

4 September 2006



**Amiad Filtration Systems Ltd**  
**(“Amiad” or “the Company”)**

**Results for the six months to 30 June 2006**

Amiad, the producer and global supplier of water filters and filtration systems for the industrial, municipal and the irrigation markets announces its interim results for the six months to 30 June 2006.

**Financial Highlights**

- Turnover was \$22.0m (H1 2005: \$21.8m)
- Profit before tax was \$2.2m (H1 2005: \$2.1m)
- Gross margins maintained at 50.3%
- Fully diluted earnings per share 7.8 cents
- Interim dividend of 2.385 cents (gross)

**Operational Highlights**

- Strong finish to first half of 2006 reflecting the demand for its automatic filters;
- Downturn in irrigation offset by good growth in industrial & municipal segment in USA, China, Australia, Singapore and France;
- Solid progress in high growth territories;
- Significant interest in Amiad’s filters for pre-filtration of membrane systems, including for desalination projects;
- No material impact of conflict in Middle East

Commenting on the results, Yossi Katz, Chief Executive of Amiad said: “The market for Amiad’s products continues to expand with greater global investments in infrastructure. The Company saw a strong finish to the first half, especially in the industrial & municipal segment, with increased interest in the Company’s new products serving this segment. As these products have a longer sales cycle, they are hoped to have a significant contribution to the Company’s sales in the future.

Amiad entered the second half of 2006 with good momentum and, if this is maintained until the end of the year, would expect to report higher revenues for this period compared with equivalent period last year.”

**Enquiries:**

<b>Amiad Filtration Systems</b>	
Yossi Katz, Chief Executive Officer Itamar Eder, Chief Financial Officer	+ 44 (0) 207 929 8989 on the day and +972 (0) 4 690 9500 thereafter
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## **Operational Review**

The Board is pleased to report that the Company has continued to build on the good progress made in 2005. Revenues for the six months ended 30 June 2006 were \$22.0m (H1 2005: \$21.8m), reflecting demand for its automatic filters. As indicated in the trading update of 26 July 2006, all operations of Amiad are now profitable.

At the beginning of the year, sales in the irrigation segment were affected by seasonality associated with farming patterns mainly in Spain, USA and Africa. Downturn in the irrigation segment was offset by good growth in the industrial & municipal segment in USA, China, Australia, Singapore and France.

The Company made further progress within high growth territories. In China, the Company was successful in penetrating the municipal segment, mainly with pre-filtration products, and also the petrochemical industries. In India, through its new distributor for industrial & municipal products, the Company has already trebled its sales. In Russia the Company also won its first drinking water project.

Other key projects have been in Brazil (offshore oil & gas), in Malaysia (drinking water) and in France (pre-filtration). The Company is currently conducting field tests in Thailand, Singapore, Japan and Israel for municipal drinking water. In Korea the company supplied its first ballast water treatment product for field tests. In Aberdeen it is conducting field tests for injection and produced water – for the offshore oil and gas application

Amiad has seen a significant interest in the Company's filters for pre-filtration of membrane systems, including for desalination projects. The Company's new thread filter product, first introduced late 2005 has attracted interest from major customers globally.

## **Financial review**

Revenue for the six months ended 30 June 2006 was \$22.0m (H1 2005: \$21.8m). Profit before tax increased by 5.4% to \$2.2m (H1 2005: \$2.1m). Fully diluted earnings per share were 7.8 cents. Gross margins were 50.3% which is in line with full year 2005 gross margins of 50.2%. The Company is facing pressure on its gross margins reflecting the increase in prices of raw materials due to the high oil prices and increased competition in the marketplace.

The Company increased its sales and marketing effort globally but continued to keep a tight control over administrative and general expenses.

Operating profit decreased by 5.5% to \$2.5m compared with \$2.7m in the equivalent period primarily due to the increased cost of sales and increased sales and marketing costs.

Net cash, cash equivalent and marketable securities as of 30 June 2006 amounted to \$6.2m. Cash from operations was positive \$0.2m compared to negative \$2.1m in the first half of 2005.

## **Dividend**

The Directors decided to distribute dividends from the Company's profits for the six months ended 30 June 2006, of approximately 2.385 cents (USD, gross) per share, with an ex dividend date of 4 October 2006 record date of 6 October 2006 and payment date of 6 November 2006.

## **Outlook**

The market for Amiad's products continues to expand with greater global investments in infrastructure. The Company saw a strong finish to the first half of 2006, especially in the industrial & municipal segment, with increased interest in the Company's new products serving this segment. As these products have a longer sales cycle, they are hoped to have a significant contribution to the Company's sales in the future.

Amiad entered the second half of 2006 with good momentum and if this is maintained until the end of the year, would expect to report higher revenues for this period compared with the equivalent period last year.

**AMIAD FILTRATION SYSTEMS LTD.**  
**CONDENSED CONSOLIDATED BALANCE SHEET**  
**AT 30 JUNE 2006**

<b>Assets</b>	<b>30 June</b>		<b>31 December</b>
	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>\$ in thousands</b>		
	<b>(Unaudited)</b>		<b>(Audited)</b>
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	4,537	2,900	7,692
Marketable securities	1,688	77	4
Accounts receivable and accruals:			
Trade	16,523	14,601	14,467
Other	1,456	1,159	1,250
Inventories	8,769	8,797	8,210
Total current assets	32,973	27,534	31,623
<b>NON-CURRENT ASSETS:</b>			
Loan to jointly controlled entity	-	241	-
Loan to a related party	503	398	411
Fixed assets	2,433	2,783	2,613
Other assets, net	2,447	2,703	2,618
Long term receivables	548	112	94
Deferred income tax assets	708	891	1,128
Severance pay assets	581	532	558
Total non-current assets	7,220	7,660	7,422
Total assets	40,193	35,194	39,045

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**Abraham Heifetz**  
**Chairman of the Board**

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**Yosef Katz**  
**CEO and Director**

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**Itamar Dov Eder**  
**CFO and Director**

Date of approval of the financial statements: 31 August, 2006

**AMIAD FILTRATION SYSTEMS LTD.**  
**CONDENSED CONSOLIDATED BALANCE SHEET**  
**AT 30 JUNE 2006**

	<b>30 June</b>		<b>31 December</b>
	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>\$ in thousands</b>		
	<b>(Unaudited)</b>		<b>(Audited)</b>
<b>Liabilities and shareholders' equity</b>			
<b>CURRENT LIABILITIES:</b>			
Short-term credit from bank and other and current maturities of long-term bank loans	7,646	8,620	6,348
Accounts payable and provisions:			
Trade	6,688	6,839	5,833
Other	2,453	4,078	2,579
Income tax liability	629		870
Total current liabilities	<u>17,416</u>	<u>19,537</u>	<u>15,630</u>
<b>NON-CURRENT LIABILITIES:</b>			
Loans from banks and other (net of current maturities)	2,761	4,879	3,601
Severance pay obligations	637	558	519
Deferred taxes	565	700	629
Total non-current liabilities	<u>3,963</u>	<u>6,137</u>	<u>4,749</u>
Total liabilities	<u>21,379</u>	<u>25,674</u>	<u>20,379</u>
<b>SHAREHOLDERS' EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders:</b>			
Share capital	2,291	1,497	2,291
Capital reserve	12,797	1,020	12,797
Perpetual debenture	-	2,704	-
Currency translation reserve	134	99	123
Retained earnings	3,294	4,045	3,190
	<u>18,516</u>	<u>9,365</u>	<u>18,401</u>
<b>MINORITY INTEREST</b>	298	155	265
Total shareholders' equity	<u>18,814</u>	<u>9,520</u>	<u>18,666</u>
Total liabilities and shareholders' equity	<u>40,193</u>	<u>35,194</u>	<u>39,045</u>

The notes on pages 11 to 16 are an integral part of these condensed financial statements.

**AMIAD FILTRATION SYSTEMS LTD.**  
**CONDENSED CONSOLIDATED INCOME STATEMENT**  
**FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2006**

	<b>6 months ended</b>		<b>Year ended</b>
	<b>30 June</b>		<b>31 December</b>
	<b>2006</b>	<b>2005</b>	<b>2005</b>
<b>\$ in thousands</b>			
<b>except per share data</b>			
	<b>(Unaudited)</b>	<b>(Audited)</b>	
Revenue	22,045	21,768	42,406
Cost of sales	10,946	10,483	21,139
<b>Gross profit</b>	<b>11,099</b>	<b>11,285</b>	<b>21,267</b>
Selling and marketing costs	5,680	5,291	10,571
Administrative and general expenses	2,699	2,761	5,471
Amortization of other assets	170	169	340
Other expenses, net	8	375	1
<b>Operating profit</b>	<b>2,542</b>	<b>2,689</b>	<b>4,884</b>
Financial expenses	364	623	822
<b>Profit before income tax</b>	<b>2,178</b>	<b>2,066</b>	<b>4,062</b>
Taxes on income	618	583	1,151
<b>Profit for the period</b>	<b>1,560</b>	<b>1,483</b>	<b>2,911</b>
<b>Attributable to:</b>			
Equity holders of the Company	1,491	1,530	2,943
Minority interest	69	(47)	(32)
	<b>1,560</b>	<b>1,483</b>	<b>2,911</b>
	<b>\$</b>		
<b>Earnings per share attributable to the equity holders of the Company during the period</b>			
(See note 3e):			
Basic	0.079	0.107	0.200
Diluted	0.078	0.107	0.200

The notes on pages 11 to 16 are an integral part of these consolidated financial statements.

**AMIAD FILTRATION SYSTEMS LTD.**

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2006**

**Attributable to equity holders of the Company**

	<u>Share capital</u>	<u>Capital reserve</u>	<u>Perpetual debenture</u>	<u>Currency translation reserve</u>	<u>Retained earning</u>	<u>Minority interest</u>	<u>Total shareholders equity</u>
	<b>\$ in thousands</b>						
<b>BALANCE AT 1 JANUARY 2006 (audited)</b>	2,291	12,797	-	123	3,190	265	18,666
Currency translation differences	-	-	-	11	-	-	11
Dividend	-	-	-	-	(1,455)	-	(1,455)
Dividend to minority	-	-	-	-	-	(36)	(36)
Share-based payment	-	-	-	-	68	-	68
Profit for the period	-	-	-	-	1,491	69	1,560
<b>BALANCE AT 30 JUNE 2006 (unaudited)</b>	<u>2,291</u>	<u>12,797</u>	<u>-</u>	<u>134</u>	<u>3,294</u>	<u>298</u>	<u>18,814</u>
<b>BALANCE AT 1 JANUARY 2005 (audited)</b>	1,497	1,020	2,871	39	2,872	238	8,537
Interest on perpetual debenture**	-	-	-	-	(54)	-	(54)
Exchange differences on perpetual debenture	-	-	(167)	-	167	-	-
Currency translation differences	-	-	-	60	-	-	60
Dividend	-	-	-	-	(470)	-	(470)
Dividend to minority	-	-	-	-	-	(36)	(36)
Profit for the period	-	-	-	-	1,530	(47)	1,483
<b>BALANCE AT 30 JUNE 2005 (unaudited)</b>	<u>1,497</u>	<u>1,020</u>	<u>2,704</u>	<u>99</u>	<u>4,045</u>	<u>155</u>	<u>9,520</u>

\*\* See note 3c

**The notes on pages 11 to 16 are an integral part of these condensed financial statements.**

**AMIAD FILTRATION SYSTEMS LTD.**

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2006**

**Attributable to equity holders of the Company**

	<u>Share capital</u>	<u>Capital reserve</u>	<u>Perpetual debenture</u>	<u>Currency translation reserve</u>	<u>Retained earning</u>	<u>Minority interest</u>	<u>Total shareholders equity</u>
	<u>\$ in thousands</u>						
<b>BALANCE AT 1 JANUARY 2005 (audited)</b>	1,497	1,020	2,871	39	2,872	238	8,537
Net proceeds from issuance of shares in IPO*	545	8,730	-	-	-	-	9,275
Deferred taxes in respect of IPO costs*	-	621	-	-	-	-	621
Interest on perpetual debenture**	-	-	-	-	(81)	-	(81)
Exchange differences on perpetual debenture	-	-	(196)	-	196	-	-
Conversion of perpetual debenture**	-	2,675	(2,675)	-	-	-	-
Currency translation differences	-	-	-	84	-	-	84
Dividend	-	-	-	-	(2,804)	-	(2,804)
Dividend to minority	-	-	-	-	-	(36)	(36)
Changes in minority interest upon the sale of investment in a company	-	-	-	-	-	95	95
Issuance of bonus shares	249	(249)	-	-	-	-	-
Share-based payment	-	-	-	-	64	-	64
Net income	-	-	-	-	2,943	(32)	2,911
<b>BALANCE AT 31 DECEMBER 2005 (audited)</b>	<u>2,291</u>	<u>12,797</u>	<u>-</u>	<u>123</u>	<u>3,190</u>	<u>265</u>	<u>18,666</u>

\* See note 3b

\*\* See note 3c

**The notes on pages 11 to 16 are an integral part of these condensed financial statements.**

**AMIAD FILTRATION SYSTEMS LTD.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2006

	<b>6 months ended</b>		<b>Year ended</b>
	<b>30 June</b>		<b>31 December</b>
	<u>2006</u>	<u>2005</u>	<u>2005</u>
	<b>\$ in thousands</b>		
	<u>(Unaudited)</u>		<u>(Audited)</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	1,560	1,483	2,911
Adjustments to reconcile net income to net cash used in operating activities (a)	(1,341)	(3,577)	(3,220)
Net cash generated from (used in) operating activities	<u>219</u>	<u>(2,094)</u>	<u>(309)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases fixed assets	(202)	(679)	(1,041)
Purchases of other assets	-	-	(44)
Investments grants received	61	53	113
Disposal of (investment in) marketable securities	(1,679)	225	300
Acquisition of company included according to proportionate consolidation method (b)	-	-	(517)
Increase in cash resulting from transition to full consolidation of a company previously included according to the proportionate consolidation method (d)	-	-	8
Proceeds from sale of fixed assets	27	16	41
Proceeds from sale of a subsidiary (c)	-	-	50
Long-term loan granted to a related party and others	(543)	(56)	(284)
Collection of long-term loan granted to a related party	28	34	268
Net cash used in investing activities	<u>(2,308)</u>	<u>(407)</u>	<u>(1,106)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net proceeds from issuance of shares in IPO	-	-	9,275
Dividends paid to the minority interest	(36)	(36)	(36)
Dividends paid to company's shareholders	(1,455)	-	(2,804)
Interest on perpetual debenture	-	(81)	(135)
Repayments of long term loans	(981)	(855)	(1,928)
Receipt of long-term loans and other liabilities	29	1,636	1,964
Short-term credit from banks and other, net	1,356	2,640	840
Net cash generated from financing activities	<u>(1,087)</u>	<u>3,304</u>	<u>7,176</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<u>21</u>	<u>93</u>	<u>(73)</u>
<b>NET INCREASE (DEREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(3,155)</b>	<b>896</b>	<b>5,688</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b><u>7,692</u></b>	<b><u>2,004</u></b>	<b><u>2,004</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b><u>4,537</u></b>	<b><u>2,900</u></b>	<b><u>7,692</u></b>
<b>Interest paid</b>	<b><u>281</u></b>	<b><u>326</u></b>	<b><u>823</u></b>
<b>Income taxes paid</b>	<b><u>1,327</u></b>	<b><u>804</u></b>	<b><u>1,643</u></b>

The notes on pages 11 to 16 are an integral part of these condensed financial statements.

**AMIAD FILTRATION SYSTEMS LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - GENERAL**

The interim financial statement as of 30 June 2006 and for the six-month period then ended (hereafter – the interim statements) has been prepared in condensed form in accordance with IAS 34 – “Interim Financial Reporting”.

The interim condensed financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2005. As described in the annual financial statements for the year ended 31 December 2005.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006.

- IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses, adoption of this amendment is impact the format and extent of disclosures presented in the accounts.
- IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through the income statements.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- IFRIC 8, Scope of IFRS 2, effective for annual periods beginning on or after 1 May 2006. Management is currently assessing the impact of IFRIC 8 on the Company’s operations.
- IFRIC 9, Reassessment of Embedded Derivatives, effective for annual periods beginning on or after 1 June 2006. Management is currently assessing the impact of IFRIC 9 on the Company’s operations.

**AMIAD FILTRATION SYSTEMS LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

- IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 for annual periods beginning from 1 January 2007.

**NOTE 3 - SHAREOLDERS' EQUITY:**

- a. On 27 March 2006, the Company's Board of Directors resolved to distribute dividends to its shareholders in the amount of \$1,455 thousand.
- b. On 27 November 2005, the company effected a split of the company's share capital such that each ordinary share 1 was split into 2 ordinary shares on NIS 0.5 par value each. In addition, the company approved a distribution of 2,339,704 ordinary shares as bonus shares to any party that was a shareholder in the company on November 24, 2005. Subsequent to the split and bonus shares, immediately before the IPO (see below), the number of outstanding shares was 13,826,758.  
On 5 December 2005, the company issued 5,045,965 ordinary shares in an IPO. Concurrently, the company's ordinary shares were admitted to trading on the AIM in London. The net proceeds from the issuance of the shares (after costs of \$2,023 thousand) were \$9,275 thousand.
- c. The perpetual debenture, which was denominated in NIS in the amount of NIS 12,370 thousand, bore annual interest at the rate of 4%, payable on a quarterly basis. The debenture was converted into capital reserves of the company on December 5, 2005 with no issuance of ordinary shares.

**d. Share options:**

On 12 August 2005, the Company granted to three senior employees, the chairman of the board of directors and to Kibbutz Amiad options to purchase 386,682, 154,674 and 77,336 Ordinary Shares, respectively (as adjusted for the share split and bonus shares). The options to the senior employees were granted in the framework of the Company's option plan 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. The options vest over a period of four years (except in the case of the CEO where the period is two years) and have an exercise price of \$ 1.53 per share. The options will be held during the vesting period by a trustee and will be released in accordance with the terms of the option plan. Unexercised options expire 10 years after date of grant.

**AMIAD FILTRATION SYSTEMS LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 3 - SHAREOLDERS' EQUITY (continued):**

The weighted average fair value of the options as at the grant date is was \$0.49 per share, and was estimated using a binomial option pricing model based on the following data and assumptions: Share price - \$1.53; exercise price - \$ 1.53, expected validity - 38.4%; risk-free interest rate - 4.4%, expected dividends - 0% and expected average life of options 4 years. The expense recognized in the 6-month period ended 30 June 2006 is \$ 68 thousand (in the year ended in 31 December 2005 \$ 68 thousand)

**e. Earnings per share**

As described in Note 3b, in November 2005, the Company affected a split of the Company's share Capital, and distributed bonus shares to the shareholders. The earnings per share presented in these financial statements have been adjusted retrospectively to reflect the share split and the bonus shares.

	<b>6 months ended</b>		<b>Year ended 31</b>
	<b>30 June</b>		<b>December</b>
	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>\$ in thousands</b>		
	<b>(Unaudited)</b>	<b>(Audited)</b>	
<b>Weighted average number of Ordinary shares outstanding (in thousands)</b>			
<b>Basic:</b>			
Number of shares in the beginning of the period	18,873	5,743	5,743
Effect of split and bonus shares	-	8,084	8,084
Effect of issuance of shares in IPO	-	-	420
Number of shares used for calculation of earnings per share -basic	<u>18,873</u>	<u>13,827</u>	<u>14,247</u>
<b>Diluted:</b>			
Number of shares used for calculation of earnings per share -basic	18,873	13,827	14,247
Adjustments for share options	321	-	-
Number of shares used for calculation of earnings per share -diluted	<u>19,194</u>	<u>13,827</u>	<u>14,247</u>
Net income attributable to equity holders of the parent	1,491	1,530	2,862
Less - interest on perpetual debenture	-	(54)	(81)
	<u>1,491</u>	<u>1,476</u>	<u>2,862</u>
<b>Basic earnings per share (in U.S. dollars)</b>	<u>0.079</u>	<u>0.107</u>	<u>0.200</u>
<b>Diluted earnings per share (in U.S. dollars)</b>	<u>0.078</u>		

**AMIAD FILTRATION SYSTEMS LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4 - REVENUES FROM SALES**

Sales by customer location:

	<b>6 months ended 30 June</b>		<b>Year ended 31 December</b>
	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>\$ in thousands</b>		
	(Unaudited)		(Audited)
North America	5,804	5,686	10,517
Europe	4,684	5,522	11,090
Australia	3,064	3,356	6,281
East Asia	3,967	2,264	6,889
Israel	2,337	2,581	3,459
South America	1,789	1,608	2,478
Africa	400	751	1,692
<b>Total</b>	<b>22,045</b>	<b>21,768</b>	<b>42,406</b>

**NOTE 5 - RECLASSIFICATION**

Other income expenses net, in respect of prior periods have been reclassified from “profit before income tax” to “Operating profit” in order to conform with the current period presentation.

**AMIAD FILTRATION SYSTEMS LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5 - CASH FLOWS FROM OPERATIONS:**

	<b>6 months ended</b>		<b>Year ended</b>
	<b>30 June</b>		<b>31 December</b>
	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>\$ in thousands</b>		
<b>(a) Adjustments for:</b>			
Depreciation	471	468	980
Share based payment	68	-	64
Deferred taxes, net	355	(207)	107
Accrued severance pay, net	95	(7)	(72)
Exchange rate differences on liabilities to banks and other long-term liabilities	17	(3)	61
Loss on sale of fixed assets and others	2	1	66
Gain from marketable securities, net	(5)	-	-
Exchange rate differences in on loans to related party and others	(18)	53	22
	<u>985</u>	<u>305</u>	<u>1,228</u>
<b>Changes in working capital:</b>			
Increase in accounts receivable:			
Trade	(2,026)	(3,566)	(3,068)
Other	(208)	(51)	(59)
(Decrease) increase in accounts payable:			
Trade	804	882	(392)
Other	(372)	(803)	(1,096)
Decrease (increase) in inventories	(524)	(344)	167
	<u>(2,326)</u>	<u>(3,882)</u>	<u>(4,448)</u>
Cash generated from operations	<u>(1,341)</u>	<u>(3,577)</u>	<u>(3,220)</u>
 <b>(b) Acquisition of company included according to the proportionate consolidation method</b>			
Working capital (excluding cash and cash equivalents)			(321)
Other assets			(42)
Fixed assets, net			(229)
Long-term receivables			75
Long-term liabilities			-
Cash outflow			<u>(517)</u>

**AMIAD FILTRATION SYSTEMS LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5 - CASH FLOWS FROM OPERATIONS** (continued):

	<b>6 months ended</b>	<b>Year ended</b>
	<b>30 June</b>	<b>31 December,</b>
	<b>2006</b>	<b>2005</b>
	<b>\$ in thousands</b>	
<b>(c) Proceeds from the sale of subsidiary</b>		
Working capital (excluding cash and cash equivalents)		(476)
Fixed assets, net		526
Cash inflow		50
 <b>(d) Increase in cash resulting from transition to full consolidation of a company previously included according to the proportionate consolidation method</b>		
Working capital (excluding cash and cash equivalents)		121
Fixed assets, net		(113)
Cash flow		8