

15 September 2011

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



Results for the six months to 30 June 2011

Amiad, a leading global producer of water treatment and filtration solutions, announces its interim results for the six months to 30 June 2011.

Financial Summary

- Revenue increased by 56% to \$59m (H1 2010: \$37.9m; H2 2010: \$51.5m)
- Operating profit was \$5.5m (H1 2010: \$2.1m; H2 2010: \$2.1m)
- Profit before tax was \$4.9m (H1 2010: \$1.1m; H2 2010: \$2.3m)
- Gross margins at 44% (H1 2010: 45%; H2 2010: 42%)
- Fully diluted earnings per share was \$0.18 (H1 2010: \$0.04; H2 2010: \$0.103)
- Interim dividend of \$0.049 per share (H1 2010: \$0.02; H2 2010: \$0.058)
- Cash and cash equivalents at 30 June 2011 were \$15.0m (31 December 2010: \$11.3m)

Operational Summary

- The Company's revenues grew in all territories
- Return to growth in the irrigation segment in the United States
- Operational progress in new and growing geographies and segments, including:
 - Secured new projects in the municipal segment in East Europe and Russia, and for provision of drinking water in Vietnam
 - Successfully commissioned a pre-filtration system, based on Arkal disc technology, at a desalination plant in Adelaide, Australia
 - In the oil & gas industry, secured new projects in Singapore and the second phase of an existing project in Central Europe
 - Providing SpinKlin Disc Filters, part of the Arkal family of products, for the Aquapolo tertiary wastewater treatment plant in São Paulo, Brazil
 - Experienced increased interest in the ballast water industry, particularly in the United States
- Strategic:
 - Acquired the remaining issued share capital of the Company's subsidiary in France, established "Amiad Europe" and, post period end, established "Amiad Brazil" as a wholly-owned subsidiary
 - Post period end, adopted Amiad Water Systems Ltd as the Company's name, reflecting the development and expansion of Amiad's offering

Outlook for FY 2011

- Increase in revenues expected to continue across all segments
- Further expansion into new markets, including ballast water, and territories to deliver increased sales
- Irrigation segment continuing to grow
- Ongoing impact of raw material prices and currency fluctuation
- Board confident of achieving significant revenue growth, ahead of market expectations

Commenting on the results, Arik Dayan, Chief Executive Officer of Amiad, said: “As we have stated previously, 2010 was a landmark year that laid the strategic foundations for future progress. The first half results demonstrate the strength of this strategy with growth in all segments and territories resulting in revenues and profits exceeding market expectations.

“Looking ahead, we entered the second half of 2011 with a greater backlog than at the same time last year as demand for clean water – for drinking, irrigation and industrial use – continues to increase throughout the world. As a result, Amiad is well-positioned to achieve significant revenue growth for the full year 2011 ahead of market expectations.”

Enquiries

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Operational Review

Amiad achieved a number of milestones in the first half of 2011. The Company's revenues rose in all territories. The growth in the industrial and municipal segments was particularly strong in Australia, Central America and Europe, including Eastern Europe. The irrigation segment experienced an increase in revenue across all geographies, which, significantly, included a return to growth in the United States.

The Company continued to expand into new geographies and segments, receiving increased interest in projects in the ballast water industry and winning projects such as in the oil & gas industry in East Asia and the municipal segment in East Europe.

During the first half, Amiad pursued its strategy to consolidate existing subsidiaries with the acquisition of the outstanding issued share capital of the Company's subsidiary in France, the establishment of "Amiad Europe" for Western Europe and the integration of Arkal's subsidiaries in China. In addition, post period end, Amiad established a subsidiary in Brazil to target this key market.

Amiad progressed its R&D programme and is on schedule to launch a new series of filtration technologies by the year end. Additionally, the first products and projects combining Amiad and Arkal technology are showing good traction and are already contributing to revenues.

Finally, post period end, the Company changed its name to Amiad Water Systems Ltd to reflect the evolution and expansion of the Amiad offering.

Global Activity

Asia

For Amiad, the Asian territory encompasses countries such as China, India, Singapore and Vietnam operating through the Company's Taixing, Amiad India and FCS subsidiaries.

Key project highlights in the first half included:

The Company secured several projects in China in the irrigation segment in the north-west of the country. In addition, projects were secured in the industrial segment to provide nozzle protection in the steel mill industry and process water for washing coal in the mining industry.

In India, Amiad successfully secured a project with VA Tech Wabag, a leading water and water management company in India, which was awarded a contract to build and operate a desalination plant in Chennai. Construction of the plant is being overseen and coordinated by Mecon Ltd, a government-owned company, on behalf of Chennai Metropolitan Water Supply and Sewage Board. The project is based on Arkal disc filtration technology, which will form an integral part of the system. The facility, which will be one of the largest desalination plants in Asia, will process water from the Bay of Bengal to supply 100 million litres a day of purified water to the city of Chennai. In addition, Amiad's subsidiary in India assembled its first filter series following the completion of the product assembly in the second half of 2010.

Amiad moved forward with its project to provide filtration services to a dairy processing farm in Vietnam to ensure clean and clear drinking water for the cattle. Located in western Nghe An, the farm, which will house approximately 30,000 milking cows, is the largest of its kind in Southeast Asia. For the initial phase of the project, Amiad developed a filtration system for the plant's quarantine zone. Under the second phase, Amiad provided filtration systems for three milking barns. The Company is now working on the final stage of the project, which is due to be completed in 2012.

Amiad also won a significant project in East Asia, through its subsidiary in Singapore, to provide filtration technology to treat injection water for a floating production, storage and offloading unit in the offshore oil & gas industry.

North America

For Amiad, the North American territory encompasses the United States and Canada operating through the Company's Amiad USA Inc and PEP Filters subsidiaries.

In the US, Amiad received a particular interest for projects in the ballast water industry. The Company also experienced a return to growth in the irrigation segment.

South America

For Amiad, the South American territory encompasses countries such as Argentina, Brazil, Chile, Peru, Uruguay and the Caribbean Islands operating primarily through the Company's operations in Israel and from its two subsidiaries: Amiad Andina in Chile and the recently established Amiad Sistemas de Agua LTDA ("Amiad Brazil") in Brazil.

In the Caribbean, Amiad installed a water treatment facility, using Arkal and Amiad technology, to filter cloudy water from a local river to provide residents with potable water. The Company successfully completed the commissioning and testing phase of the project. The system has a flow rate of approximately 350 cubic metres per hour.

As announced on 13 June 2011, Amiad secured a project to provide its proprietary Arkal SpinKlin Disc Filters for the Aquapolo tertiary wastewater treatment project in São Paulo, Brazil. The facility, one of the largest of its kind in the Southern Hemisphere, produces reclaimed water for industrial purposes.

EMEA

For Amiad, the EMEA territory encompasses countries such as France and Spain in Europe, Russia and former CIS countries in East Europe, Turkey, Israel and others in the Middle East and Africa.

In France, Amiad recently secured a contract for a second phase of an existing project in the oil & gas segment for the provision of a salt leaching brine filtration system at an underground liquid hydrocarbon storage facility. The project is to be delivered in the second half of 2011.

In Slovakia, Amiad completed the commissioning of a filtration system at a wastewater facility, for the reclamation of municipal sewage, in the city of Strazke. The Company's unique system, installed within a heated structure to prevent freezing in winter temperatures that can reach -20°C, filters the waste to meet the environmental criteria for release into a nearby river. The facility began continuous operation at the beginning of July 2011.

Australia

For Amiad, this territory encompasses Australia and New Zealand operating through the Company's Amiad Australia subsidiary.

This region experienced particular growth – for both revenues and profit – in the industrial and municipal segments in Australia.

The Company successfully commissioned a pre-filtration system, based on Arkal disc technology, at a desalination plant in Adelaide. The facility is designed to treat ocean water to reduce the reliance of the southern Australian states on water from the River Murray and other rain-dependent sources. The Amiad solution was incorporated from the design through construction phases of the pre-filtration system.

Strategic

During the first half of 2011, Amiad continued to execute on its stated strategy of expanding its presence through gaining full control of its subsidiaries in order to have a local presence and establish direct sales channels in competitive markets.

As announced on 7 February 2011, Amiad acquired the remaining 34% of the issued share capital of its French subsidiary, Amiad France SARL. Subsequently, the Company consolidated all central and western European activity under the newly established Amiad Water Systems Europe SAS (“Amiad Europe”). Located in France, the subsidiary continues to be managed by Dr Bruno Jauneaud, the former Chief Executive Officer of Amiad France SARL.

Similarly in China, Amiad completed the integration of the Arkal subsidiaries with the Company’s existing infrastructure. Amiad now has approximately 90 employees in China and one manufacturing facility.

In August 2011, the Company founded Amiad Sistemas de Agua LTDA (“Amiad Brazil”), a wholly-owned subsidiary in Brazil, to enhance the sale and marketing of Amiad’s products in the non-irrigation segments. The water industry in Brazil is a fast-growing market that is receiving increasing interest and investment. By establishing a presence in Brazil, Amiad will be better positioned to be able to access this market and meet this demand.

As announced on 13 September 2011, the Company has adopted Amiad Water Systems Ltd as its new company name to reflect the development and expansion of Amiad’s offering following the merger with Arkal Filtration Systems. The enlarged business, operating in a greater number of market segments and geographies, aims to provide a wider range of products based on innovative solutions that can form the core of any water treatment system worldwide.

Based on distinct, but synergistic and complementary technologies, Amiad now operates under three brands:

- “Amiad” – screen technology based products, providing a variety of filtration solutions for the industrial, municipal and irrigation segments;
- “Arkal (by Amiad)” – disc filtration and polymer casing products, providing solutions for irrigation, municipal, ballast water and marine applications; and
- “Filtomat (by Amiad)” – solutions for the industrial and municipal segments, based on a unique patented microfiber technology that allows filtration to a finer degree, and provides screen filters to the irrigation segment.

Financial Review

Revenues for the six months ended 30 June 2011 increased by 56% to \$59.0m compared with \$37.9m for the first half of 2010 and by 14.6% sequentially (H2 2010: \$51.5m). Fully diluted earnings per share increased to \$0.18 (H1 2010: \$0.04).

Operating profit for the period more than doubled to \$5.5m (H1 2010: \$2.1m) and profit before tax more than quadrupled to \$4.9m (H1 2010: \$1.1m).

The period saw the return to growth of the underlying Amiad business, with an increase in revenues of approximately 20% on a like-for-like basis. Revenues for the first half of 2010 included a two month contribution from Arkal of approximately \$7.0m compared with a six month contribution of approximately \$22m for the first half of 2011.

Gross margins decreased to 44% compared with 45% for the first half of 2010 due to increased sales in the irrigation segment, which is traditionally a lower margin business.

As of 30 June 2011, cash and cash equivalents in the bank were \$15.0m compared with \$11.3m at 31 December 2010, reflecting the acquisition of Arkal, and continuing efforts to increase organisational efficiency, streamline operations and maintain tight control of costs.

Dividend

The Directors have decided to declare a dividend out of the Company's profits for the six months ended 30 June 2011 of \$0.049 gross per share (H1 2010: \$0.02 gross per share), with an ex dividend date of 21 September 2011, a record date of 23 September 2011 and a payment date of 11 October 2011.

Outlook

Amiad entered the second half of 2011 with a higher order backlog than at the comparable point of the previous year and sales are expected to continue to increase across all segments. As a result, with the return to growth in key traditional markets, such as the irrigation segment in the US, and the expansion into new industries, such as ballast water, and territories, Amiad expects to achieve revenue growth exceeding market expectations.

The Company anticipates raw material prices will remain high and currency pressures will continue due to the strengthening of the Israeli Shekel against the US dollar. In addition, the increasing contribution to revenues from the irrigation segment will have an impact on gross margins, which are expected to be in the range of 42% to 45%.

Despite this, the Board of Amiad remains confident of achieving strong revenue growth, ahead of market expectations, for the full year 2011.

AMIAD FILTRATION SYSTEMS LTD.
CONDENSED CONSOLIDATED BALANCE SHEET
JUNE 30, 2011

	June 30	December 31,	
	2011	2010	2010
	(Unaudited)	(Audited)	
U.S. dollars in thousands			
A s s e t s			
CURRENT ASSETS:			
Cash and cash equivalents	15,005	11,191	11,293
Financial assets at fair value through profit or loss	636	2,692	2,513
Accounts receivable and accruals:			
Trade	40,432	31,413	36,428
Other	4,154	2,394	3,134
Inventories	26,523	19,843	23,285
Income tax assets	1,855	1,268	900
T o t a l c u r r e n t a s s e t s	88,605	68,801	77,553
NON-CURRENT ASSETS:			
Investments in associates	10	10	10
Loan to a related party	647	620	642
Severance pay fund	357	19	373
Long-term receivables	543	364	498
Property and equipment	7,520	6,703	6,850
Intangible assets	18,219	19,446	18,743
Deferred income tax assets	1,376	1,308	928
T o t a l n o n - c u r r e n t a s s e t s	28,672	28,470	28,044
T o t a l a s s e t s	117,277	97,271	105,597

AMIAD FILTRATION SYSTEMS LTD.
CONDENSED CONSOLIDATED BALANCE SHEET
JUNE 30, 2011

	<u>June 30</u>	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>	<u>2010</u>
	<u>(Unaudited)</u>	<u>(Audited)</u>	
<u>U.S. dollars in thousands</u>			
Liabilities and equity			
CURRENT LIABILITIES:			
Short-term credit and current maturities of borrowings from banks	19,300	11,168	16,659
Accounts payable and accruals:			
Trade	25,212	17,555	18,331
Other	9,422	6,770	9,040
Dividend payable	1,310	968	
Current income tax liability	782	1,205	1,498
T o t a l current liabilities	<u>56,026</u>	<u>37,666</u>	<u>45,528</u>
NON-CURRENT LIABILITIES:			
Borrowings from banks and others (net of current maturities)	9,955	13,235	11,861
Put option liability	2,379	2,071	2,220
Deferred income tax liabilities	9	933	
T o t a l non-current liabilities	<u>12,343</u>	<u>16,239</u>	<u>14,081</u>
T o t a l liabilities	<u>68,369</u>	<u>53,905</u>	<u>59,609</u>
EQUITY:			
Capital and reserves attributable to equity holders of the Company:			
Share capital	2,789	2,780	2,780
Capital reserves	24,692	24,467	24,467
Currency translation reserve	949	(78)	708
Transaction with non controlling interest	(180)		
Retained earnings	20,517	15,866	17,743
	<u>48,767</u>	<u>43,035</u>	<u>45,698</u>
NON CONTROLLING INTEREST	141	331	290
T o t a l equity	<u>48,908</u>	<u>43,366</u>	<u>45,988</u>
T o t a l liabilities and equity	<u>117,277</u>	<u>97,271</u>	<u>105,597</u>

AMIAD FILTRATION SYSTEMS LTD.
CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2011

	Six months ended June 30		Year ended December 31,
	2011	2010	2010
	(Unaudited)		(Audited)
U.S dollars in thousands except per share data			
REVENUE	59,048	37,944	89,431
COST OF SALES	<u>32,932</u>	<u>20,833</u>	<u>50,638</u>
GROSS PROFIT	26,116	17,111	38,793
RESEARCH AND DEVELOPEMEMNT	1,107	419	958
SELLING AND MARKETING COSTS	13,717	9,769	22,746
ADMINISTRATIVE AND GENERAL EXPENSES	5,763	4,794	11,608
OTHER LOSSES (INCOME) NET	<u>6</u>	<u>3</u>	<u>(777)</u>
OPERATING PROFIT	<u>5,523</u>	<u>2,126</u>	<u>4,258</u>
FINANCE INCOME	635	72	1,248
FINANCE COSTS	<u>(1,243)</u>	<u>(1,071)</u>	<u>(2,030)</u>
FINANCE COST, NET	<u>(608)</u>	<u>(999)</u>	<u>(782)</u>
PROFIT BEFORE INCOME TAX	4,915	1,127	3,476
INCOME TAX EXPENSES	<u>823</u>	<u>340</u>	<u>419</u>
PROFIT FOR THE PERIOD	<u>4,092</u>	<u>787</u>	<u>3,057</u>
OTHER COMPREHENSIVE INCOME:			
Currency translation differences	230	(347)	595
Currency translation differences realised			
Due to business combination			(139)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>4,322</u>	<u>440</u>	<u>3,513</u>
PROFIT FOR THE PERIOD ATTRIBUTED TO:			
Equity holders of the Company	4,084	749	3,077
Non controlling interest	<u>8</u>	<u>38</u>	<u>(20)</u>
	<u>4,092</u>	<u>787</u>	<u>3,057</u>
U.S dollars			
EARNINGS PER SHARE:			
Attributable to the equity holders of the Company during the period:			
Basic	<u>0.18</u>	<u>0.037</u>	<u>0.143</u>
Diluted	<u>0.18</u>	<u>0.037</u>	<u>0.134</u>

AMIAD FILTRATION SYSTEMS LTD.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2011

	Attributable to equity holders of the Company								
	Number of <u>shares</u>	Share <u>capital</u>	Capital <u>reserve</u>	Currency translation <u>reserve</u>	Transaction with			Non- controlling interest	Total <u>shareholders'</u> <u>equity</u>
					non controlling		Retained		
					interest				
					U.S dollars in thousands				
BALANCE AT JANUARY 1, 2011 (audited)	22,521,690	2,780	24,467	708		17,743	45,698	290	45,988
CHANGES DURING THE SIX MONTH ENDED JUNE 30, 2011 (unaudited):									
Comprehensive income -									
Profit for the year						4,084	4,084	8	4,092
Other comprehensive income -									
Currency translation differences				232			232	(2)	230
Total comprehensive income				232		4,084	4,316	6	4,322
Transaction with owners:									
Dividend (\$ 0.058 per share)						(1,310)	(1,310)		(1,310)
Subsidiary transaction	69,000	9	225	9	(180)	63	63	(155)	(92)
Total transactions with owners	69,000	9	225	9	(180)	(1,310)	(1,247)	(155)	(1,402)
BALANCE AT JUNE 30, 2011 (unaudited)	<u>22,590,690</u>	<u>2,789</u>	<u>24,692</u>	<u>949</u>		<u>16,085</u>	<u>48,767</u>	<u>141</u>	<u>48,908</u>
BALANCE AT JANUARY 1, 2010	<u>19,237,531</u>	<u>2,342</u>	<u>13,305</u>	<u>243</u>			<u>31,975</u>	<u>147</u>	<u>32,122</u>
CHANGES DURING THE SIX MONTH ENDED JUNE 30, 2010 (unaudited):									
Comprehensive income -									
Profit for the year						749	749	38	787
Other comprehensive income -									
Currency translation differences				(321)			(321)	(26)	(347)
Total comprehensive income				(321)		749	428	12	440
Transaction with owners:									
Dividend (\$ 0.043 per share)						(968)	(968)		(968)
Issue of ordinary shares related to business combination	3,284,159	438	11,162				11,600		11,600
Non controlling interest arising on business combination								172	172
Total transactions with owners		438	11,162			(968)	10,632	172	10,804
BALANCE AT JUNE 30, 2010 (unaudited)	<u>22,521,690</u>	<u>2,780</u>	<u>24,467</u>	<u>(78)</u>		<u>15,866</u>	<u>43,035</u>	<u>331</u>	<u>43,366</u>

AMIAD FILTRATION SYSTEMS LTD.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2011

	Attributable to equity holders of the Company								
	Number of <u>shares</u>	Share <u>capital</u>	Capital <u>reserve</u>	Currency		<u>Total</u>	Non- controlling <u>interest</u>		<u>Total</u> shareholders' <u>equity</u>
				translation	Retained				
				<u>reserve</u>	<u>earning</u>				
U.S dollars in thousands									
Balance at 1 January 2010	<u>19,237,531</u>	<u>2,342</u>	<u>13,305</u>	<u>243</u>	<u>16,085</u>	<u>31,975</u>	<u>147</u>	<u>32,122</u>	
Comprehensive income -									
Profit for the year	-	-	-	-	3,077	3,077	(20)	3,057	
Other comprehensive income:									
Currency translation differences	-	-	-	604	-	604	(9)	595	
Currency translation differences realized due to business combination	-	-	-	(139)	-	(139)	-	(139)	
Total comprehensive income				<u>465</u>	<u>3,077</u>	<u>3,542</u>	<u>(29)</u>	<u>3,513</u>	
Transaction with owners:									
Non controlling interest arising on business combination							172	172	
Issuance of shares related to business combination	3,284,159	438	11,162			11,600		11,600	
Dividend (\$0.063 per share)	-	-	-	-	(1,419)	(1,419)	-	(1,419)	
Total transaction with owners	<u>3,289,159</u>	<u>438</u>	<u>11,162</u>	<u>-</u>	<u>(1,419)</u>	<u>10,181</u>	<u>172</u>	<u>10,353</u>	
Balance at 31 December 2010	<u>22,521,690</u>	<u>2,780</u>	<u>24,467</u>	<u>708</u>	<u>17,743</u>	<u>45,698</u>	<u>290</u>	<u>45,988</u>	

AMIAD FILTRATION SYSTEMS LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2011

	Six months ended		Year ended
	June 30		December 31,
	2011	2010	2010
	(Unaudited)		(Audited)
	U.S dollars in thousands		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash generated from operations	5,037	6,320	6,535
Interest paid	(479)	(277)	(719)
Interest received	168		
Income tax paid	(1,757)	(1,042)	(1,322)
Net cash generated from operating activities	<u>2,969</u>	<u>5,001</u>	<u>4,494</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of subsidiary – Arkal (net of cash acquired)		(9,159)	(9,159)
Acquisition of subsidiary – India (net of cash acquired)		(182)	(182)
Acquisition of subsidiary – China (net of cash acquired)			(2,267)
Acquisition of associates		(10)	(10)
Purchases of property and equipment	(1,544)	(573)	(1,144)
Purchases of intangible assets	(283)	(50)	(175)
Investments grants received			
Proceeds of financial assets at fair value through profit or loss, net	1,933	9	868
Investment in short-term deposit			
Proceeds from sale of property and equipment	24	85	109
Collection of long-term loan granted to a related party	28	26	53
Long-term receivable	(42)	(54)	(82)
Net cash generated from (used in) investing activities	<u>116</u>	<u>(9,908)</u>	<u>(11,989)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Acquisition of non controlling interest – Amiad France	(92)		
Dividends paid to equity holders of the Company			(1,419)
Receipt of long-term borrowings and other liabilities	110	11,026	12,304
Repayments of long term borrowings	(2,378)	(995)	(2,771)
Short-term borrowings (repayments) from banks, net	2,916	(2,403)	2,007
Net cash generated from financing activities	<u>556</u>	<u>7,628</u>	<u>10,121</u>
EXCHANGE LOSS (GAIN) ON CASH AND CASH			
EQUIVALENTS	<u>71</u>	<u>(105)</u>	<u>92</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>3,712</u>	<u>2,616</u>	<u>2,718</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>11,293</u>	<u>8,575</u>	<u>8,575</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>15,005</u></u>	<u><u>11,191</u></u>	<u><u>11,293</u></u>