

11 April 2018

Amiad Water Systems Ltd.
("Amiad" or the "Company")



Final Results

Amiad Water Systems (AIM: AFS), a leading global producer of water treatment and filtration solutions, announces its final results for the year ended 31 December 2017.

Financial Summary

- Revenue increased 6.3% to \$112.3m (2016: \$105.6m)
- Gross margin improved to 39.5% (2016: 39.3%)
- Operating profit increased 23.2% to \$4.6m (2016: \$3.7m)
- Profit before tax increased 64.5% to \$5.1m (2016: \$3.1m)
- Fully diluted earnings per share of \$0.14 (2016: \$0.095)
- Dividend for 2017 of \$0.028 per share (2016: \$0.032 per share)
- Net debt at 31 December 2017 of \$9.7m (30 June 2017: \$8.1m; 31 December 2016: \$8.8m)
- Cash and cash equivalents at 31 December 2017 of \$16.1m (30 June 2017: \$15.7m; 31 December 2016: \$16.1m)

Operational Summary

- Growth in revenue reflecting progress primarily in the Irrigation segment, which increased sales by 11.3%
 - Irrigation segment sales, which accounted for 54.3% of total revenue, increased across all geographies where the Company operates in this segment
- Non-Irrigation revenue slightly increased to \$51.3m (2016: \$50.9m)
 - Within non-Irrigation, the Company reclassified certain projects between the Industrial, Municipal and Oil & Gas segments
 - Industrial segment sales grew in China, India, Australia and South America. However, weakness in certain other geographies, particularly in the US, resulted in an overall reduction
 - Sales in the Municipal segment were significantly higher, primarily due to an increase in Turkey
 - Oil & Gas segment sales increased, driven by growth in Australia and the US
- Enhanced Oil & Gas product portfolio and US market presence with acquisition of royalty-bearing licence from Dow Global Technologies LLC to use and sell the TEQUATIC™ PLUS Filter
- Developed new range of Irrigation segment products, which the Company will launch later in 2018
- Completed in-house metal fabrication facility, which is now fully operational and is helping to deliver increased efficiency and quality

Dori Ivzori, Chief Executive Officer of Amiad, said: "I am pleased to report a return to year-on-year growth largely driven by the Irrigation segment. The increase in revenues, together with the cost structure and efficiency measures that we implemented, resulted in strong growth in profitability compared with the previous year. The growth in the business enabled us to re-calibrate our strategy and focus our resources on segments and territories that will strengthen our offering. This included acquiring a royalty-bearing licence to use and sell the TEQUATIC™ PLUS Filter, which enhances our industrial offer and US presence.

"Amiad entered 2018 with a greater number of orders and higher value of backlog than at the same time of the prior year and the momentum of 2017 has been sustained into this year. We anticipate Irrigation to continue to be the largest segment and expect improved performance in our Industrial segment as well. We plan to support our re-calibrated strategy through increased sales and marketing efforts as we refresh our portfolio of products as well as launch new products in the Irrigation segment. As a result, we anticipate reporting full year revenue growth for 2018."

Enquiries

Amiad Water Systems Ltd.	
Dori Ivzori, Chief Executive Officer Irit Ben-Dov, Chief Financial Officer	+972 4 690 9500
Stifel Nicolaus Europe Ltd.	
Stewart Wallace, Ben Maddison	+44 20 7710 7600
Luther Pendragon Ltd.	
Harry Chathli, Claire Norbury	+44 20 7618 9100

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 the industrial, municipal, irrigation, oil & gas and ballast water markets. In these segments its patented 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 nine subsidiaries and a comprehensive network of over 170 distributors to customers in more than 80 countries.

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

Operational Review

In 2017, the Company achieved growth in all of its core segments except Industrial and all of its geographies except the US (based on aggregating EMEA and Asia respectively), which was particularly impacted by weakness in the Industrial segment as well as some internal restructuring of the Company's US operations during the year. As a result, total revenue increased by 6.3% year-on-year. Also during the year, the Company completed and commenced operations of its in-house metal fabrication facility, which is contributing to improved efficiency. These efficiency gains, combined with the progress made in adjusting the cost structure, maintaining control over expenses and benefiting from its foreign exchange hedging in the first half, enabled the Company to achieve a 64.5% increase in profit before tax.

Amiad continued to invest in R&D in line with its policy and strategy and is developing new products, including a range of new products for the Irrigation segment that are to be launched later this year. In addition, Amiad focused on amending the organisation of the business to further improve the cost structure, efficiency, its customer support and engineering capability. The Company believes that these adjustments will enhance the efficiency of the operations going forward, in line with the stated strategy of investing to strengthen the foundations of the business.

Segment Performance

The Irrigation segment generated \$60.9m in 2017 (2016: \$54.7m), accounting for 54.3% of the Company's revenue (2016: 51.8%). The growth was across all geographies where the Company operates in this segment, resulting in total segment growth of 11.3%. In non-Irrigation segments, revenue increased slightly to \$51.3m (2016: \$50.9m), accounting for 45.7% of total revenue (2016: 48.2%).

Within non-Irrigation, following an internal management reporting review, the Company made some alterations in the segmental classification of projects, which fall within the Industrial, Municipal and Oil & Gas segments. As a result of this, certain existing projects have been reclassified.

The Industrial segment generated \$36.2m in 2017 (2016: \$39.7m), accounting for 32.2% of the Company's revenue (2016: 37.6%), with an increase in sales in China, India, Australia and South America being offset by weakness elsewhere, primarily in the US, resulting in a decline overall. However, part, but not all, of this decline is attributable to the reclassification of certain Industrial projects.

The Municipal segment sales were \$9.7m (accounting for 8.7% of 2017 total revenue), compared with \$7.2m in 2016, with the growth primarily due to a significant increase in sales in the Municipal segment in Turkey. Revenue in the Oil & Gas segment was \$5.4m, or 4.8% of total sales, compared with \$3.9m (3.7% of total revenue) in 2017 with the growth primarily due to a significant increase in sales in Australia but also in the US.

As previously announced, the Company continues to review its Ballast Water segment activities (which generated \$0.02m in 2017) and will provide an update following the completion of this review process in due course.

Global Activity

US and Latin America

In the US, the Company took a strategic decision to restructure the Industrial segment sales team and channel partner network to support targeted growth in 2018 and beyond. As a result of this reorganisation, sales in this segment were significantly lower in 2017 compared with the prior year. This was partly offset by growth in revenues in the Irrigation and Oil & Gas segments, resulting in total revenues amounting to \$21.1m compared with \$23.6m for 2016. However, as a result of the actions taken during the year to restructure the US operations, the Company entered 2018 with a higher backlog than at the same time of the prior year and is confident of returning to growth in this territory for full year 2018.

Towards the end of the year, as announced on 22 November 2017, the Company entered into a Patent and Technology License Agreement with Dow Global Technologies LLC under which Amiad was granted an exclusive royalty-bearing licence to use and sell, as well as take over new product manufacturing and support to the existing customers, the TEQUATIC™ PLUS Filter, which has a patented design to deliver a consistent level of solids removal from difficult-to-treat, highly loaded water. This has enhanced Amiad's product portfolio with the addition of a new technology that offers a unique solution for key target markets such as Oil & Gas and strengthens Amiad's US customer base. The manufacturing equipment for the TEQUATIC™ PLUS Filter has been installed as an additional production line at Amiad's US headquarters in Mooresville, North Carolina, and the Company is focusing on completing the integration. The management team is pleased with the initial progress since acquiring the licence and remains confident that it represents a significant opportunity for Amiad in the US market.

In Latin America, Amiad's offices in Brazil and Mexico increased their revenues. This was primarily due to growth in the Industrial segment, but also an increase in sales in the Irrigation segment in Mexico.

EMEA

Revenues in EMEA grew by 12.1% in aggregate over 2016, which was due to a significant growth in Israel and Turkey, with a slight decline in Europe.

The growth in Israel was primarily due to the Irrigation segment, as well as generating sales in the Municipal segment in 2017 (2016: nil). In Turkey, the significant increase in revenue was due to growth in the Municipal segment as a result of re-investment in major public infrastructure projects.

In Europe, sales in the Irrigation segment increased as the sales office established in the region continued to build on the success of the prior year, and the Industrial segment was broadly in line with the prior year as a result of a strong second half of 2017. The Municipal and Oil & Gas segments experienced a slight decline resulting in an overall reduction in revenue in Europe.

As previously announced, during the period the Company was notified about issues with the certification used by its French subsidiary company to confirm compliance of certain products with the French Attestation de Conformité Sanitaire ("ACS") standard. The Company submitted an application for the requisite ACS certification and, following an initial investigation, put in place new management oversight of its French and European operations. The Company is pleased to report that it has received all required certificates and that it was able to work with its customers to mitigate disruption to ongoing projects.

Asia

Sales in China and India grew by 20.8% and 14.2% respectively over the prior year, primarily due to an increase in the Industrial segment. In China, the strengthening economy resulted in an increase in investment, especially in the steel industry that has traditionally been the strongest sector for Amiad in China.

However, on aggregate, sales in Asia decreased by 5.6% due to a significant reduction in revenues in Singapore as a result of a delay in a few major projects in the Municipal segment, which Amiad expects to complete in 2018.

Australia

In Australia, Amiad had a strong year with revenues 22.9% higher than the prior year. This was based on growth in all its segments, with a particularly significant increase in sales in the Oil & Gas segment due to substantial projects in the mining sector.

The above analysis shows the Company's sales by business unit.

Financial Review

Revenue for the twelve months ended 31 December 2017 increased by 6.3% to \$112.3m compared with \$105.6m for 2016. As stated above, the growth was primarily due to the Irrigation segment, supported by the Oil & Gas and Municipal segments, although there was variation within the different geographies.

Gross margin was 39.5% (2016: 39.3%). The slight improvement was due to continued tight cost control and gains from operational efficiencies, including Amiad beginning to recognise the full benefits from the construction of its new metal fabrication facility in the second half of the year. However, this was partly offset by the negative impact of the foreign currency exchange rate of the US Dollar against the New Israeli Shekel as described below. In addition, spending on R&D increased as Amiad invested in sustaining its product innovation to support future sales, particularly in the Irrigation segment where the Company is due to launch new products in 2018. The Company also incurred, in the second half of the year, exceptional legal and other costs related to the certification issue in France of approximately \$0.5m.

Operating profit increased by 23.2% to \$4.6m (2016: \$3.7m) and profit before tax increased by 64.5% to \$5.1m compared with \$3.1m for the prior year. Fully diluted earnings per share were \$0.14 compared with \$0.095 in 2016.

Foreign currency exchange movements – primarily the US Dollar against the New Israeli Shekel – had a substantial negative impact on the Company's reported operating profit, which, on a constant currency basis was approximately 62% higher than the reported \$4.6m. However, the net finance income due to the hedging arrangements during the first half of the year partly mitigated the negative impact on profit before for tax, which, on a constant currency basis, was approximately 30% higher than the reported \$5.1m.

As at 31 December 2017, cash and cash equivalents were \$16.1m (30 June 2017: \$15.7m). Net debt at 31 December 2017 was \$9.7m (30 June 2017 was \$8.1m), with the increase, as expected, due to the negative effect of the currency exchange and the need to support R&D and other investments associated with the Company's strategic plan.

Dividend

The Board of Directors have decided to declare a dividend out of the Company's profits for the twelve months ended 31 December 2017 of \$0.028 gross per share (dividend 2016: \$0.032 gross per share), with an ex-dividend date of 19 April 2018, a record date of 20 April 2018 and a payment date of 11 May 2018.

Outlook

Amiad entered 2018 with a greater number of orders and higher value of backlog than at the same time of the prior year. The sales momentum of 2017 has been sustained into 2018 and the Company has had a positive start to the year. Amiad anticipates the Irrigation segment to continue to be the largest contributor to revenues, but also expects progress in its Industrial segment. Additionally, the Company anticipates a return to growth in the US market in 2018.

While Amiad is beginning to benefit from the re-calibrated strategy implemented in 2017, this year the Company will continue to focus on investing in enhancing its sales and marketing infrastructure and refreshing its product portfolio, including the launch of new products, that will establish the foundations for long-term growth and profitability. The Company expects its newly developed products to generate initial sales in the second half of 2018, with the full benefit to be felt from 2019 onwards.

Foreign currency exchange – particularly the erosion of the US Dollar against the New Israeli Shekel – will continue to have an adverse effect on the Company's reported results. However, Amiad will continue to deploy measures to try to manage and mitigate this impact.

With a strong pipeline and positive sales momentum, Amiad anticipates reporting full year revenue growth for 2018. Looking further ahead, the Company expects to benefit from the reorganizational measures that it is implementing now, and remains confident of achieving sustained growth and delivering shareholder value in the medium- to long-term.

AMIAD WATER SYSTEMS LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Assets	December 31	
	2017	2016
	\$ in thousands	
CURRENT ASSETS:		
Cash and cash equivalents	16,122	16,091
Financial assets at fair value through profit or loss – derivatives	238	85
Trade and other receivables:		
Trade	38,795	33,939
Other	3,935	4,331
Inventories	28,470	24,938
Current income tax assets	615	417
Total Current Assets	88,175	79,801
NON-CURRENT ASSETS:		
Investment in joint venture	10	10
Severance pay fund, net	184	361
Long-term receivables	57	59
Property, plant and equipment	11,271	10,783
Intangible assets	14,745	14,532
Deferred income tax assets	2,480	2,222
Total Non-Current Assets	28,747	27,967
Total Assets	116,922	107,768

Date of approval of the financial statements by the board of directors: April 10, 2018.

AMIAD WATER SYSTEMS LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2017	2016
	\$ in thousands	
Liabilities and Equity		
CURRENT LIABILITIES:		
Bank credit and current maturities of borrowings from bank	13,746	11,253
Financial liabilities at fair value through profit or loss- derivatives	108	66
Trade and other payable:		
Trade	15,855	13,854
Other	12,826	10,278
Current income tax liability	287	816
Total Current Liabilities	42,822	36,267
NON CURRENT LIABILITIES:		
Borrowings from banks (net of current maturities)	12,037	13,596
Liability for royalty payment	1,116	-, -
Remeasurements of post-employment benefit obligations, net	372	369
Deferred income tax liabilities	-, -	6
Total Non-Current Liabilities	13,525	13,971
Total Liabilities	56,347	50,238
EQUITY:		
Capital and reserves attributable to equity holders of the Company:		
Share capital	2,798	2,798
Capital reserves	28,547	28,520
Transaction with non-controlling interests	(259)	(259)
Currency translation reserve	(5,206)	(6,288)
Retained earnings	32,089	29,857
	57,969	54,628
Non-controlling interests	2,606	2,902
Total Equity	60,575	57,530
Total Liabilities and Equity	116,922	107,768

AMIAD WATER SYSTEMS LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31	
	2017	2016
	\$ in thousands except per share data	
Revenue	112,269	105,590
Cost of revenue	67,924	64,077
Gross Profit	44,345	41,513
Research and development, net	3,698	3,402
Selling and marketing costs	25,872	24,423
Administrative and general expenses	10,221	9,953
Other (gains) losses	(6)	34
Operating Profit	4,560	3,701
Finance income	1,761	1,009
Finance costs	(1,241)	(1,622)
Finance costs, net	520	(613)
Profit before income taxes	5,080	3,088
Income tax expenses	932	677
Profit for the year	4,148	2,411
Other comprehensive loss (income):		
Items that will not be reclassified to profit or loss:		
Remeasurements of post-employment benefit obligations, net	221	(260)
Items that may be subsequently reclassified to profit or loss:		
Currency translation differences	(919)	2,147
Other comprehensive loss (income) for the year	(698)	1,887
Total comprehensive income for the year	4,846	524
Profit attributable to:		
Equity holders of the Company	3,178	2,342
Non-controlling interests	970	69
	4,148	2,411
Total comprehensive income attributable to:		
Equity holders of the Company	4,039	459
Non-controlling interests	807	65
	4,846	524
	\$	
Earnings per share attributable to the equity holders of the Company during the year (see note 15):		
Basic	0.140	0.103
Diluted	0.140	0.095

AMIAD WATER SYSTEMS LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company						Non-controlling interest	Total equity	
	Number of shares	Share capital	Capital reserve	Currency translation reserve	Transaction with non-controlling interest	Retained earnings			Total
	\$ in thousands								
BALANCE AT JANUARY 1, 2016	22,663,651	2,798	28,437	(4,145)	(180)	28,773	55,683	153	55,836
Comprehensive income (loss):									
Profit for the year						2,342	2,342	69	2,411
Currency translation differences				(2,143)			(2,143)	(4)	(2,147)
Remeasurement of net defined benefit liability						260	260		260
Total comprehensive income (loss)				(2,143)		2,602	459	65	524
Transaction with owners:									
Transaction with non-controlling interests					(79)		(79)	2,684	2,605
Recognition of compensation related to employee stock and options grants			83				83		83
Dividend (\$0.067 per share)						(1,518)	(1,518)		(1,518)
Total transaction with owners			83		(79)	(1,518)	(1,514)	2,684	1,170
BALANCE AT December 31, 2016	22,663,651	2,798	28,520	(6,288)	(259)	29,857	54,628	2,902	57,530
Comprehensive income (loss):									
Profit (loss) for the year						3,178	3,178	970	4,148
Currency translation differences				1,082			1,082	(163)	919
Remeasurement of net defined benefit liability						(221)	(221)		(221)
Total comprehensive income (loss)				1,082		2,957	4,039	807	4,846
Transaction with owners:									
Recognition of compensation related to employee stock and options grants			27				27		27
Dividend to Non-Controlling Interest								(1,103)	(1,103)
Dividend (\$0.032 per share)						(725)	(725)		(725)
Total transaction with owners			27			(725)	(698)	(1,103)	(1,801)
BALANCE AT December 31, 2017	22,663,651	2,798	28,547	(5,206)	(259)	32,089	57,969	2,606	60,575

	Year ended December 31	
	2017	2016
	\$ in thousands	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash generated from operations	5,719	6,166
Interest paid	(35)	(764)
Interest received	201	124
Income taxes paid, net	(1,333)	(635)
Net cash generated from operating activities	<u>4,552</u>	<u>4,891</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(2,607)	(2,564)
Business acquisition	(1,173)	
Purchase of intangible assets	(179)	(225)
Investment grants received	89	127
Proceeds from sale of property, plant and equipment	35	38
Restricted deposit	(302)	465
Net cash used in investing activities	<u>(4,137)</u>	<u>(2,159)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid to equity holders of the Company	(725)	(1,518)
Dividends paid to Non-Controlling Interest	(1,103)	-,-
Receipt of long-term borrowings	6,005	9,014
Payments of long term borrowings	(6,838)	(11,394)
Increase (decrease) in bank credit and short term borrowing, net	1,760	1,370
Net cash used in financing activities	<u>(901)</u>	<u>(2,528)</u>
EXCHANGE RATE LOSS ON CASH AND CASH EQUIVALENTS	<u>517</u>	<u>(1,131)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	31	(927)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>16,091</u>	<u>17,018</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>16,122</u></u>	<u><u>16,091</u></u>

	Year ended December 31	
	2017	2016
	\$ in thousands	
Profit for the year	4,148	2,411
(a) Adjustments to reconcile net income to net cash generated from operating activities:		
Depreciation and amortization	3,460	3,431
Interest paid	35	764
Interest received	(201)	(124)
Income taxes paid, net	1,333	635
Share based payment, net	27	83
Distribution of profits to the CEO of a subsidiary	-,	(371)
Changes in liability to the CEO of a subsidiary	-,	151
Decrease (increase) in deferred income taxes, net	(199)	(814)
Accrued severance pay, net	(58)	65
Exchange rate differences on borrowings	(198)	91
Net Increase in assets and liabilities at fair value through profit or loss	(111)	(85)
Loss (profit) from sale of property, plant and equipment	5	19
	<u>4,093</u>	<u>3,845</u>
Changes in working capital:		
Decrease (increase) in accounts receivable:		
Trade	(3,878)	878
Other	624	(491)
Decrease (increase) in long term receivable	4	(18)
Increase (decrease) in accounts payable:		
Trade	997	(980)
Other	1,852	1,127
Increase in inventories	(2,121)	(606)
	<u>(2,522)</u>	<u>(90)</u>
Cash generated from operations	<u>5,719</u>	<u>6,166</u>
(b) Supplementary information on investing activity not involving cash flows-		
Transaction with the non-controlling interests	<u>-,-</u>	<u>2,605</u>