned subsidiary of the Company, as of May 2018. Under his employment agreement, Mr. Poth is entitled to a mobile phone, car allowance in the amount of US\$ 1,000 per month and to participate in Amiad USA group health insurance. On June 2018, Mr. Poth was granted 40,000 options exercisable into 40,000 Ordinary Shares under the Company's 2012 Share Option Plan, that are subject to a 4 year vesting schedule. Mr. Poth may be eligible to receive a bonus upon achieving certain targets in accordance with the Company's Remuneration Policy.

(3) Mr. Lang was employed as the CEO of Amiad Australia PTY, Ltd., a wholly owned subsidiary of the Company, between June 2005 and December 2017 and as of December 2017 he is employed as the Company's APAC Region Sales Manager. Under his employment agreement, Mr. Lang is entitled to car allowance in an annual amount of AU\$ 32,000. On December 2012 Mr. Lang was granted 50,000 options under the Company's 2012 Share Option Plan exercisable into 50,000 Ordinary Shares, which have expired on December 2019. On December 2015 Mr. Lang was granted additional 20,000 options exercisable into 20,000 Ordinary Shares under the Company's 2012 Share Option Plan, that are subject to a 4 year vesting schedule. Mr. Lang may be eligible to receive a bonus upon achieving certain targets in accordance with the Company's Remuneration Policy.

(4) Mr. Ende was employed as Head of Industry Business Unit of the Company between November 2017 and October 2019 and as of October 2019 he is employed as VP Marketing, BD & Technologies, Industry of the Company. Under his employment agreement, Mr. Ende is entitled to a mobile phone, reimbursement for meals and a car, including gasoline and related expenses associated with the car that are borne by the Company. On June 2018, Mr. Ende was granted 40,000 options exercisable into 40,000 Ordinary Shares under the Company's 2012 Share Option Plan, that are subject to a 4 year vesting schedule. Mr. Ende may be eligible to receive a bonus upon achieving certain targets in accordance with the Company's Remuneration Policy.

(5) Mr. Shlasky is employed as the Company's VP COO as of October 2012. Under his employment agreement, Mr. Shlasky is entitled to a mobile phone, reimbursement for meals and a car, including gasoline and related expenses associated with the car that are borne by the Company. On December 2012 Mr. Shlasky was granted 20,000 options exercisable into 20,000 Ordinary Shares under the Company's 2012 Share Option plan, which have expired on December 2019. On each of December 2014 and on June 2015 Mr. Shlasky was granted 20,000 options, each exercisable into 20,000 Ordinary Shares, that are subject to a 4 year vesting schedule as of the actual grant. Mr. Shlasky may be eligible to receive a bonus upon achieving certain targets in accordance with the Company's Remuneration Policy.

## 12. Health, safety and environmental policy

The Company recognizes 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 that 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.

## 13. Substantial shareholders

As at December 31, 2019, the Company had been notified of the following interests in 3 per cent or more of the issued ordinary share capital of the Company:

## Directors' Report (continued)

For the year ended December 31, 2019

Name	Number of shares	% of issued ordinary share capital
Kibbutz Amiad Agricultural Cooperative Association Ltd.*	11,099,187	48.89
First Israel Mezzanine Investors**	4,101,758	18.06
Impax Asset Management Limited	1,660,466	7.31
ACTIAM	1,071,355	4.71
Kibbutz Beit Zera Agricultural Cooperative Association Ltd.	1,019,223	4.49
FIBI Bank	850,687	3.74

\* As of December 31, 2019, 807,700 of these shares were directly held by Kibbutz Amiad and 10,298,987 shares were held by A.M.SI. Investments (1997) Ltd., a wholly-owned subsidiary of HaChoshlim Foundation – Agriculture Cooperative Society for Business Ltd. which is an affiliate of Kibbutz Amiad.

\*\* As of December 31, 2019, 2,182,986 of these shares were held by FIMI Israel Opportunity 6, Limited Partnership and 1,918,772 of these shares were held by FIMI Opportunity 6 L.P.

### 14. 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.

### 15. 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.

### 16. Directors' responsibilities

The Israeli Companies Law, 5799-1999 requires the Directors to prepare financial statements for each financial year that 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.

### 17. Auditors

Kesselman & Kesselman, a member of PricewaterhouseCoopers International Limited, was appointed as the Company's auditor for the financial year ended December 31, 2019. The total fee paid to the Company's auditor for audit services rendered to the Company during that year was NIS 500,000.

### 18. Nominated advisor and broker

The Company's nominated advisor and broker is Stifel Nicolaus Europe Limited.

By order of the Board  
11 June, 2020

Yariv Avisar  
**Chairman**

Dori Ivzori  
**Chief Executive Officer**

## Directors' & Senior Management Biographies



### Yariv Avisar

Non-executive Chairman

Mr. Avisar was appointed Chairman of Amiad on September 13, 2018. He has over 18 years' experience in global business management within the technology and engineering sector. This includes four years as Chief Executive Officer of SCR (Engineers) Ltd, a global leader in the development and production of agritech solutions for dairy farming, which was acquired by Allflex Group for US\$250m in 2015. Prior to this, he held the position of VP & GM of a global business unit at Hewlett Packard's Scitex division for large-format digital printing and a sales and corporate role at M-Systems, a NASDAQ-listed producer of flash memory products. His current roles include, among others, Chairman of GlucoMe, a digital diabetes care platform; an active director of Telefire Company, a designer and manufacturer of solutions for fire alarms and smoke evacuation control systems worldwide; and a director of Unitronics, a TASE-listed developer of advanced technological solutions for the automation sector.



### Arie Schor

Statutory External Director

Mr. Schor was appointed as statutory external director of the Company in February 2018, with effect as of April 1, 2018. He has extensive experience in leading substantial manufacturing-based businesses with international sales and operations. This includes being CEO of Tnuva Group, the largest food manufacturer and distributor in Israel, which owns multiple food brands, from 2009 to 2016. Mr Schor joined Tnuva from Hogla-Kimberly (now known as Kimberly-Clark Israel), which was the largest non-food consumer company in Israel with manufacturing facilities in Israel and Turkey. Prior to this, he spent six years as CEO of Caniel Industries A.T.G., a leading provider of metal packaging for food and beverage industries. He also has experience as the chairman of the board of directors of Tadbik Ltd., an international packaging business, chairman of the business cooperative of Kibbutz Afikim and as an independent director at Paz Oil Company Ltd., the largest oil & gas company in Israel, which is listed on the Tel Aviv Stock Exchange.



### 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 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 Advisory Board and Seymour Pierce. He is a current Director and member of the Audit Committee at a number of companies operating in the IT, leisure, food, transportation and engineering sectors, including AIM-listed The 600 Group PLC and Lakehouse PLC and HelloFresh SE, a company listed on the Frankfurt Stock Exchange.



### Oded Rosen

Non-executive Director

Mr. Rosen joined the Board as a non-executive director on July 28, 2015. He has been a member of Kibbutz Amiad, which is the major shareholder of the Company, since 1961 and currently sits on the General Management Board of the Kibbutz and Hachoshlim Foundation - Agricultural Cooperative Society for Business Ltd. In 1982, he joined the Company as CEO and was instrumental in Amiad's decision to enter the automatic filtration market. He subsequently assumed the position of Vice President for Production Operations, a role he held from 1986 until his retirement in 2010. Zehava Simon

## Directors' & Senior Management Biographies

(continued)



### Ishay Davidi

Non-executive Director

Mr. Davidi, was appointed to the Board as a non-executive director on May 1, 2020. He is the Founder and Chief Executive Officer of FIMI Opportunity Funds since 1996. Prior to establishing FIMI, Mr. Davidi was the CEO of the Tikvah Fund, a private Israeli investment fund founded by the late Sanford Bernstein. Mr. Davidi also held senior management positions in a variety of leading Israeli industrial and high-tech companies. Mr. Davidi served as the Chairman of the Board of Directors of Inrom Construction Industries (TASE), Novolog (Pharm-Up 1966), and is now the Chairman of the Board of Hadera Paper (TASE) and Polyram Plastic Industries. He is a Director at Gilat Satellite Networks (NASDAQ/TASE), Ham-Let (TASE), Bet Shemesh Engines (TASE), C.Mer Industries (TASE), Rekah Pharmaceutical Industries (TASE), and KAMADA (TASE). Mr. Davidi has an MBA from Bar Ilan University and Industrial and Management Engineering BA Degree from Tel Aviv University which he graduated with honors.



### Lilach Asher Topilsky

Non-executive Director

Ms. Asher Topilsky, joined to Board as a non-executive director on April 2, 2020. She is currently a senior partner at FIMI. Before joining FIMI, she served as the Chief Executive Officer at Israel Discount Bank Ltd. (TASE), the Chairman of Mercantile Discount Bank Ltd. (a subsidiary of Israel Discount Bank Ltd.) Previously, she was the Head of the Retail Division of Bank Hapoalim BM (TASE) and a consultant at The Boston Consulting Group (BCG Chicago). Ms. Asher Topilsky is the Chairman of the Board of Directors of GI Secure Solutions (TASE), a director of Kamada Ltd. (NASDAQ/TASE), and a director at Tel Aviv University. Ms. Asher Topilsky has an MBA from Kellogg Business School at Northwestern University and an undergraduate degree in Economics and Management from Tel-Aviv University.



### Ran Shahor

Non-Executive Director

Mr. Shahor, joined the Board as a non-executive director on April 2, 2020. He is the CEO and co-founder of HolistiCyber. Prior to HolistiCyber, Mr. Shahor served as the CEO of BSI, a global provider of holistic (cyber, HR and physical) security solutions, as well as the CEO & Co-Founder of Focal Energy where he continues to serve as an e-board member. Mr. Shahor was also previously the Managing Partner of Star Ventures, a \$1 billion global venture capital group where he served as a board member in Azimuth Technologies and Maayan Ventures (TASE), Unity (NASDAQ) and several privately-owned companies. Prior to his time at Star Ventures, Mr. Shahor had a long and decorated career with the Israeli Defence Forces. He was the Commander of the IDF's top Special Forces unit and also served as a Brigadier General, as the acting Military Secretary of the Israeli Defence Minister. Mr. Shahor has a Law degree and an MBA from Tel-Aviv University and he is the chairman of two non-for-profit organizations: "GALLOP" and "Msdar".



### Dori Ivzori

Chief Executive Officer

Mr. Ivzori was appointed CEO of Amiad on November 3, 2016. Mr. Ivzori joined Amiad from Tama Plastic Industry, General Partnership ("Tama Plastics") where he was the Managing Director, performing the functions of Chairman and CEO of the business since 2008. As Managing Director, he was responsible for the strategic direction of Tama Plastics, including M&A in Europe and the USA, and the running of the day-to-day operations. Tama Plastics is a world-leading manufacturer of cutting-edge agricultural technology with a turnover of over US\$500m and more than 1,300 employees spread across nine production sites and 15 subsidiaries. Prior to his promotion to Managing Director, Mr. Ivzori held other senior posts at Tama Plastics since 2000. Mr. Ivzori was admitted to the Bar in Israel in 2000 and started his career in 1986 working in Kibbutz Mishmar Haemek, including four years managing the kibbutz's farming activity.

## Directors' & Senior Management Biographies

(continued)



### **Avishay Afriat**

Chief Financial Officer

Mr. Avishay Afriat, a Certified Public Accountant, joined Amiad in 2009 as a financial controller. He became a significant and valuable part of Amiad's finance team - participating and leading many of the significant finance activities, including global implementation of the SAP system (FI module), global management of financial teams, establishing the company's current financial infrastructures and reporting procedures as well as managing the Group's budget process. His last role included Global Controller and treasurer and finance manager for the EMEA region. He was appointed CFO of Amiad on March 19, 2020. Prior to joining Amiad, Mr. Afriat was a senior manager in the audit division at PricewaterhouseCoopers. He holds a BA degree in Economics and Accounting from Ben-Gurion University and an MBA in Business & Finance from the College of Management Academic Studies.

# Corporate Governance Report

For the year ended December 31, 2019

The Directors of Amiad Water Systems Ltd. (the "Company") recognize the importance of high standards of good corporate governance and have chosen to adopt the 2018 Quoted Companies Alliance Corporate Governance Code (the "QCA Code"), insofar as they are appropriate given the Company's size and stage of development and insofar as is permitted by the Israeli Companies Law, 5759-1999 (the "Israeli Act"). Accordingly, a statement of how the QCA Code has been applied by the Company and where the Company departs from the QCA Code is published on the Company's website in accordance with AIM regulations.

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 2019, 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 during 2019 was Mr. Dori Ivzori (Chief Executive Officer). On 1 May 2020, Mr. Ivzori stepped down from his office as Director of the Company but he continues to serve as Chief Executive Officer of the Company.

The non-executive directors of the Company during the year and up to the date of the publication of this annual report (unless otherwise stated) were:

- Yariv Avisar
- Derek Zissman
- Arie Schor
- Oded Rosen
- Amos Shalev (1)
- Dr. Gilead Fortuna (2)
- Lilach Asher-Topilsky (3)
- Ran Shahor (3)
- Jenny Cohen-Derfler (4)
- Zehava Simon (4)
- Ishay Davidi (5)

(1) On May 21, 2019 Mr. Amos Shalev stepped down from his office as Director of the Company.

(2) On December 12, 2019 Mr. Gilead Fortuna stepped down from his office as Director of the Company.

(3) On April 2, 2020 Ms. Lilach Asher Topilsky and Mr. Ran Shahor were appointed as Directors of the Company.

(4) On May 1, 2020 Ms. Jenny Cohen Derfler and Ms. Zehava Simon stepped down from their office as Directors of the Company.

(5) On May 1, 2020 Mr. Ishay Davidi was appointed as Director of the Company.

Biographical details of the Directors are set out on pages 18-20. The Board is diverse in its range of skillsets and international experience, and the Directors believe that they have an appropriate balance of sector, financial and public markets skills and experience, as well as an appropriate balance of personal qualities and capabilities to best support the Company.

Mr. Schor and Mr. Zissman are statutory external directors and are considered to be independent in accordance with the independence criteria of the Israeli Act as stipulated in section 12 of this Corporate Governance Report. Under the QCA Code, Mr. Schor, Mr. Zissman, Mr. Shahor (and Ms. Simon, Ms. Derfler and Dr. Fortuna during their tenure) are considered to be independent in accordance with the criteria set forth in this section. The difference between the two classifications is that Mr. Shahor (and Ms. Simon, Ms. Derfler and Dr. Fortuna during their tenure) have not given an external director's declaration and the Audit Committee has not classified them as being independent in accordance with the criteria of the Israeli Act.

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 Board considers possible risks to the Company's business at every Board meeting and is provided with reports prepared by the Chief Executive Officer and the Audit Committee at each meeting, which form the basis of its risk management analysis.

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

# Corporate Governance Report (continued)

For the year ended December 31, 2019

## 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 QCA Code recommends in particular that the board of directors of a listed company should include an appropriate combination of independent non-executive directors such that no individual, or small group of individuals, can dominate the board's decision taking. The QCA Code states that the board should determine whether a director is independent in character and judgement and whether there are relationships or circumstances that 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 QCA Code and, following careful consideration, assessed that, in the period from January 1, 2019, to December 31, 2019, five of the Company's directors (including Dr. Fortuna who stepped down from his office as Director on December 12, 2019) were non-executive directors considered by the Board to be independent.

The Board considers that it has an appropriate balance between independence on one hand, and knowledge of the Company and the markets in which it operates, on the other, to enable it to discharge its duties effectively. Each of the Directors are encouraged to exercise independent judgement. As part of the Board approval process for the Company's yearly budget and workplan, the Directors are presented with the work plans of each of the Company's business units and sales regions. This provides them with greater exposure to the business and an opportunity to ask detailed questions.

The Company Secretary supports the Chairman in addressing the training needs of Directors. The Company Secretary, who holds the position of the Company's General Counsel, provides the Directors, from time to time, with legal training regarding regulatory issues and their duties under the Israeli Act, AIM rules, the QCA Code and the Company's Code of Dealing. The Company Secretary attends the meetings of the Board and the Audit Committee, ensures that their actions are taken according to law and provides the Directors with legal advice as required to support their decisions.

## 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 ten Board meetings in 2019, held on February 6, March 26, June 12, July 11, July 16, September 9, October 6, October 27, November 5 and December 18-19. Mr. Arik Schor was absent from the meeting that took place on March 26, Ms. Jenny Cohen Derfler was absent from the meeting that took place on October 27 and Ms. Zehava Simon was absent from the first day meeting that took place on December 18. All other directors were present at each meeting.

Since Mr. Yariv Avisar serves also as director of a company affiliated with FIMI Investment Funds ("FIMI"), he did not participate in the discussions and voting of the resolutions pertaining to FIMI's investment in the Company that was completed on May 1, 2020 and announced by the Company. Since Mr. Oded Rosen is a member of the management board of Keren HaChoshlim, Oded Rosen did not participate in the discussions and voting of resolutions pertaining to the said FIMI's investment in the Company.

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.

Each non-executive director is expected to attend all Board meetings, which are held at least once every quarter, and meetings of Board Committees as well as spending appropriate preparation time ahead of each meeting. The CEO, during his tenure as an executive director, was employed on a full-time basis.

The Board holds an internal discussion and carries out an internal evaluation of its performance on an annual basis.

The Company is considering the introduction of a periodic evaluation of Directors, for which it is yet to determine an appropriate process.

## 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,

# Corporate Governance Report (continued)

For the year ended December 31, 2019

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. Dori Ivzori, Chief Executive Officer, and Mr. Avishay Afriat, Chief Financial Officer, have met or held discussions 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](http://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 which may be held via a webinar in light of the COVID-19 outbreak and in order to protect the health and safety of all shareholders.

As was the case with the Company's 2019 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 absolutely all potential 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 Company's management team meet at least once a month to review ongoing matters, discuss budgets and forecasts and consider new risks.

The Board also seeks to ensure that there is a proper organizational 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. Board Committees

The Board delegates specific responsibilities to properly constituted committees with terms of reference approved by the Board. The committees have access to such resources and information deemed necessary to discharge their duties.

Pursuant to a resolution of the Board dated December 14, 2017, as of April 1, 2018, the Audit Committee also performs the role of the Remuneration Committee and fulfils its responsibilities under the Israeli Act and the QCA Code, as stated further below. This includes the role of the Nomination Committee, that had previously been performed by the Remuneration Committee. The Board adopted this resolution following an amendment to the Israeli Act in 2016 that enables the Audit Committee to act as the Remuneration Committee provided that the composition of the Audit Committee meets the composition requirements of the Remuneration Committee. These measures were undertaken to enhance the operating efficiency of the Board, considering the current position of the Company. Consequently, the Strategic and Finance Committees were also dissolved.

### 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 (the "Audit Committee"). In the period between January 1, 2019, and July 11, 2019, the Committee was comprised of Mr. Arie Schor, Ms. Jenny Cohen Derfler, and Mr. Derek Zissman, who served as the chairman of the Audit Committee.

Following the resignation of Ms. Jenny Cohen Derfler as member of the Audit Committee, and the appointment of Ms.

# Corporate Governance Report (continued)

For the year ended December 31, 2019

Zehava Simon as member of the Audit Committee, between July 11, 2019 and December 31, 2019 the Committee was comprised of Mr. Arie Schor, Ms. Zehava Simon, and Mr. Derek Zissman, who served as the chairman of the Audit Committee.

Following the resignation of Ms. Zehava Simon from the Board on May 1, 2020, as of May 1, 2020 the Committee is comprised of Mr. Arie Schor, Mr. Ran Shahor, and Mr. Derek Zissman, who continues to serve as the chairman 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.

As noted above, as of 1 April 2018, the Audit Committee assumed the responsibilities of the Remuneration and Nomination Committees.

The Audit Committee regularly reports its decisions and recommendations to the Board.

There were sixteen meetings of the Audit Committee in 2019, held on February 4, March 17, March 19, March 25, March 31, May 14, May 29, June 11, July 8, July 16, July 29, August 26, September 8, October 6, November 5, December 18. Mr. Arie Schor was absent from the Audit Committee meetings held on March 25 and March 31. In all other Audit Committee meetings all members attended.

In addition to its duties concerning monitoring the financial reporting and internal control, the Audit Committee supervises and monitors decisions of the management team with the assistance of the Internal Auditor, which provides the Audit Committee with internal audit reports on specific issues defined by the Committee each year in advance.

The activities of the Audit Committee during 2019 are reviewed in the Audit Committee Report on page 26.

## Remuneration Committee

Under the Israeli Act, 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 a majority of independent directors (according to the definition of independency under the Israeli Act). As stated above, as of April 1, 2018, the Audit Committee also performs the role of the Remuneration Committee and fulfils its responsibilities under the Israeli Act and the QCA Code.

The Remuneration Committee's 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 office holders and to examine the implementation of the remuneration policy 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 Company's remuneration policy is published on the Company's website.

The Remuneration Committee regularly reports its decisions and recommendations to the Board.

According to section 267A of the Israeli Act, a remuneration policy must be adopted by every Israeli public company and must expire at the end of the three-year period following its adoption. As per the Israeli Act, a company's remuneration policy is intended to regulate and set the guidelines for the remuneration of the office holders of the company. In 2019, following the expiry of the Company's remuneration policy as adopted in 2016, the Company re approved its remuneration policy that was adopted in 2016 on the recommendation and approval of the Remuneration Committee and by the approval of the Board and the Company's shareholders.

## Nomination Committee

As stated above, as of April 1, 2018, the Audit Committee also performs the role of the Nomination Committee of the Company with respect to the appointment of any proposed new independent non-executive director to the Board and to the appointment of any proposed new member not being External Directors to the Audit Committee. Prior to approving any such appointment, the Audit Committee shall evaluate the balance of skills, knowledge and experience of the candidate and be satisfied as to his/her independence from the Company, its shareholders and their respective related parties.

The Audit Committee assumes further responsibilities as nomination committee at the request of the Board.

# Corporate Governance Report (continued)

For the year ended December 31, 2019

## 7. 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, a relative of any interested party or office holder, or 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 may 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 assessment that was conducted by the said internal auditor in the Company.

## 8. Share dealings

Since it was admitted to trading on AIM, the Company has maintained a code for directors' and employee share dealings. In light of the new Market Abuse Regulation (EU No: 596/2014) that came into force in July 2016, the Company adopted a Code on Dealing in 2016, which is aligned with these new regulations. The Code on Dealing was reviewed and reaffirmed by the Board in its meeting held on December 12, 2018.

## 9. 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 that 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 their 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 their appointment and during a period of two years prior to their appointment, any affiliation with the Company, its controlling persons or any entity that was controlled by the Company or any of its controlling persons at the time of the

external director's appointment or at any time during the two-year period immediately prior to their 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 they, their relative, partner, or employer or the person to whom they are directly or indirectly subject or, if a body corporate of which they are 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 their other activities or position create or are likely to create a conflict of interest with their service as a director.

The initial term of an external director according to the Israeli Act is three years. The external director may be re-elected, subject to certain circumstances and conditions, for up to two additional terms of three years each, and thereafter, subject to conditions set out in the regulations promulgated under the Israeli Act, to further three-year terms.

On February 28, 2018, at a specially convened Extraordinary General Meeting, Mr. Arie Schor was elected to serve as the Company's External Director for a first term of three years, effective April 1, 2018 and Mr. Derek Zissman was reappointed as an external director for a second term of three years.

By order of the Board  
11 June, 2020

Yariv Avisar  
**Chairman**

Dori Ivzori  
**Chief Executive Officer**

# Audit Committee Report

For the year ended December 31, 2019

On behalf of the Board, I am pleased to present the Audit Committee report for the year ended December 31, 2019.

The Audit Committee is responsible for ensuring that the financial performance of the Company is properly reported and reviewed. Its role includes monitoring the integrity of the financial statements, reviewing internal control and risk management, reviewing changes to accounting policies, reviewing transactions with related parties, monitoring deficiencies in the management of the Company, including in consultation with the external auditors and the internal auditor, and advising the Board on how to correct such deficiencies.

In addition, pursuant to the provisions of the Israeli Companies Law, 5759-1999 (the "Israeli Act"), the Audit Committee also functions as a remuneration committee and in such capacity is responsible for making recommendations to the Board and the shareholders of the Company regarding the remuneration policy for officers of the Company and the approval of remuneration packages for Office Holders (as such term is defined in the Israeli Act) of the Company.

## 1. Members of the Audit Committee

During the year, the Audit Committee consisted of two external non-executive directors and one non-executive director. The members of the Committee who were external non-executive directors were Mr. Arie Schor and myself (as chairman). Ms. Jenny Cohen Derfler, who was a non-executive director, was the third member of the Committee until July 11, 2019. Ms. Zehava Simon, who was a non-executive director, replaced Ms. Cohen Derfler as the third member of the Committee between July 11, 2019 and December 31, 2019. Following the resignation of Ms. Zehava Simon from the Board, as of May 1, 2020, Mr. Ran Shahor, who is a non-executive director, is the third member of the Committee.

The Board is satisfied that, as Chairman of the Committee, I have recent and relevant financial experience. As a UK Chartered Accountant, I served as a partner in KPMG UK for over 30 years and have over 45 years' experience in capital markets in the UK. I currently serve as director and chair the Audit Committees of a number of companies operating in the food, social housing, and engineering sectors.

## 2. Duties

The Audit Committee adheres to detailed terms of reference, which are available for inspection upon request from the Company Secretary.

The main items of business considered by the Audit Committee during the year included:

- review of the 2018 financial statements and Annual Report;

- review and assessment of the capital raising of the Company that was completed on May 1, 2020 resulting in gross proceeds for the Company of approximately £15.63 million from FIMI Investment Funds ("FIMI") pursuant to a subscription agreement for subscription for new Ordinary Shares by FIMI and £1.97 million from certain existing shareholders under an Open Offer;
- review and assessment of the renewal of the existing services and lease agreements with Kibbutz Amiad and Kibbutz Beit Zera;
- consideration of the external audit report;
- meeting with the external auditor (without management present);
- review and approval of the internal auditor reports and approval of the internal audit plan for 2019;
- review of the risk management and internal control systems;
- review and approval of the 2019 interim results;
- in its capacity as Remuneration Committee, review the reapproval of the Company's Remuneration Policy; and
- in its capacity as Remuneration Committee, approval of a remuneration update to the Chairman of the Board and approval of annual bonuses for the management for 2018 results.

## 3. External Audit

The Audit Committee oversees the relationship with the external auditor, Kesselman & Kesselman (a member of PricewaterhouseCoopers International Ltd.), to ensure that external auditor independence and objectivity are maintained. The Audit Committee considers and makes recommendations to the Board, in light of the quality and effectiveness of the services provided by the external auditor, in relation to its appointment, re-appointment and removal at the Annual General Meeting. The Audit Committee meets regularly with the external auditor and at least once a year, without management being present, to discuss the auditor's remit and any issues arising from the audit, reviews and approves the annual audit plan and ensures that it is consistent with the scope of the audit engagement and reviews the findings of the audit.

The audit process includes an audit plan prepared by the external auditor for its review of the full year financial statements. The audit plan sets out the scope of the audit, areas of focus and audit timetable. This plan is reviewed and agreed

# Audit Committee Report (continued)

For the year ended December 31, 2019

in advance by the Audit Committee. Following its review, the external auditor presents its findings to the Audit Committee for discussion.

## 4. Internal Audit

In addition to its duties concerning monitoring the financial reporting and internal control, the Audit Committee supervises and monitors decisions of the management team with the assistance of the internal auditor, which provides the Audit Committee with internal audit reports on specific issues defined by the Committee each year in advance. During 2019, the Audit Committee reviewed internal audit report on the Company's subsidiary in the USA on specific issues including the existence and fairness of procedures on sales, purchasing and payroll.

## 5. Risk Management

As described on page 14 of the Director's Report, the Company has established a framework of risk management and internal control systems, policies and procedures. The Audit Committee is responsible for keeping under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems, reviewing and approving the statements to be included in the annual report concerning internal controls and risk management and monitoring deficiencies in the management of the Company, including in consultation with the external auditors or the internal auditor, and to advise the Board on how to correct any such deficiencies.

## 6. Whistleblowing

The Audit Committee is responsible for reviewing the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters and for reviewing the Company's systems and controls for prevention of fraud and bribery.

The Company has in place a Code of Conduct that encourages employees to raise concerns, in confidence, about possible improprieties in financial reporting or other matters while providing them with adequate protection.

## 7. Remuneration Matters

As provided on page 24 of the Corporate Governance Report, following an amendment to the Israeli Act, as of April 1, 2018, the Audit Committee also carries out the duties of the Remuneration Committee. In its capacity as a Remuneration Committee, the Audit Committee is responsible for setting and recommending to the Board and shareholders of the Company for approval the remuneration policy for all Office Holders of the Company.

The Audit Committee reviews the terms of engagement of Office Holders and ensures they are in line with the Company's Remuneration Policy.

11 June, 2020

Derek Zissman

**Audit Committee Chairman**





# Independent Auditor's Report and Financial Statements 2019

For the year ended December 31, 2019

# Report of the Auditors

## 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, 2019 and 2018, and the related consolidated statement of comprehensive income, statements of changes in shareholders' equity and statements of cash flows for each of the years then ended. 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 16.5% and 27.5% of total consolidated assets as of December 31, 2019 and 2018 respectively, and whose revenues included in consolidation constitute approximately 19.1% and 24.1% of total consolidated revenues for each of the yearsthen ended, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those 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 and the reports of other independent auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its consolidated companies as of December 31, 2019 and 2018, and the results of their operations, changes in shareholders' equity and their cash flows for each of the years then ended, in conformity with International Financial Reporting Standards (IFRS).

Haifa, Israel  
March 24, 2020

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

# Consolidated Statements of Financial Position

	Note	December 31	
		2019	2018
\$ in thousands			
<b>Assets</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	15a	14,991	13,526
Financial assets at fair value through profit or loss - derivatives	15d	54	158
Trade and other receivables:	15b		
Trade		35,503	37,154
Other		7,945	4,761
Inventories	8	27,682	30,975
Current income tax assets		502	632
<b>Total Current Assets</b>		<b>86,677</b>	<b>87,206</b>
<b>NON-CURRENT ASSETS:</b>			
Investment in joint venture		-	-
Severance pay fund, net	11	227	160
Long-term receivables		108	276
Property, plant and equipment	5	12,824	11,086
Intangible assets	6	12,100	13,267
Right of use assets	7	20,704	-
Deferred income tax assets	14g	2,676	2,687
<b>Total Non-Current Assets</b>		<b>48,639</b>	<b>27,476</b>
<b>Total Assets</b>		<b>135,316</b>	<b>114,682</b>

Yariv Avisar

Chairman of the Board

Dori Ivzori

Chief Executive Officer and  
Director

Avishay Afriat

Chief Financial Officer

Date of approval of the financial statements by the board of directors: March 24, 2020.

# Consolidated Statements of Financial Position

(continued)

	<u>Note</u>	December 31	
		2018	2018
		\$ in thousands	
<b>Liabilities and Equity</b>			
<b>Current Liabilities:</b>			
Bank credit and current maturities of borrowings from bank	9c, 15c	17,589	17,365
Financial liabilities at fair value through profit or loss- derivatives	15d	-	180
Trade and other payable:	15e		
Trade		13,899	14,414
Other		13,384	10,841
Operating Lease liabilities	7	3,096	-
Current income tax liability		24	340
<b>Total Current Liabilities</b>		<u>47,992</u>	<u>43,140</u>
<b>Non-Current Liabilities:</b>			
Borrowings from banks (net of current maturities)	9	9,866	9,914
Liability for royalty payment	12i	-	1,008
Remeasurements of post-employment benefit obligations, net	11	405	345
Operating Lease liabilities	7	19,285	-
Deferred income tax liabilities	14g	179	-
<b>Total Non-Current Liabilities</b>		<u>29,735</u>	<u>11,267</u>
<b>Total Liabilities</b>		<u>77,727</u>	<u>54,407</u>
<b>Equity:</b>	13		
<b>Capital and reserves attributable to equity holders of the Company:</b>			
Share capital		2,801	2,800
Capital reserves		28,874	28,781
Transaction with non-controlling interests		(416)	(416)
Currency translation reserve		(8,160)	(7,380)
Retained earnings		31,762	33,574
		<u>54,861</u>	<u>57,359</u>
<b>Non-controlling interests</b>		<u>2,728</u>	<u>2,916</u>
<b>Total Equity</b>		<u>57,589</u>	<u>60,275</u>
<b>Total Liabilities and Equity</b>		<u>135,316</u>	<u>114,682</u>

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

# Consolidated Statements of Comprehensive Income (Loss)

	Note	Year ended December 31	
		2019	2018
\$ in thousands except per share data			
Revenue	15f	115,585	113,923
Cost of revenue	15g	70,628	*65,936
<b>Gross Profit</b>		44,957	47,987
Research and development, net	15h	3,567	3,644
Selling and marketing costs	15i	28,523	*28,778
Administrative and general expenses	15j	9,844	9,489
Other (gains) losses	15k	(113)	(64)
<b>Operating Profit</b>		3,136	6,140
Finance income	15l	755	510
Finance expenses		(3,812)	(1,814)
<b>Finance expenses, net</b>		(3,057)	(1,304)
<b>Profit before income taxes</b>		79	4,836
Income tax expenses	14h	974	1,074
<b>Profit (Loss) for the year</b>		(895)	3,762
★ Reclassified			
<b>Other comprehensive income (Loss):</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Remeasurements of post-employment benefit obligations, net		42	(1)
<b>Items that may be subsequently reclassified to profit or loss:</b>			
Currency translation differences		(1,133)	(2,886)
<b>Other comprehensive loss for the year</b>		(1,091)	(2,887)
<b>Total comprehensive income (Loss) for the year</b>		(1,986)	875
<b>Profit (Loss) attributable to:</b>			
Equity holders of the Company		(1,854)	2,294
Non-controlling interests		959	1,468
		(895)	3,762
<b>Total comprehensive income (Loss) attributable to:</b>			
Equity holders of the Company		(2,592)	119
Non-controlling interests		606	756
		(1,986)	875
		\$	
<b>Earnings per share attributable to the equity</b>			
<b>holders of the Company during the year</b> (see note 16):			
Basic		(0.082)	0.101
Diluted		(0.081)	0.100

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										
<b>Balance At January 1, 2018</b>	22,663,651	2,798	28,720	(5,206)	(259)	31,916	57,969	2,606	60,575	
<b>Comprehensive income (loss):</b>										
Profit for the year						2,294	2,294	1,468	3,762	
Currency translation differences				(2,174)			(2,174)	(712)	(2,886)	
Remeasurement of net defined benefit liability						(1)	(1)		(1)	
<b>Total comprehensive income (loss)</b>				(2,174)		2,293	119	756	875	
<b>Transaction with owners:</b>										
Recognition of compensation related to employee stock and options grants			63				63		63	
Exercise of options	15,461	2	(2)						-	
Acquisition of non-controlling interest					(157)		(157)	(173)	(330)	
Dividend to non-controlling Interest								(273)	(273)	
Dividend (\$0.028 per share)						(635)	(635)		(635)	
<b>Total transaction with owners</b>	15,461	2	61		(157)	(635)	(729)	(446)	(1,175)	
<b>Balance At December 31, 2018</b>	22,679,112	2,800	28,781	(7,380)	(416)	33,574	57,359	2,916	60,275	
<b>Comprehensive income (loss):</b>										
Profit (loss) for the year						(1,854)	(1,854)	959	(895)	
Currency translation differences				(780)			(780)	(353)	(1,133)	
Remeasurement of net defined benefit liability						42	42		42	
<b>Total comprehensive income (loss)</b>				(780)		(1,812)	(2,592)	606	(1,986)	
<b>Transaction with owners:</b>										
Recognition of compensation related to employee stock and options grants			94				94		94	
Exercise of options	19,631	1	(1)							
Dividend to non-controlling Interest								(794)	(794)	
<b>Total transaction with owners</b>	19,631	1	93				94	(794)	(700)	
<b>Balance At December 31, 2019</b>	22,698,743	2,801	28,874	(8,160)	(416)	31,762	54,861	2,728	57,589	

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

# Consolidated Statements of Cash Flows

	<u>Note</u>	Year ended December 31	
		2019	2018
		\$ in thousands	
<b>Cash Flows From Operating Activities:</b>			
Cash generated from operations	17	12,893	1,114
Interest paid		(957)	(455)
Interest received		176	228
Income taxes paid, net		(588)	(751)
Net cash generated from operating activities		11,524	136
<b>Cash Flows From Investing Activities:</b>			
Proceeds from sale of investment		-	40
Purchase of property, plant and equipment		(4,307)	(3,223)
Purchase of intangible assets		(1,150)	(63)
Investment grants received			1,626
Proceeds from sale of property, plant and equipment		72	44
Restricted deposit		(10)	212
Net cash used in investing activities		(5,395)	(1,364)
<b>Cash Flows From Financing Activities:</b>			
Dividends paid to equity holders of the Company		-	(635)
Dividends paid to non-controlling interest		(794)	(273)
Payments of operating lease liabilities		(3,578)	-
Acquisition of non-controlling interest			(330)
Receipt of long-term borrowings	9c	8,634	5,373
Payments of long term borrowings	9c	(7,562)	(7,505)
Increase (decrease) in bank credit and short-term borrowing, net		(797)	3,685
Net cash generated from (used in) financing activities		(4,097)	315
<b>Exchange Rate Loss on Cash and Cash Equivalents</b>		(567)	(1,683)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>		1,465	(2,596)
<b>Cash and Cash Equivalents at Beginning of Year</b>		13,526	16,122
<b>Cash and Cash Equivalents at End of Year</b>		14,991	13,526

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 (24.3.2020), are Kibbutz Amiad (hereafter -The "Kibbutz"), who holds directly 3.5% of the company's outstanding shares, and HaChoshlim Foundation – Agricultural Cooperative Society for Business Ltd. (hereafter 'HaChoshlim Foundation'), an affiliate of Kibbutz Amiad, who holds A.M.S.I. Investments Ltd. (hereafter - "AMSI"), the holding company through which the Kibbutz held shares representing 45.4% of the Company's outstanding shares. The Kibbutz has transferred HaChoshlim Foundation the entire issued share capital of AMSI on December 21, 2016 as part of its assets re-organization (hereafter - the "Share Transfer").
- c. On 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.
- d. HaChoshlim Foundation and AMSI are engaged in a shareholders agreement with Kibbutz Beit Zera Cooperative Agricultural Society Ltd. and two cooperative societies held by Beit Zera (hereinafter – "Beit Zera") which own 4.5% of the Company's outstanding shares and with Bermad Industries Cooperative Agricultural Society Ltd. (hereinafter – "Bermad"), a former shareholder of the Company, which held 8.99% of the Company's outstanding shares that were sold during 2019 to FIMI Opertunity 6 LP and to FIMI Israel Opportunity 6 Limited Partnership (hereinafter together: "FIMI"). The agreement was signed in April 2010 between the Kibbutz, AMSI, upon Beit Zera and Bermad becoming shareholders in the Company pursuant to the acquisition of Arkal Filtration Systems Cooperative Agricultural Society Ltd. The term of the agreement is 10 years from the date of completion of the acquisition and thereafter its terms will be automatically renewed for a term of a year each time, unless a party announces its wish to terminate the agreement. The Shareholders Agreement was assigned from the Kibbutz to HaChoshlim Foundation upon the Share Transfer described above. AMSI remained a party to the Shareholders Agreement. Pursuant to a notice given by Beit Zera to Kibbutz Amiad and AMSI, the term of the Shareholders Agreement will not be extended and it will be terminated in April 2020.
- e. 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.
- f. On February 26, 2020, the Company entered into a subscription agreement with FIMI following which FIMI will subscribe for up to 7,652,174 Subscription Shares at the price of GBP 2.3 per ordinary share of the Company (the "Offer Price" and the "Subscreption"). The Company intends to give all Qualifying Shareholders an opportunity to participate in the capital raising via an Open Offer for up to 856,556 ordinary shares of the Compnay at the Offer Price ("Open Offer Shares"). FIMI and HaChoshlim have irrevocably undertaken not to take up their entitlements under the proposed Open Offer to provide other Qualifying Shareholders with the opportunity to apply for additional proposed Open Offer Shares pursuant to an excess application facility to mitigate the dilutive effect of the Subscription. FIMI has undertaken to take up any of the proposed Open Offer Shares not taken up by Qualifying Shareholders under the Open Offer. The Subscription and the proposed Open Offer (together, the "Capital Raising") are conditional on (i) the requisite resolutions being passed at the EGM and (ii) receipt of approval by the Director General of the Competition Authority in Israel.
- g. In addition, FIMI has entered into a conditional agreement with HaChoshlim, to acquire, subject to the completion of the Capital Raising, a further 1,109,918 new ordinary shares of the Company (the " HaChoshlim/FIMI Share Purchase Agreement") . Following completion of the Capital Raising and the HaChoshlim/FIMI Share Purchase Agreement, FIMI will hold between approximately 39.56% and 42.38% of the issued and outstanding share capital of the Company depending on the level of participation from Qualifying Shareholders in the proposed Open Offer, while HaChoshlim (together with Kibbutz Amiad) would hold 32.91% of the Company's issued and outstanding share capital.

# Notes to Consolidated Financial Statements

(continued)

## NOTE 1 - GENERAL INFORMATION (CONTINUED):

- h. The Company and FIMI have agreed in the Subscription Agreement that FIMI will, upon admission of the new ordinary shares to be issued under the Capital Raising, ("Admission") enter into a relationship agreement with the Company which will regulate the relationship between FIMI and the Company in order to ensure that the Company is capable of carrying on its business at an arm's length from FIMI and on normal commercial terms. HaChoshlim will also enter into a relationship agreement with the Company which is on substantially the same terms as the FIMI relationship agreement set out above.
- i. Conditional upon, inter alia, completion of the Subscription Agreement and the HaChoshlim/FIMI Share Purchase Agreement, FIMI and HaChoshlim will enter into the HaChoshlim/FIMI Shareholders' Agreement which will regulate their future relationship. The HaChoshlim/FIMI Shareholders' Agreement includes provisions setting out the parties' rights to propose and nominate directors to the Board that will apply only if the Company delists from AIM.

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.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

### a. Basis of preparation

The Group's financial statements as of December 31, 2019 and 2018 and for the two years ended December 31, 2019, 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 and liabilities 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 and interpretations not yet adopted.

#### • Amendment to IAS 1-Classification of Liabilities as Current or Non-current

The IASB issued a narrow-scope amendment to IAS 1 to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. The amendment could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. Inter alia, the amendment requires the following:

-Liabilities are classified as non-current if the entity has a substantive right to defer settlement for at least 12 months at the end of the reporting period. The amendment no longer refers to unconditional rights. The assessment determines whether a right exists, but it does not consider whether the entity will exercise the right.

-'Settlement' is defined as the extinguishment of a liability with cash, other economic resources or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

The amendment should be applied retrospectively for annual periods beginning on or after January 1, 2022. Earlier application is permitted. The adoption of the amendment is not expected to have a material impact on the Company's financial statements.

# Notes to Consolidated Financial Statements

(continued)

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

### • **Amendments to IFRS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' and IAS 1, 'Presentation of Financial Statements'**

The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information. In particular, the amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and
- the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

The amendment should be applied prospectively for annual periods beginning on or after January 1, 2020. Earlier application is permitted. The adoption of the amendment is not expected to have a material impact on the Company's financial statements.

### • **Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures'**

The IASB has made limited scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures. The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the nonmonetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations). Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interests in the associate or joint venture. The amendments apply prospectively. \*\* In December 2015 the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method.

The initial implementation of the amendments is not expected to have a material impact on the Company's consolidated financial statements.

### • **Amendments to IFRS 9, 'Financial Instruments', IAS 39, 'Financial Instruments: Recognition and Measurement' and IFRS 7, 'Financial Instruments: Disclosures'**

In September 2019, the IASB has issued amendments to IFRS 9, IAS 39 and IFRS 7 that provide certain temporary reliefs in connection with interest rate benchmark reform ("IBOR Reform"). The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. The reliefs relate, inter alia, to the "Highly probable" requirement, as well as to the economic relationship between the hedged item and the hedging instrument. However, any hedge ineffectiveness should continue to be recorded in the income statement. In addition, the amendment requires certain additional disclosure requirements.

The amendment should be applied retrospectively for annual periods beginning on or after January 1, 2020. Earlier application is permitted. The adoption of the amendment is not expected to have a material impact on the Company's financial statements.

## 2) Initial implementation of new accounting standards

IFRS 16-Leases:

IFRS 16 replaced the guidance in IAS 17, Leases ("IAS 17") upon initial application. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases, and have material impact mainly on the accounting treatment applied by the lessee in a lease transaction.

# Notes to Consolidated Financial Statements

(continued)

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

### a. Basis of preparation (continued)

IFRS 16 changes the existing guidance in IAS 17 and requires lessees to recognize a lease liability that reflects the discounted value of future lease payments and a "right of use asset" in all lease contracts (except for the following exemption), with no distinction between financing and operating leases. However, IFRS 16 permits the lessee to elect not to apply these provisions for short-term leases, according to groups of underlying assets, and for leases where the underlying assets has a low value.

IFRS 16 also changes the definition of "a lease" and the manner of assessing whether a contract contains a lease.

IFRS 16 requires a lessee to account for each lease component in a contract separately from non-lease components. However, as a practical expedient, IFRS 16 permits the lessee to choose, according to groups of an underlying asset, not to separate non-lease components from lease components, and instead to account for all the lease components and associated non-lease components as one lease.

For lessors, the Accounting principles of IFRS 16 are similar to those of IAS 17, such that the lessors will continue to classify leases as operating leases or financing leases, similar to the guidance in IAS 17.

The Company applied IFRS 16 as from January 1, 2019.

The Company adopted this new standard using the modified retrospective approach with no restatement of comparative information.

For agreements in which the Group is the lessee, the Company elected to apply the standard for the first time by recognizing lease liabilities, for leases previously classified as operating leases, based on the present value of the remaining lease payments, including extension options (or periods after termination options) if the lease is reasonably certain to be extended (or not terminated), discounted at the incremental interest rate of the lessee as at the date of initial application. Concurrently, the Company recognized a right-of-use asset at the same amount of the liability, adjusted for any prepaid or accrued lease payments. Therefore, application of the standard did not affect on the balance of retained earnings as of January 1, 2019.

It should be noted that as part of the initial application of the standard, the Company chose to apply the following practical expedients:

- To apply this Standard to contracts that were previously identified as leases applying IAS 17 Leases and IFRIC 4 Determining whether an Arrangement contains a Lease and not to apply this Standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4
- To apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
- To rely on a previous assessment of whether a contract is onerous in accordance with IAS 37 at the transition date, as an alternative to assessing impairment of right-of-use assets.
- Not applying IFRS 16 with respect to leases that end within 12 months from the date of initial application and leases where the underlying asset has a low value.
- Using hindsight when determining the lease term if the contract including an extension or termination option.
- Excluding initial direct costs from measurement of the right-of-use asset at the date of initial application.

Short-term leases (leases with a lease term of 12 months or less) and leases of low-value assets are recognized on a straight-line basis as an expense in statement of income.

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 4.1% for buildings and 0.34% for vehicles.

# Notes to Consolidated Financial Statements

(continued)

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

### a. Basis of preparation (continued):

The impact of initial implementation the IFRS 16 on the Company's statement of financial position as of January 1, 2019:

	In accordance With the previous policy	Initial Implementation	In accordance with the new policy
	\$ in thousands		
<b>Non-current assets:</b>			
Right of use assets	-	17,578	17,578
<b>Current liabilities:</b>			
Current maturities of Operating Lease liabilities		2,732	2,732
<b>Non-current liabilities:</b>			
Operating Lease liabilities	-	14,846	14,846
	-	17,578	17,578

The financial statements as of December 31, 2018 include disclosure under IAS 17 of the Company's total future minimum lease payments under non-cancellable operating lease agreements is \$9,887 thousand. See also note 12c

The main difference in that liability after adoption of IFRS 16 as of January 1, 2019 (\$17,578 thousand) is attributed to inclusion of the agreements' option period in the measurement of the liability under IFRS 16.

The table below represents the accumulated effect of the initial implementation of IFRS 16 on the income statement for the year ended 31, December 2019.

	In accordance With the previous policy	Initial Implementation of IFRS 16	In accordance with the new policy
	\$ in thousands		
Operating profit	2,560	576	3,136
Financing expenses	1,558	2,254	3,812
Net profit (Loss for the year)	635	(1,530)	(895)

The table below represents the accumulated effect of the initial implementation of IFRS 16 on the income statement for the year ended 31, December 2019.

	In accordance With the previous policy	Initial Implementation	In accordance with the new policy
	\$ in thousands		
Cash flows from operating activities	7,946	3,578	11,524
Cash flows from (used in) financing activities	(519)	(3,578)	(4,097)

# Notes to Consolidated Financial Statements

(continued)

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

### b. Consolidation

#### Subsidiaries

Subsidiaries are all entities (including structured 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 to direct the activities of 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.

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 recognizes any non-controlling interest in the acquiree 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 recognized 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 recognized directly in the income statement. Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the company.

Any contingent consideration accrued to the Group as part of a business combination is measured at fair value at the date of business acquisition. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 "Financial Instruments".

### 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 exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs.

# Notes to Consolidated Financial Statements

(continued)

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

### c. Foreign currency translation (continued)

#### 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 an average exchange rate.
- 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:

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

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, depreciation method 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 recognized within 'Other gains (losses)' in the income statement.

# Notes to Consolidated Financial Statements

(continued)

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

### e. Intangible assets

#### 1) Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes.

#### 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 (customer relations and know-how is three to four years and seven years respectively).

#### 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 five years).

#### 4) Technology or licensed technology

Technology or licensed technology acquired in a business combination is recognized at fair value at the acquisition date. Technology or licensed technology have a finite useful life and are carried at cost less accumulated amortization. Amortization of technology or licensed technology is calculated using the straight-line method (fifteen to ten 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 (Mainly three to ten years).

Costs associated with maintaining software programs are recognized as an expense as incurred.

#### 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:

# Notes to Consolidated Financial Statements

(continued)

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

- 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 assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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 separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### g. Financial assets

As of January 1, 2018, the Company adopted IFRS 9 "financial Instruments".

#### 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 derivative that classified as financial assets held for trading. 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 'long term receivables', 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position.

#### 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.

# Notes to Consolidated Financial Statements

(continued)

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

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

From January 1, 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables and contract assets with and without significant financing components, the Group applies IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and period of payments and period past due. The expected loss rates are based on the payment profiles of sales, and the corresponding historical credit losses experienced. The historical loss rates are adjusted to reflect current and forward-looking information on factors affecting the ability of the customers to settle the receivables.

Until December 31, the Group assessed at the end of each reporting period whether there is objective evidence that a financial asset individually or Group of financial assets collectively for financial assets that are not individually significant 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.

If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

### h. Derivative financial instruments

The Group does not designate its 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.

Beginning on January 1, 2018 (date of first application of IFRS 15), trade receivables are initially recognized by their transaction price, as defined by International Financial Reporting Standard 15 (hereinafter – IFRS 15), less provision for impairment (hereinafter – "provision for impairment"). Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Provision for impaired receivables is created when there is an objective evidence for the company's inability to collect the corresponded amounts set by the original terms of the debt balances.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The carrying amount of the debt is reduced through the provision account, and the amount of loss is recognized in profit or loss within administrative and general expenses. When a trade receivable is not collectible, it is written off against the provision for impairment of accounts receivable.

Until December 31, 2017, trade receivables were recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

# Notes to Consolidated Financial Statements

(continued)

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

### j. Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

### k. Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realizable value.

The cost of raw materials, purchased products auxiliary, materials and packing materials are determined on the basis of "weighted average costs".

The cost of work in progress and finished products are determined 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. 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

The liability or asset recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation.

# Notes to Consolidated Financial Statements

(continued)

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

In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the statement of profit or loss.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the statement of changes in equity and in the balance sheet.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs.

For defined contribution plans, the group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. 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 in short term.

### 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 when an employee accepts voluntary redundancy in exchange for these benefits. The group recognizes 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 recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of terminations 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 present value.

## n. 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 recognized 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. It recognizes 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.

# Notes to Consolidated Financial Statements

(continued)

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

### o. Revenue recognition

#### 1) Revenue measurement

Beginning on January 1, 2018 (date of first application of IFRS 15- "Revenue from Contracts with Customers"), the Company's revenue is measured at the amount of consideration the company expects to be entitled to receive in exchange for the goods which were promised to the customers, except amounts collected for third parties such as certain sales taxes.

Until December 31, 2017 (IAS 18 implementation), 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 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.

Revenue is presented net of VAT, and after elimination of intercompany revenue.

If the consideration promised to the customer includes a variable amount (e.g. as a result of discounts or right of return), the group estimates the amount of consideration to which it will be entitled in exchange for the goods or services promised to the customer under the transaction, and includes within transaction price some or all of an amount of variable consideration estimated only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. At the end of each reporting period, the Group updates the estimated transaction price to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Additionally, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer (i.e. the contract contains a significant financing component). The Group does not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

#### 2) Date of revenue recognition

Beginning on January 1, 2018, the group recognizes the revenue when the customer obtains control of promised good or service under the contract with the customer (generally upon delivery). For each performance obligation, the group determines, when entering into a contract, if it satisfies the performance obligation over time or at a point in time. An entity satisfies a performance obligation over time if: (1) the customer is receiving and consuming the benefits of the entity's performance as the entity performs; (2) the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (3) the entity's performance does not create an asset with an alternative use to the entity, the entity has a right to payment for performance completed to date that includes compensation for a reasonable profit margin.

A performance obligation not satisfied over time is satisfied at a point in time.

Up to December 31, 2017, 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 group; and when additional specific criteria have been met for each of the group's activities, as described below.

The amount of revenue cannot be reliably measured, until all conditions relating to the transaction have been settled. The group bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangements.

# Notes to Consolidated Financial Statements

(continued)

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

### 3) Types of revenues

#### a. Sales of goods

See Note 15f.

#### b. Construction contract

As of January 1, 2018, the Company recognizes revenues from construction contract under IFRS15 over time using the stage of completion method because its performance does not create an asset with an alternative use to the Company, and it has an enforceable right to payment for performance completed to date.

Until December 31, 2017, the Company recognized revenues from construction contract under IAS 11 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 uncertainty 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 outcome of construction contract cannot be estimated reliability, 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 receivables'.

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).

See also note 15n.

#### c. Interest income

Interest income is recognized 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 recognized using the original effective interest rate.

### p. Leases

As mentioned in note 2a) 2) the Company applied IFRS 16 as from January 1, 2019.

Under IFRS 16 Leases are recognized as a right-of-use asset and a corresponding liability at the same amount as of the date in which the leased asset is available for use by the Company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the future expected lease payments during the lease term. The lease term including extension options (or periods after termination options) if the lease is reasonably certain to be extended (or not terminated). Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and recognized in profit or loss as incurred.

The lease payments during the term of the lease are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Each payment is allocated between principal and finance cost. The finance cost is charged to statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

# Notes to Consolidated Financial Statements

(continued)

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

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Short-term leases (leases with a lease term of 12 months or less) and leases of low-value assets are recognized on a straight-line basis as an expense in statement of income.

The most significant lease transactions of the company are leases of buildings for a period of 2-21 years, includes extension options and vehicles for a period of 1-4 years.

Under IAS 17 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 initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method.

### r. Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorized and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

### s. Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

### t. Basic and diluted earnings per share

#### 1) Basic earnings per share

Basic earnings per share is calculated by dividing:

- The profit attributable to owners of the company.
- By the weighted average number of ordinary shares outstanding during the financial year.

#### 2) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- The after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

### u. Provisions

Provisions for legal claims, service warranties and make good obligations are recognized when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

# Notes to Consolidated Financial Statements

(continued)

## 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).

Impairment of goodwill is measured through separate cash-generating units.

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 applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

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.

### 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 Company recognizes revenues from construction over time using the stage of completion method. This method requires the group to estimate the work performed to date as a proportion of the total work to be performed (based on engineering stages of the work).

## 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 the group 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.

# Notes to Consolidated Financial Statements

(continued)

## 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 and recognized assets and liabilities denominated in a currency that is not the company's functional currency

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 following table presents currency exposure in respect of balance denominated in currencies that are different than the functional currency of the company and also the effect on income after taxes. At December 31, 2019 and 2018, if the currencies specified below had weakened/strengthened by 1% against the other functional currencies of group companies, with all other variables unchanged:

	<b>December 31, 2019</b>		
	<b>U.S. dollars in thousands</b>		
	<b>NIS</b>	<b>Euro</b>	<b>Australian dollar</b>
Financial assets (liabilities), net	(3,760)	970	4,375
<b>Gain (loss) from change:</b>			
Impact of 1% weakening	95	(7)	(24)
Impact 1% strengthening	(60)	(17)	21
	<b>December 31, 2018</b>		
	<b>U.S. dollars in thousands</b>		
	<b>NIS</b>	<b>Euro</b>	<b>Australian dollar</b>
Financial assets (liabilities), net	(3,849)	5,072	6,918
<b>Gain (loss) from change:</b>			
Impact of 1% weakening	151	(51)	(41)
Impact 1% strengthening	(177)	51	45

### 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.

# Notes to Consolidated Financial Statements

(continued)

## NOTE 4 - FINANCIAL RISK MANAGEMENT (continued):

During 2019 and 2018 Most of the Group's long-term borrowings are in USD at variable rate. In 2019 and 2018 the long-term borrowings in other currency was immaterial.

At December 31, 2019 and 2018, the Group's long-term borrowings at variable rate are \$17,590 and \$16,605 thousand, respectively.

At December 31, 2019, 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 \$176 thousands (2018: \$146 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, 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, 2019 and 2018 includes a balance with a principal customer in amount of \$ 8,287 and \$9,273 thousand, respectively

### 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.

	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>
<b>At December 31, 2019:</b>			
Banks credit and borrowings	18,189	5,094	5,350
Trade and other payables	23,373		
Liability for royalty payment			
<b>At December 31, 2018:</b>			
Banks credit and borrowings	18,111	6,320	4,330
Trade and other payables	23,150		
Liability for royalty payment	126	149	859

# Notes to Consolidated Financial Statements

(continued)

## NOTE 4 - FINANCIAL RISK MANAGEMENT (continued):

### 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 Group consist mostly of customers defined as major customers with no defaults in the past.

	December 31	
	2019	2018
	\$ in thousands	
<b>Cash at bank and short-term bank deposits:</b>		
Group A	5,665	4,616
Group B	5,396	4,650
Group C	3,890	4,233
	14,951	13,499
<b>Financial assets:</b>		
Group A	54	158

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.

### c. Fair value estimation

The fair value of financial instruments is determined by the valuation method according to three different levels that are defined as follows:

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).

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, 2019 and 2018 are trading derivatives and are classified as level 2 measurements.

Liability for royalty payment is classified as Level 3 measurements.

The fair value of the derivatives as of December 31, 2019 and 2018 is immaterial.

# 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, 2019:

	Cost				
	Balance at beginning of year	Additions during the year	Disposals during the year	Exchange differences	Balance at end of year
	\$ in thousands				
Machinery and equipment	26,813	3,379	(53)	(70)	30,069
Computers and peripheral equipment	4,553	131	(16)	7	4,675
Office furniture and equipment	2,261	129	(9)	(8)	2,373
Motor vehicles	941	151	(80)	(15)	997
Leasehold improvements	6,633	517	(10)	(108)	7,032
	<u>41,201</u>	<u>4,307</u>	<u>(168)</u>	<u>(194)</u>	<u>45,146</u>

### Year ended December 31, 2018:

	Cost				
	Balance at beginning of year	Additions during the year	Disposals during the year	Exchange differences	Balance at end of year
	\$ in thousands				
Machinery and equipment	26,209	820	(80)	(136)	26,813
Computers and peripheral equipment	4,463	129	(18)	(21)	4,553
Office furniture and equipment	2,275	39	7	(60)	2,261
Motor vehicles	1,011	230	(258)	(42)	941
Leasehold improvements	6,200	593	(45)	(115)	6,633
	<u>40,158</u>	<u>1,811</u>	<u>(394)</u>	<u>(374)</u>	<u>41,201</u>

# Notes to Consolidated Financial Statements

(continued)

## NOTE 5 – PROPERTY PLANT AND EQUIPMENT (continued):

### Year ended December 31, 2019:

	Accumulated depreciation					Net book amount	
	Balance at beginning of year	Additions during the year	Disposals during the year	Exchange differences	Balance at end of year	December 31	
						2019	2018
	\$ in thousands					\$ in thousands	
Machinery and equipment	20,118	1,471	(28)	(34)	21,527	8,542	6,695
Computers and peripheral equipment	4,173	215	(14)	7	4,381	294	380
Office furniture and equipment	1,933	57	(4)	(6)	1,980	393	328
Motor vehicles	478	140	(72)	9	555	442	463
Leasehold improvements	3,413	485	(3)	(16)	3,879	3,153	3,220
	<u>30,115</u>	<u>2,368</u>	<u>(121)</u>	<u>(40)</u>	<u>32,322</u>	<u>12,824</u>	<u>11,086</u>

### Year ended December 31, 2018:

	Accumulated depreciation					Net book amount	
	Balance at beginning of year	Additions during the year	Disposals during the year	Exchange differences	Balance at end of year	December 31	
						2018	2017
	\$ in thousands					\$ in thousands	
Machinery and equipment	19,155	1,094	(57)	(74)	20,118	6,695	7,054
Computers and peripheral equipment	4,126	80	(20)	(13)	4,173	380	337
Office furniture and equipment	1,919	51	(12)	(25)	1,933	328	356
Motor vehicles	595	154	(251)	(20)	478	463	416
Leasehold improvements	3,092	411	(40)	(50)	3,413	3,220	3,108
	<u>28,887</u>	<u>1,790</u>	<u>(380)</u>	<u>(182)</u>	<u>30,115</u>	<u>11,086</u>	<u>11,271</u>

# Notes to Consolidated Financial Statements

(continued)

## NOTE 6 - INTANGIBLE ASSETS:

	Know-how	Goodwill	Brand name	Software and licenses	Technology	Capitalization of development	Total
\$ in thousands							
<b>Year ended December 31, 2019:</b>							
Opening net book amount	134	7,030	577	1,518	3,661	347	13,267
Additions during the year (net of grants received)	-	-	-	1,150	-	-	1,150
Amortization during the year <sup>1</sup>	(9)	-	(39)	(727)	(388)	-	(1,163)
Disposal during the year <sup>2</sup>	-	-	-	-	(1,090)	-	(1,090)
Currency translation differences	2	(66)	(7)	7	-	-	(64)
<b>Closing net book amount</b>	<b>127</b>	<b>6,964</b>	<b>531</b>	<b>1,948</b>	<b>2,183</b>	<b>347</b>	<b>12,100</b>
<b>Closing net book amount at December 31, 2019:</b>							
Cost	3,086	7,155	1,141	9,032	6,927	347	27,688
Accumulated amortizations	(2,959)	(191)	(610)	(7,084)	(4,744)	-	(15,588)
Depreciated cost at Dec. 31, 2019	127	6,964	531	1,948	2,183	347	12,100
<b>Year ended December 31, 2018:</b>							
Opening net book amount	151	7,268	622	2,290	4,067	347	14,745
Additions during the year (net of grants received)	-	-	-	(151)	-	-	(151)
Amortization during the year <sup>1</sup>	(9)	-	(40)	(619)	(406)	-	(1,074)
Currency translation differences	(8)	(238)	(5)	(2)	-	-	(253)
<b>Closing net book amount</b>	<b>134</b>	<b>7,030</b>	<b>577</b>	<b>1,518</b>	<b>3,661</b>	<b>347</b>	<b>13,267</b>
<b>Closing net book amount at December 31, 2017:</b>							
Cost	3,084	7,221	1,148	7,875	8,017	347	29,626
Accumulated amortizations	(2,950)	(191)	(571)	(6,357)	(4,356)	-	(16,360)
Depreciated cost at Dec. 31, 2017	134	7,030	577	1,518	3,661	347	13,267

1) Amortization of \$764 thousands (2018: \$527 thousands) in 'administrative expenses', \$7 thousands in 'selling and marketing expenses' (2018: \$21) and \$392 thousands in (2018: \$527 thousands) in 'Cost of sales'. Goodwill is allocated to the Group's cash-generating units (CGUs).

2) As to disposal of technology license, see note 12.

# Notes to Consolidated Financial Statements

(continued)

## NOTE 6 - INTANGIBLE ASSETS (continued):

Impairment tests for goodwill:

A CGUs summary of the goodwill allocation is presented below.

	Year ended December 31	
	2019	2018
	\$ in thousands	
Turkey (hereafter: "FTS")	529	595
USA	1,530	1,530
Israel	4,905	4,905
	<u>6,964</u>	<u>7,030</u>

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 years 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 2019 and 2018 are as follows:

	2019			2018		
	USA	Israel	FTS	USA	Israel	FTS
EBITDA margin	7%	12%	30%	0%	7%	37%
Terminal long term growth rate	2%	2%	2%	2%	2%	2%
Discount rate	9.5%	10.5%	28%	14.3%	13.4%	28%

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 recoverable amount of each of the said CGUs as of December 31, 2019 and December 31, 2018 is higher than the book value of the CGUs and therefore no amount should be impaired.

## NOTE 7 - LEASES:

As mentioned in note 2a) 2) the Company applied IFRS 16 as from January 1, 2019.

This note refer to the leases in which the company is the lessee:

### a. Rights-of-use assets

	Buildings	Vehicles and other	Total
	U.S. dollars in thousands		
<b>Balance at 1 January 2019</b>			
<b>(Initial implementation of IFRS 16)</b>	16,175	1,403	17,578
Additions	3,616	2,540	6,156
Depreciation	(1,934)	(1,067)	(3,001)
Currency translation differences	(26)	(3)	(29)
<b>Balance at 31 December 2019</b>	<u>17,831</u>	<u>2,873</u>	<u>20,704</u>

# Notes to Consolidated Financial Statements

(continued)

## NOTE 7 - LEASES (continued):

### b. Lease liabilities:

	Buildings	Vehicles and other	Total
	U.S. dollars in thousands		
<b>At 1 January 2019</b>			
<b>(Initial implementation of IFRS 16)</b>	16,175	1,403	17,578
Additions	3,616	2,540	6,156
Interest expense	848	67	915
Lease payments	(2,457)	(1,121)	(3,578)
Exchange differences	1,217	122	1,339
Currency translation differences	(27)	(2)	(29)
<b>At 31 December 2019</b>	<b>19,372</b>	<b>3,009</b>	<b>22,381</b>

	Buildings	Vehicles and other	Total
	U.S. dollars in thousands		
Current liabilities	1,698	1,398	3,096
Long-term liabilities	17,674	1,611	19,285
<b>At 31 December 2019</b>	<b>19,372</b>	<b>3,009</b>	<b>22,381</b>

- c. In 2019 the expense relating to short-term leases and low-value assets were \$244 thousand and \$58 thousand, respectively.
- d. The future aggregate lease payments under lease liabilities agreements subsequent to the statement of financial position date are as follows:

	<b>December 31</b>
	<b>2019</b>
	<b>\$ in thousands</b>
Not later than 1 year	4,191
Later than 1 year and not later than 5 years	11,156
Later than 5 years	14,802
	<b>30,149</b>

# Notes to Consolidated Financial Statements

(continued)

## NOTE 8 - INVENTORIES:

Composition of inventories Grouped by major classification:

	December 31	
	2019	2018
	\$ in thousands	
Raw materials, auxiliary materials and packing materials	5,716	5,285
Work-in-progress	13,545	15,289
Finished products	8,421	10,401
	<u>27,682</u>	<u>30,975</u>

The cost of inventories recognized as expense and included in "cost of sales" amounted to \$43,885 thousands (2018: \$39,263 thousands).

The total amount of inventory includes provision for slow moving inventory in amount of \$3,094 thousands (2018: \$3,672 thousands).

## NOTE 9- 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 2019	Weighted average interest rates	December 31 2018
	%	\$ in thousands	%	\$ in thousands
In U.S. dollars	2.49	14,528	4.09	14,570
In Euro	0.53	2,711	0.14	2,035
Other	11.9	351		.
		<u>17,590</u>		<u>16,605</u>
Current maturities of long-term borrowings from banks		<u>7,724</u>		<u>6,691</u>
		<u>9,866</u>		<u>9,914</u>

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	
	2019	2018
	\$ in thousands	
Second year	4,765	5,864
Third year	2,927	2,500
Fourth year	1,399	1,400
Fifth year and on	775	150
	<u>9,866</u>	<u>9,914</u>

# Notes to Consolidated Financial Statements

(continued)

## NOTE 9- LONG-TERM BORROWING FROM BANKS (continued) :

c.

	Short term borrowing from banks	Long term borrowing from banks	Total
	\$ in thousands		
Balance as of December 31, 2018	17,365	9,914	27,279
Cash flows received	-	8,634	8,634
Cash flows paid	(797)	(7,562)	(8,359)
Exchange rate differences	-	(68)	(68)
Change in current maturities of long-term loans, net	1,033	(1,033)	-,
Currency translation differences in other comprehensive income	(12)	(19)	(31)
Balance as of December 31, 2018	<u>17,589</u>	<u>9,866</u>	<u>27,455</u>

## NOTE 10 - LIABILITIES SECURED BY PLEDGES AND RESTRICTIONS PLACED IN RESPECT OF LIABILITIES:

### a. Financial covenants

As to December 31, 2019 and 2018 the Group has no financial covenants in respect to borrowing from 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, 2019 are as follows:

	\$ in thousands
Current liabilities	17,589
Long-term liabilities	9,866
	<u>27,455</u>

- 2) As for charges with respect to grants received under the Law for the Encouragement of Capital Investments, 1959, see note 14c.

## NOTE 11- 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.

# Notes to Consolidated Financial Statements

(continued)

## NOTE 11 - SEVERANCE PAY ASSETS AND OBLIGATIONS (CONTINUED) :

- d. The Company's severance pay liability in respect of Israeli employees for whom the said liability is covered under section 14 of the Severance Pay Law is covered by regular deposits with defined contribution plans. The amount recorded in respect of Israeli employees under section 14 for the years 2019 and 2018 was \$1,244 thousand and \$1,175 thousands, respectively.

### Changes in net liability (asset):

	Present value of obligation	Fair value of plan assets	Net liability (asset)
	\$ in thousands		
<b>Balance as of January 1, 2019</b>	4,063	(3,878)	185
Current service cost	5	-	5
Interest expenses (income)	17	(23)	(6)
	<u>4,085</u>	<u>(3,901)</u>	<u>184</u>
Remeasurements of the net liability (asset):			
Return on plan assets, excluding amounts included in interest expense	-	(96)	(96)
Transfer of the central severance pay fund to individual funds of employees*	(3,412)	3,407	(5)
Loss from change in financial	52		52
Assumptions	52	-	52
	<u>725</u>	<u>(590)</u>	<u>135</u>
Exchange differences	268	(221)	47
Employer's contributions	-	(4)	(4)
Benefit payments	(3)	3	-
<b>Balance as of December 31, 2019</b>	<u>990</u>	<u>(812)</u>	<u>178</u>

\* According to Section 14 to the Israel Severance Pay Law, in 2019, the balances in the central severance pay fund were transferred to individual funds of employees. Therefore, the Company derecognized the related liability and asset on that date.

	Present value of obligation	Fair value of plan assets	Net liability (asset)
	\$ in thousands		
<b>Balance as of January 1, 2018</b>	5,112	(4,924)	188
Current service cost	15	-	15
Interest expenses (income)	159	(132)	27
	<u>5,286</u>	<u>(5,056)</u>	<u>230</u>
Remeasurements of the net liability (asset):			
Return on plan assets, excluding amounts included in interest expense	-	260	260
Loss from change in financial assumptions	(259)	-	(259)
	<u>5,027</u>	<u>(4,796)</u>	<u>231</u>
Exchange differences	(389)	376	(13)
Employer's contributions	-	(33)	(33)
Benefit payments	(575)	575	-
<b>Balance as of December 31, 2018</b>	<u>4,063</u>	<u>(3,878)</u>	<u>185</u>

# Notes to Consolidated Financial Statements

(continued)

## NOTE 11 - SEVERANCE PAY ASSETS AND OBLIGATIONS (continued):

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

	December 31	
	2019	2018
	\$ in thousands	
Present value of obligations arising from fully or partially funded plans	990	4,063
Fair value of plan assets	(812)	(3,878)
Balance of liability recognized in the statement of financial position	178	185

The principal actuarial assumptions used were as follows:

	2019	2018
Retirement rate	7.5%	7.5%
Discount rate	1.8%	3.4%
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.

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 at the end of the reported period is:

	Increase (decrease) in defined benefit obligation	
	December 31	
	2019	2018
	\$ in thousands	
Discount rate:		
1% increase	35	(223)
1% decrease	(46)	294
Salary growth rate:		
1% increase	67	430
1% decrease	(22)	(142)

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.

# Notes to Consolidated Financial Statements

(continued)

## NOTE 12 - CONTINGENT LIABILITIES AND COMMITMENTS:

- a) The Group has lease agreements in respect of rent of buildings, service agreements and motor vehicles, see note 7.
- b) As to sublease agreement and services agreement with the kibbutz and Beit Zera, see Note 18c and 18d respectively, and note 7.
- c) The future aggregate minimum lease payments under non-cancellable operating lease agreements subsequent to the statement of financial position date are as follows:

	<u>December 31</u>
	<u>2018</u>
	<u>\$ in thousands</u>
Not later than 1 year	2,530
Later than 1 year and not later than 5 years	6,828
Later than 5 years	529
	<u>9,887</u>

Operating lease expenses for 2018 were \$3,009 thousands (2017: \$3,077).

- d) 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 Innovation Authority ("the IIA").

The Company is obligated to pay royalties to the IIA on some of those 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. 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.

The company is not expecting to sell products and other related revenues generated from old programs that have any royalty obligation (as to new programs with royalty obligations see f-g below).

- e) During 2016 and 2015, The Industrial Research and Development Administration at the IIA 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, 2019 the Company has an outstanding grant liability of \$232 thousands (2018: \$214 thousands).
- f) In 2015, The Industrial Research and Development Administration at the IIA awarded the Company with a grant for development of an automatic self-cleaning cartridge filter for fine filtration degrees, full polymeric solution. 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, 2019 the Company has an outstanding grant liability of \$329 thousands (2018: \$303 thousands).
- g) On May 31, 2017 the company announced about issues with the conformity of a certification of compliance of certain products ("Products") sold by its French Subsidiary in France, with the French Attestation de Conformité Sanitaire (ACS) standard, which is the safety standard required in France for products and equipment that come in contact with drinking water. The Products are produced and supplied in full compliance with all relevant safety standards and are certified by NSF International, the US-based Public Health and Safety Organization.

# Notes to Consolidated Financial Statements

(continued)

## NOTE 12 - CONTINGENT LIABILITIES AND COMMITMENTS (continued):

The company initiated an urgent investigation into the matter following which the company has put in place new management oversight of its French and European operations and obtained the requisite ACS certification for the relevant Products.

Based on currently available information, the subject is still under investigation of the relevant authorities in France. The Company does not anticipate it to have a material impact on the Company's results.

The Company's results for the period of year ended December 31, 2017 include costs related to the aforementioned event which amount approximately \$500 thousand.

- h) In November 2017 the Group has entered into an Agreement (the "Agreement") with a third party under which the Group has been granted an exclusive royalty-bearing license to use and sell the third party's filter.. In order to maintain exclusivity of the license granted, the Group was obligated make minimum annual royalty payments as determined in the Agreement

Therefore, on the date of engagement, the Company recognized liabilities for payment of the said royalties.

In 2019, the Company waived its exclusivity under the agreement, and thus, derecognized the said liability of \$1,090 thousand (of which \$1,058 thousand within long-term liability and the remaining amount within short-term liabilities) against an intangible asset for a technology license (see also note 6).

## NOTE 13 - SHAREHOLDERS' EQUITY:

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

	Number of shares	
	December 31	
	2019	2018
Authorized	24,000,000	24,000,000
Issued and fully paid*	22,698,743	22,679,112

\* The shares are quoted on the London Stock Exchange Alternative Market (AIM), as of December 31, 2019 at GBP 2.53 (USD 3.34) 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.

### b. Share based payment

- 1) The company has eleventh 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) 110,000 options were granted in December 2014 (4) under the fourth grant (hereinafter - fourth plan) 204,500 options were granted in June 2015 (5) under the fifth grant (hereinafter - fifth plan) 80,000 options were granted in December 2015 (6) under the sixth grant (hereinafter - sixth plan) 20,000 options were granted in June 2016 (7) under the seventh grant (hereinafter –seventh plan) 125,000 options were granted in November 2016 (8) under the eighth grant (hereinafter - eighth plan) 120,000 options were granted in June 2018 (9) under the ninth grant (hereinafter - ninth plan) 40,000 options were granted in September 2018. (10) under the tenth grant (hereinafter - tenth plan) 80,000 options were granted in February 2019 (11) under the eleventh grant (hereinafter - eleventh plan) 10,000 options were granted in December 2019.
- 2) The options were granted to senior employees, management 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, except for the ninth and eleventh grant that vest over 4 years in equal quarterly 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 option 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 within 7 years after date of grant. Vested options shall expire 3 months after the termination of employer-employee relations.

# Notes to Consolidated Financial Statements

(continued)

## NOTE 13 - SHAREHOLDERS' EQUITY (continued):

Vested Options will generally be exercised only through a cashless mechanism (other than certain options granted to non-Israeli optionee that will be exercised upon the payment of the full consideration), 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, granted in December 2012, 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 - \$4.10, 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, granted in March 2014, 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 - \$3.74, 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, granted in December 2014, 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 - \$2.29, expected volatility - 27%;

risk-free interest rate - 1.62%, expected dividends - 2.62% and expected average life of options 4 years. On November 2018 a service provider of the company exercised 50,000 options under the third grant into 14,385 shares.

For the fourth grant, granted in June 2015, the weighted average fair value of the options as at the grant date is \$0.56 per share, and was estimated using the Black and Schole option pricing model based on the following significant data and assumptions: Share price - \$2.38; exercise price - \$1.98, expected volatility - 30%; risk-free interest rate - 1.69%, expected dividends - 2.09% and expected average life of options 4 years. On July and September 2018 two employees exercised 1,500 and 2,250 options, respectively, under the fourth grant into 208 and 868 respectively.

For the fifth grant, granted in December 2015, the weighted average fair value of the options as at the grant date is \$0.51 per share, and was estimated using the Black and Schole option pricing model based on the following significant data and assumptions: Share price - \$2.46; exercise price - \$2.33, expected volatility - 29%; risk-free interest rate - 1.73%, expected dividends - 2.03% and expected average life of options 4 years.

For the sixth grant, granted in June 2016, the weighted average fair value of the options as at the grant date is \$0.59 per share, and was estimated using the Black and Schole option pricing model based on the following significant data and assumptions: Share price - \$2.61; exercise price - \$2.33, expected volatility - 29%; risk-free interest rate - 1.25%, expected dividends - 1.79% and expected average life of options 4 years.

For the seventh grant, granted in November 2016, the weighted average fair value of the options as at the grant date is \$0.33 per share, and was estimated using the Black and Schole option pricing model based on the following significant data and assumptions: Share price - \$1.47; exercise price - \$1.71, expected volatility - 30%; risk-free interest rate - 1.68%, expected dividends - 1.79% and expected average life of options 4 years.

For the eighth grant, granted in June 2018, the weighted average fair value of the options as at the grant date is \$0.73 per share, and was estimated using the Black and Schole option pricing model based on the following significant data and assumptions: Share price - \$2.42; exercise price - \$2.38, expected volatility - 37%; risk-free interest rate - 2.52%, expected dividends - 1.85% and expected average life of options 4 years.

For the ninth grant, granted in September 2018, the weighted average fair value of the options as at the grant date is \$1.00 per share, and was estimated using the Black and Schole option pricing model based on the following significant data and assumptions: Share price - \$3.21; exercise price - \$3.26, expected volatility - 40%; risk-free interest rate - 2.52%, expected dividends - 1.85% and expected average life of options 3 years.

# Notes to Consolidated Financial Statements

(continued)

## NOTE 13 - SHAREHOLDERS' EQUITY (continued):

For the tenth grant, granted in February 2019, the weighted average fair value of the options as at the grant date is \$0.81 per share, and was estimated using the Black and Schole option pricing model based on the following significant data and assumptions: Share price - \$2.45; exercise price - \$2.56, expected volatility – 44%; risk-free interest rate – 2.52%, expected dividends – 1.85% and expected average life of options 4 years.

For the eleventh grant, granted in December 2019, the weighted average fair value of the options as at the grant date is \$1.07 per share, and was estimated using the Black and Schole option pricing model based on the following significant data and assumptions: Share price - \$3.56; exercise price - \$3.54, expected volatility – 37%; risk-free interest rate – 2.52%, expected dividends – 1.76% and expected average life of options 3 years.

- 3) As of December 31, 2019 (i) 579,000 options expired, thus making the total amount of outstanding options equal to 499,396 outstanding potential shares;

From the second, third, fourth and fifth plans, four batches have vested; from the seventh grant three batches have vested; from the ninth grant one batch has vested; from the ninth grant five batch have vested; from the eighth grant one batch have vested ; . Out of the 512,000 outstanding options granted, 287,250 options are exercisable.

The options 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.

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. Notwithstanding the forgoing, the December 2015 grants, which were granted to non-Israeli participants were granted in accordance to the applicable tax regime in the relevant territory.

The following table summarizes information about exercise price and the contractual terms of options outstanding at December 31, 2019:

Plans	Share rights outstanding					Share rights exercisable		
	31 December	Expiry Date	Exercise Prices	Number outstanding	Average remaining contractual life	Weighted average exercise price	Number exercisable	Average remaining contractual life
			\$		Years	\$		Years
1	2019	December 18, 2019	\$4.10	-,-	-,-	\$4.10	-,-	-,-
1	2018	December 18, 2019	\$4.10	90,000	1	\$4.10	90,000	1
2	2019	March 31, 2021	\$3.74	-,-	1.25	\$3.74	-,-	1.25
2	2018	March 31, 2021	\$3.74	20,000	2.25	\$3.74	20,000	2.25
3	2019	December 11, 2021	\$2.29	40,000	2	\$2.29	40,000	2
3	2018	December 11, 2021	\$2.29	60,000	3	\$2.29	60,000	3
4	2019	June 16, 2022	\$1.98	107,000	2.5	\$1.98	107,000	2.5
4	2018	June 16, 2022	\$1.98	139,000	3.5	\$21.98	104,250	3.5
5	2019	December 17, 2022	\$2.33	-,-	3	\$2.33	-,-	3
5	2018	December 17, 2022	\$2.33	20,000	4	\$2.33	15,000	4
6	2019	June 6, 2023	\$2.33	-,-	3.5	\$2.33	-,-	-,-
6	2018	June 6, 2023	\$2.33	-,-	4.5	\$2.33	-,-	-,-
7	2019	November 15, 2026	\$1.71	125,000	7	\$1.71	93,750	4
7	2018	November 15, 2026	\$1.71	125,000	8	\$1.71	62,500	5
8	2019	June 19,2025	\$2.38	110,000	5.5	\$2.38	20,000	5.5
8	2018	June 19,2025	\$2.38	120,000	6.5	\$2.38	-,-	6.5
9	2019	September 13, 2025	\$3.26	40,000	5.75	\$3.26	16,667	5.75
9	2018	September 13, 2025	\$3.26	40,000	6.75	\$3.26	3,333	6.75
10	2019	February 2, 2026	\$2.56	80,000	6.12	\$2.56	-,-	6.12
11	2019	December 12, 2026	\$3.54	10,000	6.95	\$3.54	833	6.95

# Notes to Consolidated Financial Statements

(continued)

## NOTE 13 - SHAREHOLDERS' EQUITY (continued):

### c. Phantom Bonus

In December 2015, the Board has approved a cash phantom bonus to one key employee. A total of 30,000 phantom units have been granted.

The cash phantom bonus will be equal to the positive difference between the exercise price and the share price at the time of the option's exercise per each unit of phantom award.

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 phantom awards shall be vested in four equal annual tranches over a period of four years (at the first, second, third and fourth anniversary of the grant date). Any un-vested phantom rewards shall expire upon the termination of the employment of the employee. Any vested phantom rewards that were not exercised by the employee, shall expire upon the earlier of: (i) four years as of grant of the phantom reward; (2) the termination of the employment of the employee.

The weighted average fair value of the phantom bonus as at the grant date is \$0.51 per phantom unit, and was estimated using the Black and Scholes option pricing model based on the following significant data and assumptions: Share price - \$1.05; exercise price - \$1.72, expected volatility - 30%; risk-free interest rate - 1.01%, expected dividends - 2.03% and expected average life of options 4 years.

The fair value of this unit on December 31, 2019 and 2018, using the Black and Scholes option pricing model, is \$1.28 and \$0.98 per unit respectively.

### d. 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 March 2018 the Company distributed dividends to its shareholders in the amount of \$635 thousands, \$0.028 per share respectively.

### e. Acquisition of Minority

In July 2018, Filtration Control Systems Pte Ltd. ("FCS") (fully owned by the Company) acquired 8,000 minority shares amounting to a 40% (forty percent) of the shares in Amiad Filtration Systems (India) Private Ltd. ("Amiad India"), from Mr. Sudhir Mehta, for the amount of \$330 thousand. Upon consummation of the Amiad Acquisition, FCS will become the beneficial owner of 100% of the equity shares of Amiad India.

## NOTE 14 - 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 are 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" or "preferred enterprise") is taxed at the regular rate of 23%.

In December 2016, the Economic Efficiency Law (Legislative Amendments for Implementing the Economic Policy for the 2017 and 2018 Budget Year), 2016 was published, introducing a reduction in corporate tax rate from 25% to 23%. However, the law also included a temporary provision setting the corporate tax rate in 2017 at 24%. As a result, the corporate tax rate will be 24% in 2017 and 23% in 2018 and thereafter.

# Notes to Consolidated Financial Statements

(continued)

## NOTE 14 - TAXES ON INCOME (continued):

### 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:

Australia - tax rate is 30%.

USA- tax rates are: Federal tax is 21% and average state tax average is 5%.

For the other subsidiaries, the tax rate ranges from 17% to 35%.

### c. The Law for the Encouragement of Capital Investment, 1959

Tax benefits

The Company elected to enter into the scope of the amendment beginning in 2011 under the "preferred enterprise" track. As part of the Economic Efficiency Law which was published in December 2016 (see a2) above), the tax rate on income of companies with enterprises in Development Zone A will be 7.5% instead of 9% in 2017 and thereafter.

Through 2010, the Company had tax benefits under the Encouragement of Capital Investment Law prior to its amendment, where during the benefits period provided by the law, the Company was liable to reduced tax rates / tax exemption on its income attributed to "approved enterprises" or "benefited enterprises" they own.

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

The Company is an "industrial Company" as defined by this law. As such, the company is entitled to claim depreciation at increased rates for equipment used in industrial activity as stipulated by regulations published under the inflationary adjustments Law.

### e. Tax loss carry forwards

As of December 31, 2019 and 2018, the tax loss carry forwards of the Group were approximately \$ 5,371 thousands and \$ 1,798 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 2012.

Amiad USA received final tax assessments through 2015.

Amiad FTS (Turkey) final tax assessments through 2014.

Filtration & Control Systems (s) Pte Ltd. (Amiad Singapore) received final tax assessments through 2012.

Amiad filtration systems (India) received final tax assessments through 2015.

Amiad Australia Pty Ltd. (Australia) received final tax assessments through 2012.

Amiad France SARL (France) received final tax assessments through 2015.

Yixing Taixing Environtec Co. Ltd received final tax assessments through 2016.

The remaining of the foreign subsidiaries have not received final tax assessments since their incorporation.

# Notes to Consolidated Financial Statements

(continued)

## NOTE 14 - 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:

	Balance Figures						
	\$ in thousands						
	Provisions for employee rights	Fixed assets	Depreciable intangibles	Loss for tax purposes	Other provisions	Inventory	Total
	\$ in thousands						
<b>Balance at December 31, 2017</b>	164	(321)	(371)	209	1,016	1,519	2,216
<b>Changes during the year ended December 31, 2018:</b>							
Amounts attributed to Profit & Loss	16	38	23	77	333	(189)	298
Amounts attributed to comprehensive income	(7)	15	10	21	(63)	(67)	(91)
<b>Balance at December 31, 2017</b>	<u>192</u>	<u>(362)</u>	<u>(226)</u>	<u>413</u>	<u>1,138</u>	<u>1,532</u>	<u>2,687</u>
<b>Changes during the year ended December 31, 2018:</b>							
Amounts attributed to Profit & Loss	35	80	32	233	(301)	(271)	(192)
Amounts attributed to comprehensive income	-	-	(2)	-	1	3	2
<b>Balance at December 31, 2019</b>	<u>227</u>	<u>(282)</u>	<u>(196)</u>	<u>646</u>	<u>838</u>	<u>1,264</u>	<u>2,497</u>

- 2) Deferred income tax balances are measured using the enacted tax rates expected to be in effect when the differences are expected to reverse.
- 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.

# Notes to Consolidated Financial Statements

## (continued)

### NOTE 14 - TAXES ON INCOME (continued):

#### h. Taxes on income

1) As follows:

	Year ended December 31	
	2019	2018
	\$ in thousands	
For the reported year:		
Current	736	1,386
Deferred income taxes:		
Recognize and reversal of deferred income tax and liability	192	(298)
	928	1,088
For previous years - current	46	(14)
	974	1,074

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 14a above) and the actual tax expense:

	Year ended December 31	
	2019	2018
	\$ in thousands	
Income before taxes on income	79	4,836
Theoretical tax expense in respect of the profit or loss - at 23%	18	1,112
Increase (decrease) in taxes on income due to:		
Current taxes calculated at a tax rate which is different from the statutory tax rate	892	(597)
Deferred tax balance that was measured using tax rates that are different from the theoretical tax rate	(115)	398
Non-deductible expenses	185	299
Transferred losses that were offset against taxable income and no deferred taxes were created in respect thereof	-	(122)
Taxes in respect of previous years	46	(14)
Other	(52)	(2)
Income tax expense	974	1,074

#### 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.

# Notes to Consolidated Financial Statements

(continued)

## NOTE 14 - 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.

During 2014 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, it 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.

Considering that the temporary provision applies to the 2007-2013 tax years and company assessment on the likelihood for taxation to cover 2014 – 2018.

## NOTE 15 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION:

### a. Cash and cash equivalent

	December 31	
	2019	2018
	\$ in thousands	
Cash at bank and on hand	14,991	13,526

The cash and cash equivalents consist of currencies as follows:

	December 31	
	2019	2018
	\$ in thousands	
U.S. dollars	5,129	4,966
NIS	362	540
Euro	3,465	2,856
Chinese RMB	3,186	1,292
Australian dollar	1,566	2,286
Singapore dollar	17	7
Turkish pound	35	611
INR	699	550
Pound Sterling	296	106
Other	236	312
	14,991	13,526

# Notes to Consolidated Financial Statements

(continued)

## b. Trade and other receivables

1) Trade:

	December 31	
	2019	2018
	\$ in thousands	
Open accounts*	36,685	37,674
Checks receivable	1,465	2,160
	38,150	39,834
Less - provision for impairment of trade receivables	(2,647)	(2,680)
	35,503	37,154

\* Including balance from primary customer as of December 31, 2019 and 2018 in the amount of \$8,287 thousands and \$9,273 thousands respectively.

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

	2019	2018
	\$ in thousands	
At January 1	2,680	2,529
Provision for receivables impairment	231	244
Receivables written off	(137)	-
Collection of receivables	(133)	(42)
Exchange Differences	6	(51)
At December 31	2,647	2,680

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 15j). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

As of December 31, 2019 trade receivables of \$8,622 thousands (2018: \$6,891 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 trade receivables is as follows:

	December 31	
	2019	2018
	\$ in thousands	
Up to 3 months	6,741	5,183
3 to 6 months	1,153	700
Over 6 months	728	1,008
	8,622	6,891

2) Other:

Government authorities	2,374	1,243
Prepaid expenses	1,418	765
Advances to suppliers	754	731
Employees	43	52
Restricted deposit	486	504
Construction contract work in progress due from customers	2,787	1,453
Other	83	13
	7,945	4,761

# Notes to Consolidated Financial Statements

(continued)

## NOTE 15 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

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

	December 31	
	2019	2018
	\$ in thousands	
<b>Trade:</b>		
NIS	3,785	3,701
U.S. dollar	17,954	16,453
Euro	4,061	6,508
Australian dollar	3,955	3,846
Chinese RMB	3,043	3,607
Singapore dollar	2	148
Turkish pound	329	1,388
Other	2,374	1,503
	<u>35,503</u>	<u>37,154</u>
<b>Other:</b>		
NIS	3,166	842
U.S. dollar	198	664
Euro	83	751
Australian dollar	1,155	459
Chinese RMB	127	439
Turkish pound	2,964	1,313
Other	252	293
	<u>7,945</u>	<u>4,761</u>

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 they are short term receivables.

### c. Bank credit and borrowings from banks

	December 31	
	2019	2018
	\$ in thousands	
1) Composed as follows:		
Bank credits	9,865	10,674
Current maturities of long-term borrowings from Banks (see note 9)	7,724	6,691
	<u>17,589</u>	<u>17,365</u>

# Notes to Consolidated Financial Statements

(continued)

## NOTE 15 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

- 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 2019	Weighted average interest rates*	December 31 2018
	%	\$ in thousands	%	\$ in thousands
Denominated in U.S. dollars	2.1	9,639	1.9	10,670
Denominated in Euro				
Denominated in TRY		226		4
		9,865		10,674
Current maturities of long-term loans from banks and others (see note 9)		7,724		6,691
		17,589		17,365

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

- 3) The Group has the following undrawn borrowing facilities:

	December 31	
	2019	2018
	\$ in thousands	
Floating rate:		
Expiring within one year	8,059	7,988

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

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

The Group assesses the value of the derivative financial instrument at each period end 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 based on Garman-Kohl Hagen 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	
	2019	2018
	\$ in thousands	
Derivatives:		
Assets	54	158
Liabilities	(91)	(180)

# Notes to Consolidated Financial Statements

(continued)

## NOTE 15 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

	December 31	
	2019	2018
	\$ in thousands	
<b>e. Trade and other payables</b>		
1) Trade payables:		
Open accounts	13,734	14,254
Checks payables	165	160
	<u>13,899</u>	<u>14,414</u>
2) Other accounts payable:		
Employee benefit expenses and other Liabilities relating to wages and salaries (including accrued vacation pay)	3,941	4,041
Customer advances	3,945	1,979
Related parties (the Kibbutz)	517	1,009
Commissions and other accrued expenses	3,363	2,041
Provision for governments grants (see note 11 (7-8))	563	519
Construction contract work in progress due to customers	-	138
Sundry	1,055	1,114
	<u>13,384</u>	<u>10,841</u>

The carrying amount of accounts payables is a reasonable approximation of their fair value since the effect of discounting is immaterial.

	Year ended December 31	
	2019	2018
	\$ in thousands	
<b>f. Sales by customer location</b>		
North America	29,401	30,103
Europe	21,523	20,758
Australia	15,135	12,791
Israel	9,453	10,700
South America	7,152	7,395
Africa	4,540	5,031
Middle East	6,665	6,517
The Far East	21,716	20,628
Total	<u>115,585</u>	<u>113,923</u>

Revenues of \$23,572 thousands in 2019 and \$20,611 thousands in 2018 are derived from a single external customer.

	Year ended December 31	
	2019	2018
	\$ in thousands	
<b>Sales by sectors</b>		
Industry	56,248	53,672
Irrigation	59,337	60,251
Total	<u>115,585</u>	<u>113,923</u>

# Notes to Consolidated Financial Statements

(continued)

## NOTE 15 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

	Year ended December 31	
	2019	2018
	\$ in thousands	
<b>g. Cost of revenue</b>		
Materials consumed	36,916	35,990
Subcontractors	3,245	1,619
Employee benefit expenses	17,417	16,872
Manpower services provided by Kibbutz Beit Zera	212	314
Amortization and depreciation	3,891	1,858
Rent and maintenance	2,729	4,382
Other manufacturing expenses	2,494	3,247
	<u>66,904</u>	<u>64,282</u>
Decrease (increase) in inventories of work in progress	1,744	163
Decrease (increase) Increase in inventories of finished products	1,980	1,491
Total changes in inventories	<u>3,724</u>	<u>1,654</u>
Total	<u>70,628</u>	<u>65,936</u>
<b>h. Research and development costs</b>		
Materials consumed	35	71
Subcontractors	305	365
Employee benefit expenses	2,284	2,021
Manpower services provided by the Kibbutz	99	139
Professional fees	20	33
Motor vehicle maintenance including depreciation	227	380
Sundry	597	635
	<u>3,567</u>	<u>3,644</u>
<b>i. Selling and marketing costs</b>		
Employee benefit expenses	16,548	16,924
Distribution, commissions and maintenance of sales offices	1,053	1,071
Delivery, packing, release and insurance	3,195	3,322
Advertising	1,014	1,307
Travel Abroad	691	675
Motor vehicle maintenance including depreciation	976	1,147
Manpower services provided by Kibbutz Beit Zera	171	221
Travel	1,070	1,170
Sundry	3,805	2,941
	<u>28,523</u>	<u>28,778</u>

# Notes to Consolidated Financial Statements

(continued)

## NOTE 15 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

	Year ended December 31	
	2019	2018
	\$ in thousands	
<b>j. Administrative and general expenses</b>		
Employee benefit expenses	4,957	4,703
Rent and maintenance	218	393
Professional fees	1,695	1,796
Amortization and depreciation	1,230	654
Manpower services provided by Kibbutz Beit Zera	3	1
Doubtful accounts and bad debts	231	202
Telephone and communication	101	124
Office expenses	27	20
Vehicle Expenses	201	380
Sundry	1,181	1,216
	<u>9,844</u>	<u>9,489</u>
<b>k. Other gains (loss)</b>		
Sales of assets	25	30
Sundry	88	34
	<u>113</u>	<u>64</u>
<b>l. Finance income and costs</b>		
Finance income:		
Interest income on short-term bank deposits	172	225
Interest expenses on severance pay fund	10	
Foreign currency derivative	573	
Foreign exchange differences	-	285
Total finance income	<u>755</u>	<u>510</u>
Finance costs:		
Interest expenses- borrowings	1,063	1,110
Interest expenses on severance pay fund	-	27
Foreign currency derivative	-	303
Foreign exchange differences	1,470	
Bank and other commissions	340	363
Interest expenses in connection with operating lease liabilities	915	-
Tax interest	24	11
Total finance costs	<u>3,812</u>	<u>1,814</u>
<b>Net finance income (costs)</b>	<u>(3,057)</u>	<u>(1,304)</u>
<b>m. Non-Current assets classified by geographical areas</b>		
Israel	36,902	18,679
United States	6,296	4,051
Turkey	1,852	1,815
Australia	1,238	1,146
China	617	673
Other	1,734	1,112
	<u>48,639</u>	<u>27,476</u>



# Notes to Consolidated Financial Statements

(continued)

## NOTE 16 - EARNINGS PER SHARE:

	Year ended December 31	
	2019	2018
	in thousands	
Number of shares at the beginning of the period	22,679	22,664
Number of shares used for calculation of earnings per share – basic	<u>22,699</u>	<u>22,679</u>

### 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 above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Year ended December 31	
	2019	2018
	in thousands	
Number of shares used for calculation of earnings per share – basic	22,699	22,679
Number of shares used for calculation of earnings per share - diluted	<u>22,983</u>	<u>22,958</u>
Net income attributable to equity holders of the parent (in U.S. dollars) – basic	(1,854)	2,292
Net income attributable to equity holders of the parent (in U.S. dollars) – diluted	<u>(1,854)</u>	<u>2,292</u>
Basic earnings per share (in U.S. dollars)	<u>(0.082)</u>	<u>0.101</u>
Diluted earnings per share (in U.S. dollars)	<u>(0.081)</u>	<u>0.100</u>

## NOTE 17 - CASH FLOWS FROM OPERATING ACTIVITIES:

	Year ended December 31	
	2019	2018
	\$ in thousands	
Profit (Loss) for the year	(895)	3,762
<b>a. Adjustments to reconcile net income to net cash generated from operating activities:</b>		
Depreciation and amortisation	6,532	2,864
Interest paid	957	455
Interest received	(176)	(228)
Income taxes paid, net	588	751
Share based payment, net	94	63
Decease (increase) in deferred income taxes, net	192	(299)
Accrued severance pay (income), net	48	50
Gain from sale of investment		(30)
Exchange rate differences	2,154	237
Net Increase (decrease) in assets and liabilities at fair value through profit or loss	15	152
Loss (profit) from sale of property, plant and equipment	<u>(25)</u>	<u>(30)</u>
	<u>10,379</u>	<u>3,985</u>

# Notes to Consolidated Financial Statements

(continued)

	Year ended December 31	
	2019	2018
	\$ in thousands	
<b>Changes in working capital:</b>		
Decrease (increase) in accounts receivable:		
Trade	1,139	(245)
Other	(3,318)	(1,435)
Decrease (increase) in long term receivable	192	(230)
Increase (decrease) in accounts payable:		
Trade	(191)	(21)
Other	2,521	(1,236)
Decrease/(increase) in inventories	3,066	(3,466)
	3,409	(6,633)
Cash generated from operations	12,893	1,114

## NOTE 18 - RELATED PARTIES:

### a. Transactions with related parties

	Year ended December 31	
	2019	2018
	\$ in thousands	
Expenses:		
Lease fees to the Kibbutz (see c below)	**690	631
Maintenance fees to the Kibbutz (see c below)	236	231
Manpower services provided by Kibbutz Bet Zera	525	675
Lease fees to the Kibbutz Bet Zera (see d below)	**869	860
Maintenance fees to the Kibbutz Bet Zera (see d below)	244	241
Raw materials purchases from Bermad	1,926	1,623
Sales of goods to Bermad	65	102
Key management compensation:		
Salaries and other short-term employee benefits	1,835	1,761
Termination benefits	176	146
Other long-term benefits	89	74
	6,655	6,344

\* see also option granted to key management in note 13b.

\*\* Represents the balance according to IAS 17, prior to application of IFRS 16 (see note 7). The expenses after application of IFRS 16 is \$901 thousands for the lease agreement with the Kibbutz and \$1,120 thousands for the lease agreement with Kibbutz Bet Zera .

# Notes to Consolidated Financial Statements

(continued)

## NOTE 18 - RELATED PARTIES (continued):

### b. Balances with related parties

	December 31	
	2019	2018
	\$ in thousands	
Current payables to related parties - presented in the statement of financial position among current liabilities:		
Other accounts payables to related parties	517	1,009
Other accounts payables to key management	190	124
	<u>707</u>	<u>1,133</u>

### 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 recently amended and renewed in December 2019.

#### 1) Sublease agreement

According to a sublease agreement between the Company, the Kibbutz and Amiad Assets 2005 LLP; (hereafter - the "Lessor") the monthly rent is \$53.6k 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 and the Company and the Kibbutz agreed on its extension until July 31, 2031.

#### 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 and the Company and the Kibbutz agreed in an addendum on its extension for so long as the sublease agreement between the Kibbutz and the Company is effective. In accordance with the addendum, the cost of services is \$9.8k thousands 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 and in December 12, 2019.

#### 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.

# Notes to Consolidated Financial Statements

(continued)

## NOTE 18 - RELATED PARTIES (continued):

### 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 \$75.2k 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. The Company and the Lessor have agreed on the extension of the term of the lease for additional 10 years, until 31.12.2031. 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 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 December 31, 2012 no loans were extended in respect 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 \$9.8k thousands per month linked to the Israeli consumer price index.

## e. Agreements between 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.

## NOTE 19 - SUBSEQUENT EVENTS

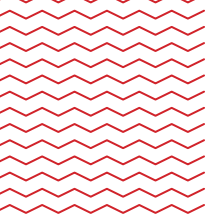
The Company is keeping under review the extent of potential disruption to trade caused by the COVID-19 outbreak. The Company is following guidance and regulations of public health authorities in all territories to protect the health and wellbeing of employees, while maintaining business continuity.

Consequently, it is too early to assess the impact these factors will have on revenue growth and the Company will keep the market updated throughout the year.

## APPENDIX I

Name of Company	Country	Percentage of shareholding and control	
		December 31	
		2019	2018
		%	%
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 Water Systems Europe SAS	France	100%	100%
Fitrasyon Aritim Sistemleri Sanayive Ticaret FTS	Turkey	51%	51%
European filtration Solutions Cooperatief U.A EFS	Holland	100%	100%
PEP Filters Inc (USA)	USA	100%	100%
Amiad Filtration Systems (India)	India	100%	60%
JSK Engg. Private Limited	India	0%	40%
Amiad Sistemas de Agua LTDA	Brazil	100%	100%
Amiad Mexico	Mexico	100%	100%
C.O.R Filtration.Netherlands B.V	Holland	100%	100%
Amiad Water Systems UK Limited	UK	100%	100%
Shanghai Taixing Environmental Technology Co	Shanghai	100%	100%





---

## Headquarters

### Amiad Water Systems HQ

📍 D.N Galil Elyon 1, 1233500 Israel

[www.amiad.com](http://www.amiad.com)

☎ +972 (4) 690 9500

📠 +972 (4) 814 1159

✉ [info@amiad.com](mailto:info@amiad.com)