

20 January 2010

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

Update on Proposed Acquisition of Arkal Filtration Systems

Further to the Company’s announcement of 5 November 2009, the Board of Directors of Amiad (the “**Board**”) is pleased to announce that the Company has entered into a conditional agreement for the acquisition of the entire issued share capital of, and ownership rights in, Arkal Filtration Systems Cooperative Agricultural Society Ltd. (“**Arkal**”), from its existing shareholders – Kibbutz Beit Zera, including its affiliated corporations (“**Beit Zera**”), and Bermad Industries Cooperative Agricultural Society Ltd. (“**Bermad**”).

Under the terms of the agreement, the consideration for Arkal will be satisfied by a combination of a cash payment of \$10 million, to be paid to Beit Zera, and the issue of new ordinary shares of 0.5 NIS of Amiad, in an amount that will constitute 14.5% of the Company’s issued share capital (on a fully diluted basis) immediately following the completion of the transaction (“**Consideration Shares**”), of which 9% shall be due to Bermad and the remaining 5.5% to Beit Zera. The Consideration Shares will be subject to a lock-in and orderly market arrangement, and will rank *pari passu* with Amiad’s existing ordinary shares in issue.

The completion of the acquisition is subject, *inter alia*, to the approval of the relevant regulatory authorities in Israel, the approval of Beit Zera’s creditor banks and the approval of an extraordinary meeting of the shareholders of Amiad (the “**EGM**”).

Kibbutz Amiad, the controlling shareholder of the Company through its wholly owned subsidiary, A.M.S.I. Investments (1997) Ltd (“**A.M.S.**”), has informed the Company that following the issuance of the Consideration Shares, a shareholders agreement will come into effect among Kibbutz Amiad, Beit Zera and Bermad. Pursuant to the shareholders agreement, the parties thereto have agreed to vote their shares together at all meetings of the shareholders of Amiad, as shall be agreed among them or in the absence of agreement as shall be decided by Kibbutz Amiad. In addition, the agreement shall impose on Beit Zera and Bermad certain limitations on the transferability of the Consideration Shares.

Rationale for Acquisition

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 – which was introduced to the filtration industry by Arkal. It is expected that the addition of Arkal’s product range, and sales and marketing infrastructure, will considerably enhance Amiad’s offering in the irrigation market as well as in the industrial and municipal markets.

Based on its consolidated audited financial statements for the full year ended 31 December 2008, prepared according to Israeli accounting principles, Arkal's revenues for 2008 amounted to approximately US\$42 million and its net profits for the same period totalled approximately US\$2.5 million. In 2009, due to the macroeconomic climate, Arkal's sales in the irrigation market declined drastically and, as a result, Arkal's revenues for the 9 months ended 30 September 2009, based on its unaudited interim financial statements for that period prepared according to Israeli accounting principles, amounted to US\$20.5 million and its net profit was approximately US\$140,000.

The enlarged group will have a greatly expanded product portfolio, geographical spread and sales team. In addition, a number of synergies have been identified from which Amiad expects to benefit.

Extraordinary General Meeting

The Board has resolved to convene an EGM, to be held at 9.00am GMT on 9 March 2010 at the offices of Speechly Bircham LLP, 6 New Street Square, London EC4A 3LX, England, to approve the entering by the Company into the Arkal purchase agreement and to increase the authorized share capital of Amiad. Amiad's Board intends to send a Circular to shareholders convening the EGM by 28 January 2010, which will include the full details of the transaction.

Commenting on the proposed acquisition, Tal Yeshua, Chairman of Amiad, said:

"We are excited about the opportunities that this acquisition represents for Amiad and are delighted that it will secure Arkal's future. Amiad's technology base will be greatly enhanced by the addition of Arkal's intellectual property, which will enable us to target customers and territories that were previously inaccessible to the Company. We also expect to benefit from a number of cost, and strategic, synergies. As a result, with a greatly expanded product portfolio, geographical spread and sales team, the Directors believe this transaction will be a crucial milestone in the development of Amiad and we look forward to the future with confidence."

Amiad will provide a further update in due course.

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