

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

**If you are in any doubt as to the action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000.**

If you have sold or otherwise transferred all your shares in Amiad Filtration Systems Ltd., please send this document and the accompanying documents to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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## **Amiad Filtration Systems Ltd.**

(Registered in Israel under company number 51-249769-4)

## **NOTICE OF ANNUAL GENERAL MEETING**

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Notice of the annual general meeting to be held at St Magnus House, 3 Lower Thames Street, London EC3, England on Wednesday, 26 July 2006 commencing at 2.30pm is set out on pages 5 and 6 of this circular. Copies of this document will be available to the public from its date until the date of the annual general meeting at the offices of Panmure Gordon (Broking) Limited, Moorgate Hall, 155 Moorgate, London EC2M 6XB, England.

**AMIAD FILTRATION SYSTEMS LTD.**

(incorporated and registered in Israel under company no 51-249769-4)

Registered Office:  
DN Galil Elyon 1  
12335  
Israel

21 June 2006

**To Shareholders (with a copy, for information only, to the holders of options over shares in the Company)**

Dear Shareholder

**Annual General Meeting: Wednesday, 26 July 2006**

You are cordially invited to attend the annual general meeting (the "AGM") of Amiad Filtration Systems Ltd. (the "Company") to be held at 2.30pm on Wednesday, 26 July 2006 at St Magnus House, 3 Lower Thames Street, London EC3, England. The notice of AGM (which includes the resolutions to be proposed at the meeting) is set out on pages 5 and 6 of this document, together with a form of proxy or (if you are a holder of depository interests in the Company) a form of direction.

The business to be conducted at the AGM will be to consider and, if thought fit, pass resolutions:

- to receive the Company's annual report and accounts for the year ended 31 December 2005 (the "Report and Accounts");
- not to renew the appointment of Kost Forer Gabbay & Kasierer as the Company's auditors, to appoint Kesselman & Kesselman, a member firm of PricewaterhouseCoopers International Limited, in their place and to authorise the directors of the Company to fix the remuneration of Kesselman & Kesselman;
- to re-elect the following directors of the Company, who retire in accordance with the Company's articles of association (the "Articles") and, being eligible, offer themselves for re-election, to hold office until the conclusion of the next annual general meeting:
  - (a) Mr Avraham Heifetz
  - (b) Mr Josef Rokah
  - (c) Mr Mordechai Dabi
  - (d) Mr Yosef Katz
  - (e) Mr Itamar Dov Eder
- to elect Dr Izhar Ben-Shlomo as a director of the Company to hold office until the conclusion of the next annual general meeting;
- (subject to the passing of the resolution appointing him as a director) to approve (a) the draft letter of appointment of Dr Ben-Shlomo with the Company and his remuneration and (b) the draft exemption and indemnification agreement between the Company and Dr Ben-Shlomo;
- to approve the reimbursement of out-of-pocket expenses incurred by Kibbutz Amiad Agricultural Cooperative Association ("Kibbutz Amiad") in relation to Dr Ben-Shlomo

acting as an observer at meetings of the board of directors of the Company held between 1 March 2006 and 25 July 2006 of an amount up to US\$2,000; and

- to authorise the Company to extend its existing directors' and officers' liability insurance policy for an additional 6-month period ending on 31 October 2007.

As the Company is not a UK company, it is not required to produce a separate directors' remuneration report for approval by the shareholders in accordance with the Directors' Remuneration Report Regulations 2002.

Further information on the resolutions and the voting arrangements is set out below.

### **Resolution 1 (receipt of the Report and Accounts)**

This resolution provides for the receipt of the Report and Accounts.

### **Resolution 2 (appointment of auditors)**

This resolution provides that the appointment of Kost Forer Gabbay & Kasierer as the Company's auditors will not be renewed and that Kesselman & Kesselman, a member firm of PricewaterhouseCoopers International Limited, will be appointed in their place.

Pursuant to section 162(b) of the Israeli Companies Law, 1999 (the "Companies Law") and having given Kost Forer Gabbay & Kasierer a reasonable opportunity to make representations, the Company's audit committee has confirmed that there are no matters arising out of the audit of the Report and Accounts which are relevant to the decision as to whether or not to renew Kost Forer Gabbay & Kasierer's appointment as auditors.

### **Resolutions 3 to 8 (re-election of directors and election of Dr Ben-Shlomo)**

In accordance with the Articles, all of the directors (other than Michael Rosenberg OBE and Nathalie Schwarz, being the statutory external directors of the Company under Israeli law) will automatically retire at the AGM and, being eligible, offer themselves for re-election. Biographical details of each of the directors seeking re-election are contained in the Report and Accounts (including, where relevant, their membership of the Company's audit committee).

Dr Izhar Ben-Shlomo is being proposed for election as a director of the Company until the conclusion of the next annual general meeting. He has served as a Fulbright Research Fellow at the University of Maryland and as a visiting professor of Stanford University under the Feldman Foundation Programme. Dr Ben-Shlomo is a member of Kibbutz Amiad and has been a director of the Kibbutz since 2003. He served as a director of the Company between 2004 and 2005 and was appointed as an observer of meetings of the board of directors, on behalf of Kibbutz Amiad, in March 2006.

### **Resolution 9 (approval of Dr Ben-Shlomo's terms of engagement)**

This resolution approves the draft letter of appointment of Dr Ben-Shlomo, the payment to him of a fee of £18,000 per annum and his draft exemption and indemnification agreement with the Company. The draft letter of appointment and the draft exemption and indemnification agreement are on the same terms and conditions as the respective of letters of appointment and exemption and indemnification agreements which the Company previously entered into with the other non-executive directors.

The draft letter of appointment and the draft exemption and indemnification agreement have previously been approved by the audit committee and the board of directors of the Company.

### **Resolution 10 (reimbursement of expenses)**

This resolution provides for the reimbursement of certain out-of-pocket expenses incurred by Kibbutz Amiad. The expenses were incurred in relation to Dr Ben-Shlomo acting as an observer at meetings of the board of directors of the Company held between 1 March 2006 and 25 July 2006 and are for an amount not exceeding US\$2,000.

### **Resolution 11 (extension of insurance policy)**

This resolution authorises the Company to extend its existing directors' and officers' liability insurance policy for an additional 6-month period ending on 31 October 2007.

### **Voting requirements**

In relation to each of resolutions 1 to 8 (inclusive), a simple majority of members who vote must do so in favour of the resolution in order for it to be validly passed.

In relation to each of resolutions 9, 10 and 11, a special majority in favour of the resolution is required in order for the resolution to be validly passed. Under the Companies Law, a resolution concerning an exceptional transaction of a public company with its "controlling shareholder" or with another person in whom the controlling shareholder has a personal interest requires the approval of the company's audit committee, its board of directors and its shareholders in general meeting provided that, in the case of the latter approval, either of the following conditions is satisfied:

- (a) the majority of votes in favour includes at least one-third of the shares of shareholders who have no "personal interest" in the approval of the resolution and who vote on the resolution; or
- (b) the total number of shares of shareholders who have no "personal interest" and who vote against the resolution does not exceed 1 per cent. of the issued share capital of the Company.

The reason that a special majority is required in relation to resolution 11 is that Dr Ben-Shlomo and Joseph Rokah are regarded as "controlling shareholders" under the Companies Law because of their respective relationships with Kibbutz Amiad.

### **Documents available for inspection**

The draft letter of appointment of Dr Izhar Ben-Shlomo and the draft exemption and indemnification agreement between the Company and Dr Ben-Shlomo will be available for inspection at the offices of Berwin Leighton Paisner LLP, Adelaide House, London Bridge, London EC4R 9HA, England from the date of this document until the date of the AGM and at the AGM from 2.15pm until the conclusion of the meeting.

### **Form of proxy/Form of direction**

As mentioned above, you will also find enclosed with this document a form of proxy (unless you are a holder of depository interests in the Company, in which case you will receive a form of direction) for use at the AGM.

If you are a member of the Company, whether or not you intend to be present at the meeting, you are requested to complete and return the form of proxy (in accordance with the instructions set out in that document) to the Company's transfer agent, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, England, as soon as possible and in any event so as to be received by the Company's transfer agent by no later than 24 hours before the time fixed for the meeting or any adjourned meeting. Completion and return of a

form of proxy will not prevent you from attending the meeting and voting in person, if you so wish.

If you are a holder of depository interests representing ordinary shares in the Company, please complete and return the form of direction (in accordance with the instructions set out in that document) to the Company's transfer agent, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, England, as soon as possible and in any event so as to be received by the Company's transfer agent by no later than 72 hours before the time fixed for the meeting or any adjourned meeting.

**Directors' recommendation**

The Directors believe that the adoption of each of the resolutions to be proposed at the AGM is in the best interests of the Company and its shareholders as a whole. Accordingly, the Directors recommend that you vote in favour of each resolution as they intend to do in respect of their own beneficial holdings.

Yours faithfully

A handwritten signature in blue ink that reads "Heifetz". The signature is written in a cursive style with a horizontal line through the middle of the letters.

**Abraham Heifetz**  
**Chairman**

**AMIAD FILTRATION SYSTEMS LTD.**

**REGISTERED IN ISRAEL UNDER COMPANY NO: 51-249769-4**

**NOTICE OF ANNUAL GENERAL MEETING**

Notice is hereby given that the annual general meeting of Amiad Filtration Systems Ltd. (the "Company") will be held at St Magnus House, 3 Lower Thames Street, London EC3R 6HA, England on Wednesday, 26 July 2006 commencing at 2.30pm for the following purposes:

- 1 To receive the accounts of the Company for the year ended 31 December 2005 and the reports of the directors and auditors in relation thereto.
- 2 Not to renew the appointment of Kost Forer Gabbay & Kasierer as auditors of the Company, to appoint Kesselman & Kesselman, a member firm of PricewaterhouseCoopers International Limited, as auditors of the Company to hold office until the conclusion of the next general meeting of the Company at which accounts and reports of the Company are received and to authorise the directors of the Company to fix the remuneration of Kesselman & Kesselman.
- 3 To re-elect Mr Abraham Heifetz as a director of the Company.
- 4 To re-elect Mr Joseph Rokah as a director of the Company.
- 5 To re-elect Mr Mordechai Dabi as a director of the Company.
- 6 To re-elect Mr Yosef Katz as a director of the Company.
- 7 To re-elect Mr Itamar Dov Eder as a director of the Company.
- 8 To elect Dr Izhar Ben-Shlomo as a director of the Company.
- 9 To approve (i) the draft letter of appointment of Dr Ben-Shlomo and the payment to him of a fee of £18,000 per annum and (ii) the draft exemption and indemnification agreement between the Company and Dr Ben-Shlomo.
- 10 To approve the reimbursement of out-of-pocket expenses incurred by Kibbutz Amiad Agricultural Cooperative Association in relation to Dr Ben-Shlomo acting as an observer at meetings of the board of directors of the Company held between 1 March 2006 and 25 July 2006 of an amount up to US\$2,000.
- 11 To authorise the Company to extend its existing directors' and officers' liability insurance policy for an additional 6-month period ending on 31 October 2007.

By Order of the Board



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Director

Dated: 21 June 2006

Registered office: DN Galil Elyon 1, 12335, Israel

**Notes:**

1. A member who is entitled to attend and vote at the meeting may appoint one or more proxies to attend and vote on his or her behalf, provided that only one proxy may be appointed by a member in respect of a particular share held by him/her. A proxy need not be a member of the Company.
2. To be effective, a completed and signed proxy (and any power of attorney or other authority under which it is signed) must be delivered to the Company's transfer agent, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, England, by no later than 24 hours before the time fixed for the meeting or any adjourned meeting. Completion and return of a proxy will not preclude a shareholder from attending and voting at the meeting in person.
3. The Company specifies that only those members entered on the Company's register of members by no later than 2.30pm on Friday, 21 July 2006 shall be entitled to receive notice of and to attend and/or vote at the meeting or, if the meeting is adjourned, such other date being not less than 96 hours prior to such adjourned meeting as the board may determine in accordance with the Company's articles of association.
4. In the case of joint holders of shares in the Company, the vote of the senior holder shall be accepted to the exclusion of the votes of the other joint holder(s). For this purpose, seniority will be determined by the order in which the names appear in the Company's register of members (or the Company's Registrars' records).
5. In the case of holders of depositary interests representing ordinary shares in the Company, a form of direction must be completed in order to appoint Capita IRG Trustees Limited, the Company's depositary, to vote on the holder's behalf at the meeting or, if the meeting is adjourned, at the adjourned meeting. To be effective, a completed and signed form of direction (and any power of attorney or other authority under which it is signed) must be delivered to the Company's transfer agent, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, England, by no later than 72 hours before the time fixed for the meeting or any adjourned meeting.