

26 March 2021

Amiad Water Systems Ltd.
(“Amiad” or the “Company”)



Preliminary Results

Amiad (AIM: AFS), a leading global producer of water treatment and filtration solutions, announces its preliminary results for the year ended 31 December 2020.

Financial Summary

- Revenue of \$104.6m (2019: \$115.6m)
- Gross margin improved to 39.9% (2019: 38.9%)
- Operating profit increased to \$5.4m (2019: \$3.1m)
- Profit before tax increased to \$4.1m (2019: \$0.08m)
- Cash generated from operations increased to \$22.7m (2019: \$12.9m)
- Net cash at 31 December 2020 of \$23.5m (30 June 2020: \$12.2m net cash; 31 December 2019: \$12.5m net debt)
- Cash and cash equivalents at 31 December 2020 of \$35.3m (30 June 2020: \$27.8m; 31 December 2019: \$15.0m)

Operational Summary

- Successful execution on strategy to improve operations:
 - Introduced further manufacturing automation and other process enhancements
 - Maintained tight cost control and introduced cost mitigation measures in response to COVID-19
- Took actions in response to the pandemic to ensure that production continued in each territory, in accordance with local regulations and health and safety procedures
- Total sales were lower, particularly in the Industry segment, due to reduced market activity as a result of the pandemic – however the Company did not receive any order cancellations of a material nature
- Secured a new five-year global distribution agreement with Netafim, the global leader in precision irrigation solutions, for Amiad’s disc filtration products for the irrigation market
- Post period, launched the Spin Klin™ Nova innovative disc filtration system that offers industry-leading efficiency

Dori Ivzori, Chief Executive Officer of Amiad, said: “I am pleased to be reporting an overall great set of results for 2020. While our sales were lower due to the reduced global activity resulting from the COVID-19 pandemic, particularly in the Industry segment, we didn’t receive any material order cancellations and we expect the postponed projects to convert to orders as markets improve. Moreover, thanks to the actions that we took at the end of 2019 to improve operational efficiency, which we continued to progress this year, we significantly increased our cash generation. Our financial position was also bolstered with the investment from FIMI. Consequently, the fundamentals of our business have been greatly strengthened.

“Looking ahead, we entered 2021 with a significantly higher backlog than at the same point of the prior year and there has been a strong increase in sales activity, reflecting improved conditions in all of our markets. We are greatly encouraged by this resumption in activity, while remaining cautiously optimistic that recovery will be sustained as the year progresses. We expect to report revenue growth in both the Irrigation and Industry segments for the full year compared with 2020 and to continue to drive improvements in the efficiency of our operations, subject to no further unexpected disruption arising from the pandemic. Additionally, with our strong financial position, the Board intends to explore acquisition opportunities to accelerate our growth. As a result, we continue to look to the future with optimism.”

Enquiries

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About Amiad

Amiad Water Systems (AIM: AFS) is a leading global producer of automatic, self-cleaning water treatment and filtration products and systems. Through its engineering skills and ability to innovate, Amiad provides cost-effective “green” solutions for irrigation and industrial purposes. In these markets, its unique and high-quality products are being integrated into the core of systems for filtration and water treatment, micro irrigation and membrane protection, wastewater and potable water treatment, cooling systems and sea water filtration. Headquartered in Israel, Amiad provides these solutions through ten subsidiaries and a comprehensive network of distributors to customers in more than 80 countries.

FIMI Opportunity Funds, the leading private equity investor in Israel, is a controlling shareholder of Amiad, with an interest in 39.5% of the Company’s outstanding issued share capital.

For additional information or product details, please visit www.amiad.com.

Operational Review

Amiad delivered a solid performance in 2020. There was reduced activity across the Company's markets and a postponement in the conversion of new projects in the pipeline due to the global economic uncertainty and restrictions on movement caused by the COVID-19 outbreak. However, the Company did not receive any order cancellations of a material nature and continues to expect the delayed projects to transition to orders as market conditions improve in 2021, albeit the exact timing of this will likely be dependent on how the pandemic progresses globally.

The Company successfully executed on its strategy that was initiated at the end of 2019 to improve its operations, with a particular focus on efficiency, and responded effectively to the COVID-19 outbreak to implement cost mitigation measures. As a result, notwithstanding the impact of the pandemic on sales, the Company achieved a strong financial performance, with cash generated from operations increasing by 76.0% to \$22.7m (2019: \$12.9m). In addition, the financial position of the Company was strengthened through raising gross proceeds of \$21.8m via a subscription by the Company's significant shareholder, FIMI Opportunity Funds ("FIMI"), and an open offer.

In response to COVID-19, alongside implementing cost mitigation measures, the Company acted to ensure the safety of its employees and complied with the regulatory requirements in each of its territories, while preserving business continuity as far as possible. Throughout the year, production continued in each territory and the Company took measures to ensure it could still deliver products to its customers, as far as circumstances allowed.

The Company was pleased to sign a new five-year global distribution agreement with Netafim, the global leader in precision irrigation solutions. In addition, Amiad continued to conduct R&D into improving existing products as well as new product development, which culminated, post period, in the launch of the Spin Klin™ Nova, an innovative disc filtration system that is the Company's most efficient product to date.

Performance by Segment

Amiad provides solutions for the Irrigation and Industry segments. Revenue generated under the Company's distribution agreement with Netafim, whereby Netafim sells Amiad's irrigation products, contributes to the Irrigation segment sales.

Irrigation

Amiad's filtration solutions for the Irrigation segment prevent organic and inorganic materials from clogging the emitters of irrigation systems used in agricultural and landscaping applications. This ensures uniform water distribution while reducing the need for system maintenance as well as saving water and energy costs.

Revenue from the Irrigation segment was \$56.4m in 2020 (2019: \$59.3m), accounting for 53.9% of the Company's revenue (2019: 51.3%). This primarily reflects growth in the USA and Israel being offset by reductions elsewhere. In particular, revenue generated under the Netafim agreement was \$16.1m compared with \$20.2m for 2019.

Gross margin for the Irrigation segment improved to 40.1% (2019: 37.8%) resulting in increased gross profit of \$22.6m (2019: \$22.4m) despite the lower revenue partly due to product mix. Segment operating profit generated by the Irrigation segment (before indirect cost allocation) grew by 14.1% to \$15.5m (2019: \$13.6m).

The Company's innovative Sigma product series targeted at the irrigation market, which was launched in 2018 – consisting of the innovative Sigma Pro, Mini Sigma and ADI-P controller – continued to perform well. Sales of this series, which were predominantly into the Irrigation segment, increased by 27% over 2019 and accounted for almost 10% of total revenue.

Industry

In the Industry segment, Amiad's solutions are integrated into the core of water filtration systems in multiple industries and for numerous applications. In particular, Amiad operates in the metal, plastic, energy and chemical industries as well as providing solutions for municipal purposes. The Company is involved in the treatment of intake water, cooling water, process water and wastewater where its products are used for purposes such as protecting the nozzles or membranes of the filtration system and removal of invasive species.

Revenue from the Industry segment was \$48.2m for 2020 (2019: \$56.2m), accounting for 46.1% of the Company's revenue (2019: 48.7%). This reflects lower revenue in all of the Company's regions in the Industry segment except Israel, in part as a result of the more project-led nature of this segment and the delays to certain projects due to the pandemic.

Gross margin for the Industry segment was broadly maintained at 39.7% (2019: 40.0%) and gross profit was \$19.1m (2019: \$22.5m), primarily reflecting the lower revenue. Segment operating profit generated by the Industry segment (before indirect cost allocation) was \$9.5m (2019: \$10.5m).

Performance by Region

Amiad sells its products worldwide from its ten subsidiaries and both domestically and internationally from its headquarters in Israel. During 2020, there was growth in Amiad's direct sales in Israel and reduced activity in the Company's other regions as a result of the COVID-19 pandemic, with a particular impact on countries where Amiad's sales are primarily project-based, such as Germany and Singapore.

USA

In the USA, revenue was broadly flat at \$26.1m (2019: \$26.2m). This reflects a reduction in the Industry segment to \$11.4m (2019: \$13.8m) being largely offset by growth in the Irrigation segment to \$14.8m (2019: \$12.4m). The USA accounted for 25.0% of total revenue compared with 22.7% in 2019, and continued to be the largest regional contributor to Irrigation segment sales representing 26.2% (2019: 20.9%).

EMEA and LATAM

The EMEA and LATAM region includes sales by Amiad's subsidiaries in France (Amiad Europe), Turkey, the UK and Mexico as well as sales of the Company's headquarters in Israel into Europe, the Middle East, Africa and Latin America. The EMEA and Latin America geographies have been grouped into the same reporting region as they are managed by the same executive within Amiad.

Revenue in EMEA and LATAM was \$25.5m (2019: \$30.1m). In the Industry segment, revenue was \$16.4m (2019: \$19.6m). In the Irrigation segment, revenue was \$9.1m (2019: \$10.5m). EMEA and LATAM represented 24.4% of total revenue compared with 26.1% in 2019.

APAC

The APAC region includes sales by Amiad's subsidiaries in Australia, China, India and Singapore as well as sales from the Company's headquarters in Israel into the Asia-Pacific geography.

Revenue in APAC was \$27.4m (2019: \$30.6m), with Industry segment sales of \$18.0m (2019: \$20.7m) and Irrigation segment sales of \$9.4m (2019: \$9.9m). APAC accounted for 26.2% of total revenue compared with 26.4% in 2019, and continued to be the largest regional contributor to Industry segment sales accounting for 37.3% (2019: 36.8%).

The Company was encouraged that China, having been the Company's first territory to be impacted by the COVID-19 pandemic, recovered during the second half of the year and its performance for the full year was broadly in line with 2019. Overall, sales declined in Australia while India was particularly badly impacted by logistical difficulties associated with the pandemic.

Israel

The Company's domestic sales in Israel (excluding Netafim) increased to \$9.5m (2019: \$8.6m), reflecting growth in both the Irrigation and Industry segments, and accounted for 9.1% of total revenue (2019: 7.4%). Irrigation segment revenue increased by 10.8% to \$7.1m (2019: \$6.4m), which was supported by demand for the Mini Sigma as well as the Israeli agricultural market performing well in 2020. In the Industry segment, revenue increased by 9.0% to \$2.4m (2019: \$2.2m).

Strengthened Operations

Amiad continued to strengthen the fundamentals of the business and invest in securing future growth. In particular, the Company automated manufacturing in its metal department and installed welding robots at its headquarters and introduced automation at its Beit Zera facility. These measures will increase the efficiency of the business, with the initial benefits expected to be recognised during the current year.

The Company signed a new five-year global distribution agreement with Netafim, the global leader in precision irrigation solutions, for the Company's disc filtration products for the irrigation market, which extends the existing long-term strategic relationship between the two companies. This agreement provides Amiad with continued access to Netafim's extensive distribution network, covering over 110 countries, which the Company believes will yield significant revenue over the five-year period. As noted above, Netafim represents a material contributor to the Company's sales in the irrigation market and management believes the new agreement will be particularly important in supporting the launch of new products.

Amiad continued to conduct R&D into improving existing products as well as new product development. Post the period end, as announced on 2 March 2021, the Company launched the Spin Klin™ Nova, an innovative disc filtration system that offers greater filtration efficiency and can process larger volumes of water per hour with a smaller system footprint than Amiad's existing products and, the Company believes, than competing solutions available in the market today. It has also been designed to allow flexibility and adaptability of configuration to suit the potentially changing needs of the customer as well as being equipped with the Company's real-time app-based controller. The Spin Klin™ Nova is being marketed and sold in Israel by the Company is being exclusively distributed for the irrigation market worldwide by Netafim under the name AlphaDisc™, which forms part of the new five-year global distribution agreement.

Financial Review

Revenue for the year to 31 December 2020 was \$104.6m compared with \$115.6m for 2019. The reduction was due to reduced market activity and some customers postponing new projects that the Company had expected to convert to orders as a result of the economic uncertainty caused by the COVID-19 outbreak.

Gross margin improved to 39.9% (2019: 38.9%) as the Company began to benefit from the actions taken at the end of 2019 to increase operational efficiency. In particular, the Company substantially reduced the cost of subcontractors as it continued to reduce its use of outsourcing. Gross profit was \$41.8m (2019: \$45.0m) due to the lower revenue.

As a result of the actions taken at the end of 2019 to improve efficiency combined with the cost mitigation measures implemented in response to the COVID-19 outbreak, total operating costs were significantly reduced to \$36.4m (2019: \$41.8m). Sales and marketing costs were reduced to \$23.3m (2019: \$28.5m); administrative and general expenses were \$9.6m (2019: \$9.8m); and R&D costs were \$3.4m (2019: \$3.6m). Following the launch of the Spin Klin™ Nova earlier this month, the Company expects a further slight reduction in R&D expenses during 2021 before returning to normalised levels from next year as it continues to invest in developing market-leading solutions to support the growth of the business. Other expenses are expected to increase in 2021 compared with 2020 as a result of the anticipated greater activity (subject to no further unexpected disruption as a result of the pandemic) but remain below the pre-pandemic levels.

Operating profit increased by 74.1% to \$5.4m (2019: \$3.1m) as a result of the reduction in expenses, which, combined with the improved gross margin, more than offset the lower revenue. Net finance costs were reduced to \$1.3m (2019: \$3.1m), which primarily reflects greater financial expenses in 2019 from the implementation of IFRS 16. In addition, in 2020, the Company raised gross proceeds of \$21.8m via a subscription by its significant shareholder, FIMI, and open offer for 7,652,174 new ordinary shares. The proceeds of the fundraise were used to reduce the Company's bank credit and short-term borrowing by \$9.2m with the remainder generating interest from being bank deposits. The Company generated \$2.1m from financing activities during the year compared with using \$4.1m in 2019.

EBITDA increased by 26.9% to \$12.1m compared with \$9.7m for 2019.

With increased operating profit and lower net finance costs, profit before tax grew substantially over 2019 to \$4.1m (2019: \$0.08m). Income tax expenses were \$0.5m compared with \$1.0m for 2019. As a result, the Company generated a net profit of \$3.6m for 2020 compared with a net loss of \$0.9m for 2019.

Fully diluted earnings per share were \$0.093 (2019: \$0.082 loss per share).

Cash generated from operations increased by 75.9% to \$22.7m (2019: \$12.9m), reflecting the increased profitability and improvement in working capital, partly due to delivery of work in progress and to a certain extent from the lower activity. Net cash generated from operating activities increased by 86.1% to \$21.4m (2019: \$11.5m).

Net cash used in investing activities was reduced to \$2.6m (2019: \$5.4m). This primarily reflects lower investment in equipment at \$2.8m (2019: \$4.3m) due to some product launch and machine installation delays as a result of the pandemic.

At 31 December 2020, cash and cash equivalents were \$35.3m (30 June 2020: \$27.8m; 31 December 2019: \$15.0m). As a result of the increased cash from operations as well as the fundraise during the first half of the year, the Company had net cash of \$23.5m at year end compared with \$12.2m at 30 June 2020 and net debt of \$12.5m at 31 December 2019.

The Board is currently considering the optimum platform for the Company's listing, including the potential benefits of moving its listing to be traded in its home state of Israel on the Tel Aviv Stock Exchange. There is no guarantee that any action will be taken as a result of this review. The Company will update the market in due course.

Outlook

Amiad entered 2021 with a significantly higher backlog than at the same point of the prior year, consisting both of projects delayed from 2020 and new orders. There has been a strong increase in sales activity, including the award of a particularly large project in January. This reflects improved conditions in all of the Company's markets as well as growth in sales from Netafim. The Company is greatly encouraged by this strong resumption in activity, while remaining cautiously optimistic that recovery will be sustained as the year progresses as the global economy continues to be impacted by the pandemic.

The Company expects to report revenue growth for 2021 in both the Irrigation and Industry segments, subject to no further unexpected disruption arising from the pandemic. The Company also continues to drive improvements in the efficiency of its operations. The Irrigation segment is expected to continue to be the largest contributor to revenue. The Company anticipates increased revenue in the Industry segment as infrastructure projects are resumed. Additionally, with the investment from FIMI as well as the strong cash generation, the Company is well-capitalised and the Board intends to pursue acquisition opportunities to accelerate the growth of the Company. As a result, the Board continues to look to the future with optimism.

AMIAD WATER SYSTEMS LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
UNAUDITED

		December 31	
	Note	2020	2019
		\$ in thousands	
Assets			
CURRENT ASSETS:			
Cash and cash equivalents		35,250	14,991
Financial assets at fair value through profit or loss – derivatives		512	54
Trade and other receivables:			
Trade		28,607	35,503
Other		5,812	7,945
Inventories		28,208	27,682
Current income tax assets		305	502
Total Current Assets		98,694	86,677
NON-CURRENT ASSETS:			
Severance pay fund, net		247	227
Long-term receivables		197	108
Property, plant and equipment		13,034	12,824
Intangible assets		11,602	12,100
Right of use assets		17,642	20,704
Deferred income tax assets		3,558	2,676
Total Non-Current Assets		46,280	48,639
Total Assets		144,974	135,316

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

AMIAD WATER SYSTEMS LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
UNAUDITED

Note	December 31	
	2020	2019
	\$ in thousands	
Liabilities and Equity		
CURRENT LIABILITIES:		
Bank credit and current maturities of borrowings from bank	6,445	17,589
Financial liabilities at fair value through profit or loss- derivatives	405	91
Trade and other payables:		
Trade	13,137	13,899
Other	15,439	13,293
Lease liabilities	2,857	3,096
Current income tax liability	830	24
Total Current Liabilities	39,113	47,992
NON CURRENT LIABILITIES:		
Borrowings from banks (net of current maturities)	5,349	9,866
Post-employment benefit obligations, net	433	405
Lease liabilities	17,878	19,285
Deferred income tax liabilities	37	179
Total Non-Current Liabilities	23,697	29,735
Total Liabilities	62,810	77,727
EQUITY:		
Capital and reserves attributable to equity holders of the Company:		
Share capital	3,900	2,801
Capital reserves	48,760	28,874
Transaction with non-controlling interests	(416)	(416)
Currency translation reserve	(7,566)	(8,160)
Retained earnings	34,365	31,762
	79,043	54,861
Non-controlling interests	3,121	2,728
Total Equity	82,164	57,589
Total Liabilities and Equity	144,974	135,316

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

AMIAD WATER SYSTEMS LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
UNAUDITED

		Year ended December 31	
	Note	2020	2019
		\$ in thousands except per share data	
Revenue	3c	104,602	115,585
Cost of revenue		62,823	70,628
Gross Profit		41,779	44,957
Research and development, net		3,381	3,567
Selling and marketing costs		23,303	28,523
Administrative and general expenses		9,631	9,844
Other (gains) losses		50	(113)
Operating Profit		5,414	3,136
Finance income		870	755
Finance expenses		(2,148)	(3,812)
Finance expenses, net		(1,278)	(3,057)
Profit before income taxes		4,136	79
Income tax expenses		530	974
Net profit (Loss) for the year		3,606	(895)
Other comprehensive income (loss):			
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefit obligations, net		(1)	42
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations		(15)	(1,133)
Other comprehensive loss for the year		(16)	(1,091)
Total comprehensive income (loss) for the year		3,590	(1,986)
Profit (Loss) attributable to:			
Equity holders of the Company		2,604	(1,854)
Non-controlling interests		1,002	959
		3,606	(895)
Total comprehensive income (Loss) attributable to:			
Equity holders of the Company		3,197	(2,592)
Non-controlling interests		393	606
		3,590	(1,986)
		\$	
Earnings (Loss) per share attributable to the equity holders of the Company during the year:			
Basic		0.094	(0.082)
Diluted		0.093	(0.082)

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

AMIAD WATER SYSTEMS LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
UNAUDITED

	Number of shares	Attributable to equity holders of the Company					Non- controlling interest	Total equity
		Share capital	Capital Reserve	Currency translation Reserve	Transaction with non-controlling Interest \$ in thousands	Retained earnings Total		
BALANCE AT JANUARY 1, 2019	<u>22,679,112</u>	<u>2,800</u>	<u>28,781</u>	<u>(7,380)</u>	<u>(416)</u>	<u>33,574</u> <u>57,359</u>	<u>2,916</u>	<u>60,275</u>
Comprehensive income (loss):								
Profit (loss) for the year						(1,854)	959	(895)
Currency translation differences				(780)		(780)	(353)	(1,133)
Remeasurement of net defined benefit liability						42		42
Total comprehensive income (loss)				<u>(780)</u>		<u>(1,812)</u> <u>(2,592)</u>	<u>606</u>	<u>(1,986)</u>
Transaction with owners:								
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 in subsidiaries							(794)	(794)
Total transaction with owners	<u>19,631</u>	<u>1</u>	<u>93</u>			<u>94</u>	<u>(794)</u>	<u>(700)</u>
BALANCE AT DECEMBER 31, 2019	<u>22,698,743</u>	<u>2,801</u>	<u>28,874</u>	<u>(8,160)</u>	<u>(416)</u>	<u>31,762</u> <u>54,861</u>	<u>2,728</u>	<u>57,589</u>
Comprehensive income (loss):								
Profit (loss) for the year						2,604	1,002	3,606
Currency translation differences				594		594	(609)	(15)
Remeasurement of net defined benefit liability						(1)		(1)
Total comprehensive income (loss)				<u>594</u>		<u>2,603</u> <u>3,197</u>	<u>393</u>	<u>3,590</u>
Transaction with owners:								
Recognition of compensation related to employee stock and options grants			29			29		29
Exercise of options	20,679	3	(3)					
Issuance of shares	7,652,174	1,096	19,860			20,956		20,956
Total transaction with owners	<u>7,672,853</u>	<u>1,099</u>	<u>19,886</u>			<u>20,985</u>		<u>20,985</u>
BALANCE AT DECEMBER 31, 2020	<u>30,371,596</u>	<u>3,900</u>	<u>48,760</u>	<u>(7,566)</u>	<u>(416)</u>	<u>34,365</u> <u>79,043</u>	<u>3,121</u>	<u>82,164</u>

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

AMIAD WATER SYSTEMS LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED

		Year ended December 31	
	Note	2020	2019
		\$ in thousands	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash generated from operations	2	22,775	12,893
Interest paid		(1,282)	(957)
Interest received		132	176
Income taxes paid		(226)	(588)
Net cash generated from operating activities		21,399	11,524
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(2,409)	(4,307)
Purchase of intangible assets		(609)	(1,150)
Proceeds from sale of property, plant and equipment		32	72
Restricted deposit (repayments)		293	-
Restricted deposit (additions)		-	(10)
Net cash used in investing activities		(2,693)	(5,395)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid to non-controlling interest in subsidiaries		-	(794)
Payments of lease liabilities		(3,122)	(3,578)
Issuance of shares (net of issuance expenses – 893K\$)		20,956	-
Receipt of short-term borrowings		1,312	-
Receipt of long-term borrowings		-	8,634
Payments of long term borrowings		(7,903)	(7,562)
Payment of short term borrowings		(9,211)	(797)
Net cash generated from (used in) financing activities		2,032	(4,097)
EXCHANGE RATE LOSS ON CASH AND CASH EQUIVALENTS			
		(479)	(567)
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		20,259	1,465
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
		14,991	13,526
CASH AND CASH EQUIVALENTS AT END OF YEAR			
		35,250	14,991

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

AMIAD WATER SYSTEMS LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED

NOTE 1 - GENERAL INFORMATION:

1. Basis of preparation:

The data in this preliminary results announcement are unaudited and do not constitute a substitute for the full disclosure that will be included in the audited financial statements as of December 31, 2020. There is no certainty that the data in this preliminary results announcement will be identical to the final data included in the audited financial statements. In whole or in part, these data may change, and even materially, up to the date of publication of the audited financial statements as of December 31, 2020.

2. Incorporation and activity:

- 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 and irrigation segments.

Following a change in the strategy focus of the Company, a need arose to examine its activity differently relative to previous years. Therefore, the Chief Executive Officer (the "Chief Operating Decision Maker") began reviewing the activity of the Company by looking at the irrigation and industry activity segments.

As of the financial year 2020, the Company is presenting information in its financial statements relating to its operating segments (see note 3).

- b. The Company was incorporated in Israel in June 1997. The address of its registered office is Kibbutz Amiad, Israel. The Company is traded in the Alternative Investment Market in London (AIM), a part of the London Stock Exchange, since December 2005. The principal shareholders of the Company, as of the report release date, are FIMI Opportunity Funds (hereafter - "FIMI"), A.M.S.I. Investments Ltd. (hereafter - "AMSI"), a wholly owned subsidiary of HaChoshlim Foundation – Agricultural Cooperative Society for Business Ltd. (hereafter "HaChoshlim Foundation"), and Kibbutz Amiad (hereafter - The "Kibbutz"), who is an affiliate of HaChoshlim Foundation.
- c. On February 26, 2020, the Company entered into a subscription agreement with FIMI following which FIMI subscribed for 7,652,174 Subscription Shares (the "Capital Raising"). The Company gave all qualifying shareholders an opportunity to participate in the capital raising via an Open Offer for up to 856,556 ordinary shares of the Company. 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 the completion of the Capital Raising and the HaChoshlim/FIMI Share Purchase Agreement on May 1, 2020. As of December 31, FIMI holds approximately 39.6% of the issued and outstanding share capital of the Company, while HaChoshlim (together with Kibbutz Amiad) holds 32.91% of the Company's issued and outstanding share capital.

NOTE 1 - GENERAL INFORMATION (continued):

3. Effect of Coronavirus (COVID-19):

In late 2019, a novel strain of coronavirus (COVID-19) spread worldwide. In 2020, the COVID-19 pandemic had negatively impacted the global economy and created significant volatility, uncertainty, and disruption of financial markets. The various preventive measures taken by many governmental authorities around the world to limit the spread of the coronavirus has affected, and have an adverse effect on, the global markets and its economy, including the demand for consumables, products, and services, as well as on the availability and pricing of employees, resources, materials, manufacturing and delivery efforts and other aspects of the global economy.

a. The effect of the crisis on Company revenues

The spread of the coronavirus affected the Company's revenues during 2020 due to a global economical standstill in the first global wave of the COVID-19. However, after a short period of stagnation in the global economy, the Company's activity in the various markets returned, which partially compensated for the damage to the Company's sales at the beginning of the crisis.

b. Steps taken by the Company to deal with the crisis

Due to the crisis's effects, the Company has taken steps to reduce its current expenses as much as possible, including canceling welfare and training activities, reducing the Company's employees' compensation on various periods, including unpaid leave, and utilizing accumulated vacation days while reducing workload due to the COVID-19 impact on global economy.

As part of tackling the economic impacts of the COVID-19, business assistance programs have been implemented by various governments:

- Amiad USA has applied for a loan amount of \$1,312 thousands under the Paycheck Protection Program (PPP)
- Other subsidiaries have benefited from income through the COVID-19 Job Retention Scheme received from governments to sustain their employees for a certain period, amounting to a saving (from expenses) of approximately \$220 thousands

c. Consequences of the continuing crisis

The Company continues to monitor and conduct regular assessments of the development of the COVID-19 crisis, examine its exposure and impact on the Company's activities and take steps as required. The Company has no concerns about its ability to repay financial liabilities.

At present, the Company is unable to assess the consequences of the continuing COVID-19 crisis accurately. These implications depend, among other things, on the extent, intensity, and duration of the situation and its economic consequences, the depth of the restrictions imposed, the imposition of additional closures, the rate of return to routine, the extent of government support, vaccine development and associated schedules.

NOTE 2 - CASH FLOWS FROM OPERATING ACTIVITIES:

	Year ended December 31	
	2020	2019
	\$ in thousands	
Profit (Loss) for the year	3,606	(895)
(a) Adjustments to reconcile net income to net cash generated from operating activities:		
Depreciation and amortization	6,650	6,532
Interest paid	1,282	957
Interest received	(132)	(176)
Income taxes paid	226	588
Share based payment	29	94
Decrease (increase) in deferred income taxes, net	(905)	192
Accrued severance pay (income), net	(2)	48
Interest expenses, net	28	106
Exchange rate differences	1,705	2,048
Net Increase (decrease) in assets and liabilities at fair value through profit or loss	(144)	15
Other loss (gain)	50	(25)
	<u>8,787</u>	<u>10,379</u>
Changes in working capital:		
Decrease (increase) in accounts receivable:		
Trade	6,952	1,139
Other	1,716	(3,318)
Decrease (increase) in long term receivable	(101)	192
Increase (decrease) in accounts payable:		
Trade	(1,365)	(191)
Other	3,056	2,521
Decrease in inventories	124	3,066
	<u>10,382</u>	<u>3,409</u>
Cash generated from operations	<u>22,775</u>	<u>12,893</u>
(b) Information about financial activities not involving cash flow		
Purchase of property, plant and equipment	399	-
Leases- Additions	<u>1,038</u>	<u>6,156</u>

NOTE 3 – SEGMENT INFORMATION:

a. Description of segments and principal activities

Following a change in the strategic focus of the Company, a need arose to examine its activity differently compared with previous years. Therefore, the Chief Operating Decision Maker began reviewing the activity of the Company by looking at the irrigation and industry segments.

As a result, at year end 2020, the Company had two operating segments - Industry and Irrigation - which are reviewed by the Chief Operating Decision Maker, who is responsible for assessing the performance of the Company and for making resource allocation decisions.

Beginning with the financial year 2020, the Company is presenting information in its financial statements relating to its operating segments. In previous years, the Company operated in one operating segment.

The Chief Operating Decision Maker has determined the operating segments based on the reports used to make resource allocation to the segments and evaluate their performance.

The Chief Operating Decision Maker examines the operating segments' performance based on sales net of cost of sales and direct sales and marketing expenses. Non-direct selling and marketing costs, administrative and general expenses, research and development, other (gains) losses, financing expenses, and taxes are not allocated between the operating segments. Segmental information in respect of these activities is not provided to the Chief Operating Decision Maker regularly.

As mentioned, the Group's companies are engaged in two main areas of activity: Industry and Irrigation.

The Company's irrigation segment provides filtration solutions for agriculture and landscape applications. The Company protects drip lines and micro-sprinklers – water-efficient irrigation.

The Company's industry segments have a range of technologies that offer solution for various filtration needs. This includes self-cleaning to a fine degree; key reference projects in iron/steel, power and paper industries with major groups for cooling systems; pump seals and intake nozzle protection; fine cleansing for wastewater; and recycling.

b. Segment results and profit adjustment:

1. Revenue from external customers:

	Year ended December 31	
	2020	2019
	\$ in thousands	
Revenue:		
Industry	48,224	56,248
Irrigation	56,378	59,337
	104,602	115,585

NOTE 3 – SEGMENT INFORMATION (continued):**2. Segments results and profit adjustment:**

	Year ended December 31	
	2020	2019
	\$ in thousands	
Industry	9,486	10,478
Irrigation	15,530	13,608
Total Segment Profit	25,016	24,086

Expenses not allocated between the operating segments:

Indirect Selling and Marketing expenses	6,540	7,652
Administrative and general expenses	9,631	9,844
Research and development, net	3,381	3,567
Other (gains) losses	50	(113)
Operating Profit	5,414	3,136
Finance income	870	755
Finance expenses	2,148	3,812
Profit before income taxes	4,136	79
Income tax expenses	530	974
Net Profit (Loss) for the year	3,606	(895)

3. Amortization and depreciation:

	Year ended December 31	
	2020	2019
	\$ in thousands	
Amortization and depreciation		
Industry	1,598	1,471
Irrigation	2,397	2,420
Total Amortization and depreciation allocated to segments	3,995	3,891
Total Amortization and depreciation not allocated to segments	2,655	2,641
Total Amortization and depreciation	6,650	6,532

NOTE 3 – SEGMENT INFORMATION (continued):**c. Sales by geographic markets (by customer location):**

	Year ended December 31	
	2020	2019
	\$ in thousands	
Sales by customer location:		
North America	28,125	29,401
Europe	21,407	21,523
Australia	14,472	15,135
Israel	10,982	9,453
South America	5,888	7,152
Africa	4,081	4,540
Middle east	3,359	6,665
The Far East	16,288	21,716
Total	<u>104,602</u>	<u>115,585</u>

Revenues of \$18,829 thousands in 2020 and \$23,572 thousands in 2019 are derived from a single external irrigation customer.

d. Non-current assets classified by geographical areas:

	December 31	
	2020	2019
	\$ in thousands	
Israel	33,323	36,902
United States (Oxnard CA, Mooresville NC)	7,927	6,296
Turkey	1,627	1,852
Australia	1,867	1,238
China	696	617
Other	840	1,734
	<u>46,280</u>	<u>48,639</u>