

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

It should be read in conjunction with the accompanying Proxy Form and Form of Direction and the Notice of Extraordinary General Meeting set out at the end of this Circular.

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

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

AMIAD FILTRATION SYSTEMS LTD.

(Registered in Israel under company No. 51-249769-4)

**NOTICE OF EXTRAORDINARY GENERAL MEETING
IN CONNECTION WITH THE ACQUISITION OF ARKAL FILTRATION
SYSTEMS COOPERATIVE AGRICULTURE SOCIETY LTD.**

Notice of the extraordinary general meeting of Amiad Filtration System Ltd. to be held at the offices of Speechly Bircham LLP, 6 New Street Square, London EC4A 3LX, England on Tuesday, 9 March 2010 commencing at 9 am (London time) is set out at the end of this document. Shareholders are urged to complete and return the enclosed Proxy Form, in accordance with the instructions printed thereon, as soon as possible and, in any event, so as to be received by Capita Registrars Ltd., PXS as indicated in the Notice no later than 24 hours before the time fixed for the meeting. Completion and return of the Proxy Form will not preclude Shareholders from attending the meeting and voting in person should they subsequently wish to do so.

AMIAD FILTRATION SYSTEMS LTD.

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

Registered Office:

**DN Galil Elyon 1
12335
Israel**

28 January 2010

To shareholders and holders of depository interests (with a copy, for information only, to the holders of options over shares in the Company)

Dear shareholder and holders of depository interests

Extraordinary General Meeting: Tuesday, 9 March 2010

You are cordially invited to attend the Extraordinary General Meeting (the "EGM") of Amiad Filtration Systems Ltd. (the "Company") to be held at 9am (London time) on Tuesday, 9 March 2010 at the offices of Speechly Bircham LLP, 6 New Street Square, London EC4A 3LX, England. The notice of EGM (which includes the resolutions to be proposed at the meeting) is set out on page 7 of this document. The form of proxy or (if you are a holder of depository interests in the Company), a form of direction is also enclosed.

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

- to approve the engagement of the Company in an agreement for the acquisition of the entire issued share capital of, and ownership rights in, Arkal Filtration Systems Cooperative Agricultural Society Ltd. ("Arkal");
- to increase the authorized share capital of The Company by NIS 1,500,000, so that following such increase the authorized share capital of the Company shall be NIS 11,500,000 divided into 23,000,000 ordinary shares of 0.5 NIS each.

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

Resolution 1 (approval of the Acquisition of Arkal)

On 20 January 2010, the Board of Directors of Amiad announced that the Company had entered into a conditional purchase agreement, whereby the Company shall acquire the entire issued share capital of, and ownership rights in 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 the Company, 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 the Company's existing ordinary shares in issue. The cash consideration will be satisfied from Amiad's existing resources and a new bank facility.

The agreement requires the approval of the Company in general meeting, as Kibbutz Amiad, the controlling shareholder of the Company through its wholly owned subsidiary, A.M.SI. Investments (1997) Ltd ("A.M.SI."), has informed the Company that following the issuance of the Consideration Shares, a shareholders agreement will come into effect among Kibbutz Amiad, A.M.SI, Beit Zera and Bermad. Pursuant to the shareholders agreement, the parties thereto have agreed to vote their shares in the Company together at all meetings of the shareholders of the Company, 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.

Consideration Shares in Escrow

Out of the to 3,284,159 shares issued to Beit Zera and Bermad as Consideration Shares, a total of 679,478 shares constituting 2% of the share capital of Company issued to Beit Zera and 1% of the share capital of the Company issued to Bermad (collectively the "**Escrow Shares**"), shall be deposited in escrow to assure Beit Zera and Bermad's indemnification obligations to the Company pursuant to the Agreement, for a period of 24 months from Closing ("**Escrow Period**").

Beit Zera and Bermad shall be entitled to dividends, voting rights and all other rights of holders (except the right to sell) due in respect of the Escrow Shares.

The Escrow Shares shall be pledged in favour of the Company during the Escrow Period. At the end of the Escrow Period such pledge shall be removed and the trustee shall transfer the Escrow Shares to Beit Zera and Bermad.

Conditions to Closing

Apart from the Company shareholders' approval, the completion of the acquisition is subject, *inter alia*, to the following:

- (a) the approval of Beit Zera's creditor banks and any other creditors of Kibbutz Beit Zera to the execution of the transaction, the final and complete release of Arkal from any and all obligations that secure any debt or obligation of Beit Zera or any of its affiliates (except Arkal and its subsidiaries), the removal of all charges or any other assurance pertaining to the rights in Arkal and/or assets of Arkal that secured the guarantees and indemnification obligations or any other obligations as mentioned above (excluding charges to guarantee the debts of Arkal itself) and an overall arrangement of Beit Zera debt with the abovementioned creditors; and
- (b) the approval of the Israeli Restrictive Trade Authority to execute the transaction according to its terms.

Ancillary Agreements

Upon Closing the following agreements, which are ancillary to the purchase agreement, will be signed:

(a) Lease agreement

A lease agreement between Arkal and a corporation fully controlled by Beit Zera pursuant to which Arkal shall lease the real property measuring to approximately 16,000 sq.m, that is currently used by Arkal, and additional areas (of approximately 800 sq.m) that shall be required for transferring the Company's current plastic activity to Beit Zera. The monthly rent is NIS 116,000 plus VAT. The rent shall be reviewed every three years.

The term of the lease shall expire ten years from the date of the completion of the transaction with an option to extend for an additional ten year term.

Arkal is obliged to assist, by way of loan, with the financing of changes made to the leased property by the lessor at the request of Arkal. Such loan is repayable to Arkal by the lessor offsetting against such loan any increased rent due by virtue of the changes to the property having increased the value of the leased property.

(b) Services agreement

A services agreement between Arkal and Beit Zera pursuant to which Beit Zera undertakes to provide to Arkal various services, including the use of infrastructure and the facilities of Beit Zera. The term of the agreement is for ten years commencing on 1 January 2010 with an option to extend for an additional term of ten years. The agreement will not terminate whilst the lease agreement is in effect.

For the services provided, Arkal shall pay Beit Zera NIS 55,833 per month. The payment for is exclusive of VAT and shall be indexed to the consumer price index.

(c) Manpower agreement

A manpower service agreement between Arkal and Beit Zera, pursuant to which Beit Zera agrees to supply manpower to Arkal. The term of the agreement is ten years commencing on the completion of the transaction, terminable, at any time, by Beit Zera giving six months' written notice to Arkal. Upon termination of the agreement by Beit Zera, all personnel supplied by Beit Zera under the agreement will become employees of Arkal. Beit Zera agrees to indemnify Arkal against any liabilities which Arkal may incur as a result of Beit Zera terminating the agreement. The agreement is automatically renewable for additional periods of ten years each, unless either party notifies the other of its intention not to renew the term of the agreement six months prior to the end of its term. The agreement continues in force for so long as Arkal's activities are performed on the premises leased from Beit Zera. Arkal shall pay Beit Zera a monthly payment under the agreement according to a formula which varies depending on the number of workers supplied by Beit Zera and the function each worker undertakes in Arkal. Arkal is not obliged to pay any wages or salaries to the personnel provided by Beit Zera under the agreement. Beit Zera agrees to indemnify Arkal for any losses which Arkal may suffer or incur as a result of a court of competent jurisdiction establishing an employer-employee relationship between Arkal and any of the personnel provided by Beit Zera.

Upon closing, the Company shall create a designated fund of USD 100,000 (plus accrued interest) (the "**Fund**") that will be at Beit Zera's disposal to pay any of Beit Zera's members, whose employment in Arkal will be terminated at the initiative of Arkal during a period of 10 years from completion of the acquisition.

(d) Lock In Agreement

According to the lock-in agreement entered between the Company, Beit Zera and Bermad, the Consideration Shares shall be subject to a "lock in" for a period of 24 months' from the date of Closing, as follows:

- (i) for the first 12 months neither of Beit Zera or Bermad shall be entitled to sell, transfer or perform any other disposition of the Consideration Shares, save in certain limited circumstances or with the prior written consent of the Company.
- (ii) for the 12 month period thereafter neither of Beit Zera or Bermad shall be entitled to sell, transfer or perform any other disposition of the Consideration Shares other than through the Company's broker, unless it has received the prior written approval of the Company

(e) MFD Activity

The Company undertakes to continue and operate a division of Arkal that develops a comprehensive solution to the problem of cooling fluid filtration in the metalworking industry ("MFD Activity") for a period of 6 months following the completion of the transaction ("Trial Period"), in order to consider whether the Company has any interest in continuing the MFD Activity.

If the Company decides to continue and develop the MFD Activity then Beit Zera and Bermad will be entitled to receive royalties from Arkal. If the Company decides to discontinue the operation of the MFD activity, then for a period of 3 years thereafter Beit Zera and Bermad shall have the right to initiate the transfer of the ownership of all of the rights and obligations of the MFD Activity from Arkal to a third party, and the Company shall be entitled to receive an amount equal to its direct investment in the operation of the MFD Activity.

If the Company decides to sell the MFD Activity to a third party, following the trial period and within 10 years of the completion of the transaction, then Beit Zera and Bermad will be eligible to receive part of the consideration, up to a maximum amount of NIS 4 Million.

(f) Dividend Undertaking

The Company has undertaken that if it declares a dividend to its shareholders in the period between the effective date of the purchase agreement and the completion of the transaction, then Arkal shall pay Beit Zera in cash an amount equal to the multiple of the dividend per Company share and 3,284,159 shares.

Resolution 2 (increase the Company's authorized share capital)

The authorized share capital of the Company is NIS 10,000,000 divided into 20,000,000 ordinary shares of 0.5 NIS each, of which 689,510 shares are available to be issued.

Pursuant to the purchase agreement and subject to its approval, the Consideration Shares (equal to 3,284,159 ordinary shares of 0.5 NIS each) are to be issued to Beit Zera and Bermad immediately following the completion of the transaction. Following the allotment of the Consideration Shares, the Company's issued share capital will be 22,521,688 shares.

To allow the Company to issue the Consideration Shares and to reserve some available authorized capital for future needs, it is proposed that the authorized share capital of the Company shall be increased by NIS 1,500,000, so that following such increase the authorized share capital of the Company shall be NIS 11,500,000 divided into 23,000,000 ordinary shares of 0.5 NIS each.

Voting requirements

Under the Israel Companies Law, 1999, Resolution 1 requires a special majority vote in favour 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 resolutions; or
- (b) the total number of shares of shareholders who have no "personal interest" and who vote against the resolutions does not exceed 1 per cent. of the issued share capital of the Company.

The purchase agreement, and the ancillary agreements referred to above have been approved by the audit committee and the board of directors of the Company.

Under the Companies Law resolution 2 requires a simple majority of the voting power of the Company represented at the meeting in person or by proxy and voting thereon must be in favour of the resolution in order for it to be validly passed.

Every member who votes whether present in person or by proxy, shall have one vote for each share held by him of record, on every resolution.

Pursuant to the Companies Law, a "Personal Interest" is deemed to be a personal interest in the engagement contemplated by the resolution, including the interest of certain family relatives and of corporations affiliated to any person having such interest.

Each shareholder participating in the vote on the resolutions herein is required, as a condition to having his/her vote counted, to indicate in the Proxy Form or the Form of Direction if he/she has a "Personal Interest" in the approval of the resolutions. Each shareholder should seek legal counsel as to whether such shareholder has a "Personal Interest" for the purpose herein.

Documents available for inspection

A translation in the English language of the purchase agreement and a summary of the shareholders agreement will be available for inspection at the offices of Speechly Bircham LLP, 6 New Street Square, London EC4A 3LX, England during normal business hours on weekdays (Saturdays and Sundays excepted) from the date of this document until the date of the EGM. The aforementioned documents as well as a copy of the original purchase agreement and ancillary agreements thereto will be available for inspection at the registered office of the Company, DN Galil Elyon 1, 12335, Israel from the date of this document until the date of the EGM and at the EGM itself from 8:45 am 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 EGM.

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 Ltd., PXS, 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 Ltd., PXS, 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 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. The Directors expect that the addition of Arkal's product range, and sales and marketing infrastructure, will considerably enhance the Company's offering in the irrigation market as well as in the industrial and municipal markets.

The Directors believe that the Company's technology base will be greatly enhanced by the addition of Arkal's intellectual property, which will enable the Company 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.

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, and its net debt for the said period was approximately \$12 million.

The Directors believe that the adoption of each of the resolutions to be proposed at the EGM 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

Tal Yeshua

Chairman

AMIAD FILTRATION SYSTEMS LTD.

Registered in Israel under company No: 51-249769-4

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is hereby given that an extraordinary general meeting of Amiad Filtration Systems Ltd. (the "Company") will be held at the offices of Speechly Bircham LLP, 6 New Street Square, London EC4A 3LX, England on Tuesday, 9 March 2010 commencing at 9 am (London time) for the following purposes:

1. To approve the engagement of the Company in an agreement for the acquisition of the entire issued share capital of, and ownership rights in, Arkal Filtration Systems Cooperative Agricultural Society Ltd (as described in a circular to shareholders of the Company dated 28 January 2010).
2. To increase the authorized share capital of The Company by NIS 1,500,000, so that following such increase the authorized share capital of the Company shall be NIS 11,500,000 divided into 23,000,000 ordinary shares of 0.5 NIS each.

By Order of the Board

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Director

Dated: 28 January 2010

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 Ltd., PXS, 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 9am (London time) on Thursday, 4 March 2010, 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 Ltd., PXS, 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.