

14 April 2011

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



Results for the full year to 31 December 2010

Amiad, the producer and global supplier of water filters and filtration systems for the industrial, municipal and irrigation markets, announces its full year results for the twelve months to 31 December 2010.

Financial Summary

- Revenue increased by 29% to \$89.4m (2009: \$69.1m)
- Operating profit of \$4.3m (2009: \$7.9m)
- Profit before tax of \$3.5m (2009: \$8.7m)
- Gross margins at 43% (2009: 48%)
- Fully diluted earnings per share was \$0.134 (2009: \$0.33)
- Final dividend payable for 2010 of \$0.058 gross per share (2009: \$0.043 gross per share), making a total dividend for the year of \$0.078 per share (total dividend for 2009: \$0.078)
- Cash and cash equivalents at 31 December 2010 were \$11.3m (30 June 2010: \$11.2m; 31 December 2009: \$8.6m)

Operational Summary

- Growth in revenue driven by increased sales in new and growing territories and a return to growth in the irrigation segment primarily due to the contribution from Arkal Filtration Systems (“Arkal”)
- General economic downturn continued to impact projects in North America and East Europe
- Strategically transformational year:
 - Completed acquisition of Arkal Filtration Systems
 - Established Amiad Andina in Chile to enhance the sale and marketing of Amiad’s products and solutions in Chile, Peru and Argentina
 - Acquired the remaining issued share capital of the Company’s subsidiaries in China and, post period-end, France
- Launched first product combining technologies from Amiad and Arkal, targeting ballast water market, which secured a major project in the United States
- Completed product assembly line at Amiad’s subsidiary in India

Outlook

- Increase in sales expected to continue across all segments
- As a result of global economic conditions, raw material prices are higher
- Currency pressures due to the strengthening of the Israeli Shekel against the US dollar
- Expansion into new markets, including ballast water, and territories to deliver increased sales
- Irrigation segment continuing to grow with increasing backlog
- Consolidation of Amiad subsidiaries and establishment of local production facilities to service local customers – speeding up time-to-market – and reduce costs
- Board confident of achieving significant growth in 2011

Commenting on the results, Arik Dayan, Chief Executive Officer of Amiad, said:

“We are pleased to announce revenues and net profit slightly ahead of market expectations in a landmark year where we advanced our expansion strategy thereby consolidating our position globally. With an enhanced portfolio of products and a greater reach, the growth in sales reflects the success of this strategy as well as a resumption of investment in water infrastructure projects in Amiad’s traditional territories.

“Looking ahead, the Company expects the advances to come from the industrial and municipal segments, particularly in Asia and East Europe, as well as growing demand in the irrigation segment in all territories. The first products and projects combining Amiad and Arkal technology are showing good traction and we expect these to contribute significantly this year. As a result, and despite the rise in the price of raw materials and impact of currency pressures, the Board is confident of delivering strong growth in full year 2011.”

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Operational Review

The year to 31 December 2010 was a transformational period for Amiad. Foremost, the Company completed the acquisition of its neighbouring competitor, Arkal Filtration Systems, and progressed post-merger integration, which resulted in a significant contribution to full year revenues. The Company also continued its expansion strategy through gaining full control of its subsidiaries in China and, post period-end, France, and establishing operations in Chile. These acquisitions form part of Amiad's strategy to acquire 100% ownership of its subsidiaries in order to have a local presence and to establish direct sales channels in competitive markets. It also supports Amiad's long-term approach to acquire positions in companies that provide complimentary technologies or enable the Company to enter into new territories. In addition, Amiad implemented a successful restructuring programme to streamline operations. Consequently, as investment in water infrastructure projects began to resume, the Company's enhanced offering – with an enlarged product portfolio, sales team and geographical spread – enabled the irrigation segment to return to growth. Equally, Amiad's sales in new and growing geographies also increased.

Revenues for the twelve months ended 31 December 2010 grew to \$89.4m (including a contribution from Arkal of approximately \$26m for the eight months from May – December) compared with \$69.1m for the previous year. Operating profit and profit before tax decreased to \$4.3m and \$3.5m (2009: \$7.9m and \$8.7m) respectively. Gross margins were slightly lower than expected at 43%, compared with 48% in 2009, primarily due to increased sales from Arkal into the irrigation segment and pricing pressure.

Benefits and contract wins due to Arkal acquisition

To progress Amiad's growth strategy in Israel and globally, the Company completed the acquisition of the entire issued share capital of, and ownership rights in, Arkal Filtration Systems Cooperative Agricultural Society Ltd. from its existing shareholders – Kibbutz Beit Zera, including its affiliated corporations, and Bermad Industries Cooperative Agricultural Society Ltd.

Arkal is one of the leading suppliers of water filtration solutions, with a particular presence in the irrigation market. Its primary product is the automatic Spin Klin system, based on disc filtration technology. The addition of Arkal's product range, and sales and marketing infrastructure, has considerably enhanced Amiad's offering and increased its geographical spread. The first product combining technologies from both Amiad and Arkal, which targets the ballast water market, was launched during the year and has secured a major project in the United States to be delivered in 2011.

The Company is also winning contracts for projects that combine Amiad and Arkal technology. Post period-end, Amiad completed the testing of a new water filtration system, which is now fully operational, that uses disc filtration technology developed by Arkal. The system was installed for Carmel Olefins Ltd, one of Israel's leading manufacturers of petrochemical products. The solution filters the water that is fed to the plant's cooling tower to prevent the latter from clogging, and hence ensures the smooth running of the manufacturing process.

Following the completion of the acquisition, Amiad and Arkal entered into a post-merger integration process, which continues to make good progress and synergies are being achieved. In particular, the Company's enhanced offering has enabled the irrigation segment to return to growth. Similarly, the industrial teams in Amiad and Arkal are benefiting from the technology and products of the other business. The assembly of Amiad's plastic filters is now taking place at Arkal, and the injection of some Arkal moulds is taking place at Amiad's facilities. The respective sales operations are now combined into a unified force.

Global Activity

China

In December 2010, Amiad acquired the remaining 50% issued share capital of its subsidiary in China, Yixing Taixing Environtec Co Ltd, for a consideration of \$3.1m in cash. The Company's presence in China

is now comprised of five regional offices with a workforce of 70 employees. With an expanded sales and marketing force and local manufacturing capabilities, Amiad is well-positioned to capitalise on the returning investment in China.

During the year, the first half was characterised by challenging conditions as the steel and petrochemical industries continued to suffer the effects of the global downturn. However, investment in the steel industry as well as the municipal segment began to return in the second half of 2010. Amiad secured projects with Benxi Iron & Steel Group Co. Ltd, one of China's largest steel manufacturers, and with Hangzhou Water Services to provide pre-filtration services in the municipal segment in the Hangzhou province. In addition, Arkal experienced an increase in activity in China in the petrochemical industry and irrigation segment, which contributed to the consolidated growth in the year.

India and Southeast Asia

Following the establishment of its subsidiary in India last year, Amiad continued to enhance the Company's infrastructure to expand its sales and marketing reach within the Indian continent and into the municipal, steel and power generation segments. Amiad began to experience the benefits of this strategy with the winning of two projects in the power industry, including with Bharat Heavy Electricals Ltd ("BHEL"), India's largest largest engineering and manufacturing enterprise in the energy-related/infrastructure sector. Other projects won in the country were with Tata Steel and Arkal contributed with a desalination project in Chennai. Also during the year, the product assembly line was completed, which, by transferring some of its production from Israel to India, should enable Amiad to reduce costs and time-to-market in the region.

The Company's regional base in Singapore achieved a growth in sales and a number of operational successes during the period, securing projects in the oil & gas sector for injection water. The Changi NEWater plant, which uses Amiad's pre-filtration solutions and is operated by Sembcorp Utilities Pte Ltd, became fully-operational after beginning its first phase of production in May 2009. The proven effectiveness of this system has resulted in the introduction of Amiad's filter installations into all five of Singapore's NEWater plants. Similarly, in the Philippines, Amiad completed the installation and commissioning of its filtration system for the Butuan City Water District. This is the initial stage of an expected two-phase project to provide clean drinking water to over 290,000 citizens in the city of Butuan. Amiad also provided filtration services to a dairy processing factory in Vietnam, owned by TH Milk Foodstuff Joint Stock Company. Located in western Nghe An, the 37,000 ha project with over 10,000 cattle is the largest dairy processing plant in Southeast Asia.

US and South America

The detrimental impact of the economic downturn continued to be felt in the United States with the decline in investment in water infrastructure primarily affecting projects in the industrial and municipal segments.

In South America, Amiad established Amiad Andina as a subsidiary in Chile to enhance the sale and marketing of the Company's products and solutions in the industrial and municipal markets in Chile, Peru and Argentina. Amiad Andina is a joint venture with CIMA, a distribution company active in the irrigation and construction industries, which has been Amiad's distributor for the municipal and industrial markets in Chile since the end of 2007. During the year, Amiad Andina made good progress and achieved its targets despite the earthquake in Chile. In 2010, the Company won a project to provide potable water in Dominica, which was delivered in 2011. With growth in South America anticipated to continue as economic development progresses, the Company maintains its strategy of exploring opportunities for strengthening its presence in the region and expects Amiad Andina to enhance its sales in the target countries.

Europe

In France, Amiad completed the first stage of a project to provide a salt leaching brine filtration system for an underground liquid hydrocarbon storage facility. The underground facility – one of the largest and most strategic oil reserves in France – consists of stored liquid hydrocarbons in 27 salt-leached caverns with a

capacity of 7.5 million cubic metres. To create these caverns, Amiad's system filters the salt leaching brine so that it meets the requirements for injection into the ocean. The Company also won several projects in France in the oil & gas industry for injection water.

Whilst Eastern Europe saw a decline in projects, Amiad made good progress in Turkey with several new contracts. In particular, the Company won a project in the power generation industry in India through its subsidiary in Turkey as well as a water treatment plant for zebra mussels protection for municipalities.

Africa

Amiad began to see a return to growth in Africa. In March 2010, Amiad completed the testing and commissioning phase for its water treatment facility in Waku Kungo, Angola, which was installed at the beginning of the year. The Company believes the facility is the first combined-use water treatment plant in Africa. The water treatment plant will filter the city's main water supply, the Kave River, providing 50,000 inhabitants and the residents of 15 surrounding villages with potable water for household needs, as well as for agricultural and industrial use.

Financial Review

Revenues for the twelve months ended 31 December 2010 increased by 29% to \$89.4m compared with \$69.1m for the full year 2009. Fully diluted earnings per share was \$0.134 (2009: \$0.33).

Operating profit was \$4.3m compared to \$7.9m in 2009 and profit before tax was \$3.5m (2009: \$8.7m). This decline, despite a significant increase in revenue, was primarily because the sales growth was largely due to the contribution from Arkal.

Gross margins were slightly lower than expected at 43%, compared with 48% in 2009, primarily due to increased sales from Arkal into the irrigation segment and pricing pressure.

As of 31 December 2010, cash and cash equivalents in the bank were \$11.3m compared with \$11.2m at 30 June 2010 and \$8.6m at 31 December 2009, 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 final dividend out of the Company's profits for the twelve months ended 31 December 2010 of \$0.058 gross per share (final dividend 2009: \$0.043 gross per share), with an ex dividend date of 15 June 2011, a record date of 17 June 2011 and a payment date of 11 July 2011. This makes a total dividend for the year of \$0.078 per share (total dividend for 2009: \$0.078).

Outlook

Amiad made a positive start to 2011. Whilst certain of the Company's traditional key markets continue to experience the negative effects of the difficult macro economic conditions, primarily North America, investment in water infrastructure projects elsewhere is increasing. Significantly, the irrigation segment continues to grow in all territories and Amiad started the year with an increased backlog compared to the previous year. The main advances are expected to come from the industrial and municipal segments, particularly in Asia. In addition, demand is returning in Eastern Europe and Amiad is experiencing increasing growth in Australia.

As a result of the Arkal acquisition, Amiad is expanding its activity in the ballast water segment having already won a significant contract to be delivered in 2011. Additionally, the Company will also benefit from the broadening of its product portfolio and increasing its presence in Eastern Europe, and Central and South America.

For full year 2011, the Company expects to report higher revenues across all segments, with the main advance occurring in Asia and East Europe. The Company expects the raw material prices to remain high and continuing currency pressures due to the strengthening of the Israeli Shekel against the US dollar. However, despite these negative factors, the Board is confident of delivering strong growth for the year.

AMIAD FILTRATION SYSTEMS LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	31 December	
	2010	2009
	\$ in thousands	
Assets		
Current Assets		
Cash and cash equivalents	11,293	8,575
Financial assets at fair value through profit or loss	2,513	254
Trade and other receivables:		
Trade	36,428	20,348
Other	3,134	1,869
Inventories	23,285	15,964
Current income tax assets	900	1,128
Total Current Assets	77,553	48,138
Non Current Assets		
Investment in associates	10	-
Loans to a related party	642	650
Severance pay fund	373	125
Long-term receivables	498	200
Property, plant and equipment	6,850	3,440
Intangible assets	18,743	6,471
Deferred income tax assets	928	1,682
Total Non Current assets	28,044	12,568
Total Assets	105,597	60,706

AMIAD FILTRATION SYSTEMS LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	31 December	
	2010	2009
	\$ in thousands	
Liabilities and Equity		
Current Liabilities		
Short-term credit and current maturities of borrowings from bank	16,659	9,669
Trade and other payable:		
Trade	18,331	7,616
Other	9,040	6,080
Current income tax liability	1,498	1,751
Total Current Liabilities	45,528	25,116
Non Current Liabilities		
Borrowings from banks and others (net of current maturities)	11,861	1,537
Put option liability	2,220	1,931
Total Non Current Liabilities	14,081	3,468
Total Liabilities	59,609	28,584
Equity		
Capital and reserves attributable to equity holders of the Company:		
Share capital	2,780	2,342
Capital reserves	24,467	13,305
Currency translation reserve	708	243
Retained earnings	17,743	16,085
	45,698	31,975
Non Controlling Interests	290	147
Total Equity	45,988	32,122
Total Liabilities and Equity	105,597	60,706

AMIAD FILTRATION SYSTEMS LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2010	2009
	\$ in thousands except per share data	
Revenue	89,431	69,102
Cost of sales	50,638	35,863
Gross Profit	38,793	33,239
Research and development	958	-
Selling and Marketing costs	22,746	17,588
Administrative and General Expenses	11,608	7,593
Other Losses (Gains)	(777)	119
Operating Profit	4,258	7,939
Finance Income	1,248	1,719
Finance Costs	(2,030)	(984)
Finance Costs, net	(782)	735
Profit before Income Taxes	3,476	8,674
Income Tax Expenses	419	2,216
Profit for the year	3,057	6,458
Other comprehensive income-		
Currency translation differences	595	517
Currency translation differences realised due to business combination	(139)	-
Total comprehensive income for the year	3,513	6,975
Profit attributable to:		
Equity holders of the Company	3,077	6,393
Non controlling interests	(20)	65
	3,057	6,458
Total comprehensive income attributable to:		
Equity holders of the Company	3,542	6,905
Non controlling interests	(29)	70
	3,513	6,975
	\$	
Earnings per share attributable to the equity holders of the Company during the year		
Basic	0.143	0.332
Diluted	0.134	0.332

AMIAD FILTRATION SYSTEMS LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Attributable to equity holders of the Company

	Number of shares	Share capital	Capital reserve	Currency translation reserve	Retained earnings		Minority interest	Total Equity
Balance at 1 January 2009	19,237,531	2,342	13,305	(269)	11,224	26,602	77	26,679
Comprehensive income								
Profit for the year	-	-	-	-	6,393	6,393	65	6,458
Other comprehensive income								
Currency translation differences	-	-	-	512	-	512	5	517
Total comprehensive income	19,237,531	2,342	13,305	512	6,393	6,905	70	6,975
Transaction with owners :								
Dividend (\$0.078 per share)	-	-	-	-	(1,501)	(1,501)	-	(1,501)
Share-based payment - Value of employee services	-	-	-	-	(31)	(31)	-	(31)
Total transaction with owners	-	-	-	-	(1,532)	(1,532)	-	(1,532)
Balance at 31 December 2009	19,237,531	2,342	13,305	243	16,085	31,975	147	32,122
Balance at 1 January 2010	19,237,531	2,342	13,305	243	16,085	31,975	147	32,122
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 realised due to business combination	-	-	-	(139)	-	(139)	-	(139)
Total comprehensive income				465	3,077	3,542	(29)	3,513
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	3,284,159	438	11,162	-	(1,419)	10,181	172	10,353
Balance at 31 December 2010	22,521,690	2,780	24,467	708	17,743	45,698	290	46,988

AMIAD FILTRATION SYSTEMS LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December	
	2010	2009
	\$ in thousands	
Cash flows from operating activities:		
Cash generated from operations	6,535	8,595
Interest paid	(719)	(421)
Income taxes paid	(1,322)	(1,809)
Net cash generated from operating activities	4,494	6,365
Cash flows from investing activities:		
Acquisition of subsidiary, net of cash acquired- Arkal	(9,159)	
Acquisition of subsidiary, net of cash acquired -China	(2,267)	
Acquisition of subsidiary, net of cash acquired -India	(182)	
Acquisition of associate	(10)	
Purchase of property, plant and equipment	(1,144)	(757)
Purchase of intangible assets	(175)	(326)
Investment grants received	-	29
Sale in financial assets at fair value through profit or loss, net	868	-
Proceeds from sale of property, plant and equipment	109	241
Granting of long-term loan granted to a related party and other	(29)	(94)
Net cash used in investing activities	(11,989)	(907)
Cash flows from financing activities:		
Dividends paid to equity holders of the Company	(1,419)	(1,501)
Receipt of long-term borrowings and other liabilities	12,304	23
Repayments of long term borrowings	(2,771)	(1,416)
Short-term borrowings (repayments) from banks, net	2,007	(749)
Net cash granted (used in) financing activities	10,121	(3,643)
Exchange gain on cash and cash equivalents	92	251
Net increase in cash and cash equivalents	2,718	2,066
Cash and cash equivalents at beginning of year	8,575	6,509
Cash and cash equivalents at end of year	11,293	8,575