AMERICAN ISRAELI PAPER MILLS LTD
Form 6-K
March 12, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For the Month of March 2008

AMERICAN ISRAELI PAPER MILLS LTD.

(Translation of Registrant s Name into English)

P.O. Box 142, Hadera, Israel
(Address of Principal Corporate Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

x Form 20-F o Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): o

Note: Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): o

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant s home country), or under the rules of the home country exchange on which the registrant s securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant s security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

o Yes x No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-______________

Attached hereto as Exhibit 1 and incorporated herein by reference is the Registrant s press release dated March 11, 2008 with respect to the Registrant s results of operations for the year ended December 31, 2007.

Attached hereto as Exhibit 2 and incorporated herein by reference is the Registrant s Management Discussion with respect to the Registrant s results of operations for the year ended December 31, 2007.

Attached hereto as Exhibit 3 and incorporated herein by reference are the Registrant s unaudited condensed consolidated financial statements for the year ended December 31, 2007.

Attached hereto as Exhibit 4 and incorporated herein by reference is the Registrant s periodical report for the year ended December 31, 2007.

Attached hereto as Exhibit 5 and incorporated herein by reference are the unaudited condensed interim consolidated financial statements of Mondi Paper Hadera Ltd. and subsidiaries with respect to the year ended December 31, 2007.

Attached hereto as Exhibit 6 and incorporated herein by reference are the unaudited condensed interim consolidated financial statements of Hogla-Kimberly Ltd. and subsidiaries with respect to the year ended December 31, 2007.

Attached hereto as Exhibit 7 and incorporated herein by reference are the unaudited condensed interim consolidated financial statements of Carmel Container Systems Ltd. and subsidiaries with respect to the year ended December 31, 2007.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMERICAN ISRAELI PAPER MILLS LTD.
(Registrant)

By: /s/ Lea Katz

Lea Katz
Corporate Secretary

Dated: March 11, 2008.

EXHIBIT INDEX

Exhibit No.	Description
1.	Press release dated March 11, 2008.
2.	Registrant's management discussion.
3.	Registrant's unaudited condensed consolidated financial statements.
4.	Registrant's periodical report.
5.	Unaudited condensed interim consolidated financial statements of Mondi Business Paper Hadera Ltd. and subsidiaries.
6.	Unaudited condensed interim consolidated financial statements of Hogla- Kimberly Ltd. and subsidiaries.
7.	Unaudited condensed interim consolidated financial statements of Carmel Container Systems Ltd. and subsidiaries.

Exhibit 1

NEWS

Client: AMERICAN ISRAELI PAPER MILLS LTD.

Agency Contact: PHILIP Y. SARDOFF

For Release: IMMEDIATE

American Israeli Paper Mills Ltd.

Reports Financial Results for Fiscal Year Ended December 31, 2007

Hadera, Israel, March 11, 2008 American Israeli Paper Mills Ltd. (AMEX:AIP) (the Company or AIPM) today reported its financial results for the year ended December 31, 2007. The Company, its subsidiaries and associated companies are referred to hereinafter as the Group .

Since the Company s share in the earnings of associated companies constitutes a material component in the Company s statement of income (primarily on account of its share in the earnings of Mondi Hadera Paper Ltd. (Mondi Hadera) and Hogla-Kimberly Ltd.(H-K)), before the presentation of the consolidated data below, the aggregate data which includes the results of all the companies in the AIPM Group (including the associated companies whose results appear in the financial statements under earnings from associated companies), is being presented without considering the rate of holding therein and net of mutual sales:

Aggregate sales totaled NIS 3,124.3 million in 2007, as compared with NIS 2,830.5 million in 2006 net of TMM Integrated Recycling Industries Ltd. (TMM). Aggregate sales in 2005 amounted to NIS 2,613.7 million.

The aggregate operating profit in 2007 totaled NIS 189.4 million, as compared with NIS 103.1 million in 2006. The operating profit in 2005 amounted to NIS 115.8 million.

The Consolidated data set forth below does not include the results of operation of the associated companies: Mondi Hadera, H-K and Carmel Container Systems Ltd. (Carmel), which are included in the Company s share in results of associated companies.

Consolidated sales totaled NIS 583.6 million in 2007, as compared with NIS 530.1 million in 2006.

Consolidated operating profit amounted to NIS 75.4 million in 2007, as compared with NIS 50.5 million in 2006.

The increase in operating profit in 2007, by 49% in relation to 2006, originated from the increase in sales of packaging paper and recycling, primarily on account of the improvement in selling prices and the efficiency measures, that were partially offset by rising energy prices, coupled with the improvement in the operating profit of the marketing of office supplies activity as a result of efficiency measures and the reorganization that the company initiated in the past several years.

Financial expenses amounted to NIS 19.6 million in 2007, as compared with NIS 31.1 million in 2006.

Net profit in 2007 totaled NIS 31.4 million, as compared with NIS 13.3 million in 2006 and NIS 45.7 million in 2005. Net profit in 2007 was affected by the growth in the Company s share in the losses of the operations in Turkey (KCTR), amounting to approximately NIS 11.8 million, as compared with the preceding year.

Basic earnings per share amounted to NIS 7.61 per share in 2007 ($1.98 per share), as compared with NIS 3.31 per share ($0.78 per share) in 2006 and as compared with NIS 11.43 per share ($2.48 per share) in 2005.

The inflation rate in 2007 amounted to 3.4%, as compared with an inflation rate of 0% in 2006.

Commenting on the year s results, Mr. Avi Brener, Chief Executive Officer of the Company said that The positive global trends in the paper industry, primarily in Europe, due to the decline in the gap between paper supply and demand, have affected the group companies active in

Israel. Moreover, the growth trend in developing markets, primarily in Asia, as reflected by relatively high growth rates, is creating high demand for pulp and paper waste, as well as for paper products .

The Company acted to convert its boilers systems at its main site in Hadera from the use of fuel oil to natural gas. The laying of the gas pipeline and its connection to the plant facilities has been completed and the flow of natural gas to the Company by Israel Natural Gas Lines Ltd. started in late August, and in October the Company converted to full production of steam using natural gas, while discontinuing the use of fuel oil in October. The conversion of the central boiler to full production using natural gas was completed in the fourth quarter.

In 2007, Kimberly Clark Turkey, KCTR (an affiliated company in Turkey), continued to implement its strategic plan GBP (Global Business Plan) that was formulated together with the international partner, Kimberly Clark, designated to introduce Kimberly Clark s global brands to Turkey, based on local manufacturing. The KCTR turnover amounted to approximately $63 million in 2007. The implementation of business and strategic plan, the strengthening of brands and the gradual growth of using the Unilever sales and distribution platform, coupled with the reduction of costs at the diaper plant, have led to improved gross profitability in the first quarter, while significantly curtailing the operating loss from a sum of NIS 27 million in the first quarter of 2007, NIS 19.3 million in the second quarter and NIS 15 million in the third quarter, to NIS 12.5 million in the fourth quarter of 2007.

The Company s share in the earnings (losses) of associated companies amounted to losses of NIS (2.9) million in 2007, as compared with losses of NIS (26.7) million in 2006 and earnings of NIS 16.4 million in 2005.

The following principal changes were recorded in the Company s share in the earnings of associated companies, compared with 2006:

The Company s share in the net profit of Mondi Hadera (49.9%) increased by NIS 12.9 million this year. Most of the change in profit originated from the company s highly improved profitability, the transition from an operating loss of NIS 2.1 million last year to an operating profit of NIS 33.6 million this year, primarily as a result of the improved trading conditions that allowed for higher selling prices that led to an improved gross margin, coupled with a decrease in certain raw material costs as a result of the lower dollar exchange rate, primarily in the course of the second half of the year, coupled with a significant improvement in the efficiency of the company s operational array. The sharp improvement in profit was somewhat offset as a result of the rise in the net financial expenses, which originated primarily from working capital requirements due to the rise in the volumes of operation and the impact of changes in the exchange rate.

The Company s share in the net profit of Hogla-Kimberly Israel (49.9%) increased by NIS 5.4 million in 2007, as compared with 2006. The operating profit of Hogla grew from NIS 127.0 million to NIS 135.4 million this year. The improved operating profit originated from a quantitative increase in sales, improved selling prices and the continuing trend of raising the proportion of some of the premium products out of the products basket. This improvement was partially offset by the continuing rise in raw material prices. The net profit was also affected by the increase in financial expenses of NIS -1.7 million, as compared with financial revenues of NIS 1 million last year, as a result of the financing needs of the operations in Turkey. The net profit of Hogla-Kimberly Israel last year was influenced by non-recurring tax expenses of NIS 4.5 million (our share was approximately NIS 2.2 million).

The Company s share in the losses of KCTR (formerly: Ovisan) (49.9%) grew by approximately NIS 11.8 million in 2007, as compared with 2006. The operating loss decreased by approximately NIS 9.4 million in 2007 in relation to last year, due to the continuing growth in the penetration rate of brands and their strengthened position in the market. A non-recurring loss of approximately NIS 6 million ($1.5 million) was included on account of the termination of trade agreements with distributors due to the transition to distribution by Unilever, of which our share was approximately NIS 3 million. Moreover, the tax asset that was recorded in previous years in Turkey, in the sum of approximately NIS 26 million ($6.4 million) was reduced, of which our share is NIS approximately 13.3 million. Last year, the loss included a non-recurring expenditure of approximately NIS 16 million, of which our share was approximately NIS 8 million, primarily as a result of the devaluation of the Turkish lira and the amortization of a tax asset in the sum of approximately NIS 6.7 million, of which our share was approximately NIS 3.3 million.

The Company s share in the net profit of Carmel (36.21%) increased by NIS 2.1 million in 2007 as compared with 2006. The factors that affected the growth in the company s share in the net profit of Carmel, originated inter alia from the improvement in the operating profitability at Carmel primarily in the second half of the year. This improvement originated primarily from higher prices and was partially offset by the sharp rise in raw material prices. In the course of the second quarter, the company s holding rate in Carmel rose from 26.25% to 36.21% due to Carmel s self purchase of some of the minority shareholders holdings. As a result of the acquisition, a negative surplus cost of NIS 4.9 million was created at the company, of which a sum of NIS 2.4 million was allocated to the statement of income this year and served to increase the company s share in the Carmel profits in 2007. In 2006, Carmel s net profit included capital gains from the sale of a real-estate asset, of which the Company s share was approximately NIS 1 million.

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In 2006, the Company s share in the earnings of associated companies included the Company s share in the losses of TMM, in the amount of NIS 14.8 million. As mentioned above, the Company sold its holdings in TMM in early 2007 and this item is therefore not included in the Company s share in the earnings of associated companies this year. The Company s share in the earnings of associated companies from current operations in Israel (excluding Turkey and TMM) grew by NIS 20.7 million this year and amounted to NIS 60.9 million.

In July 2006, the Israel Accounting Standards Board issued Israel Accounting Standard No. 29 Adoption of International Reporting Financial Standards (IFRS) (Standard 29). Pursuant to the Standard, companies that are subject to the provisions of the Securities Law, and that are required to report according to the regulations published thereunder, are to prepare their financial statements in accordance with IFRS starting from the period commencing on January 1, 2008. The company will implement the IFRS standards starting with the financial statements for the period commencing January 1, 2008.

This press release contains various forward-looking statements based upon the Company s present expectations and estimates regarding the operations and plans of the Group and its business environment. The Company does not guarantee that the future results of operations will coincide with the forward-looking statements and these may in fact differ considerably from the present forecasts as a result of factors that may change in the future, such as changes in costs and market conditions, failure to achieve projected goals, failure to achieve anticipated efficiencies and other factors which lie outside the control of the Company. The Company undertakes no obligation for publicly updating the said forward-looking statements, regardless of whether these updates originate from new information, future events or any other reason.

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AMERICAN ISRAELI PAPER MILLS LTD.
SUMMARY OF RESULTS
(AUDITED)
NIS IN THOUSANDS[(1)]
except per share amounts

	2007	2006
Net sales	583,650	530,109
Net earnings	31,447(1)	13,330(2)
Earnings per share	7.61(1)	3.31(2)

(1) The net profit in 2007 was affected by the growth in the Company s share in the losses of the operations in Turkey (KCTR), amounting to approximately NIS 11.8 million (from NIS 52.0 million last year to NIS 63.8 million this year), as compared with the preceding year (see Strategic Investment in Turkey, above, and Section C7, below).

In 2007, the net profit included earnings from the realization of surplus cost at an associated company in the amount of NIS 2.5 million, a loss from the amortization of a tax asset at an associated company in the sum of NIS 13.4 million and a capital loss from the sale of cardboard machines (machine 6) and hub machines in the sum of NIS 2.4 million.

(2) The net profit in 2006 included net capital gains from the sale of real estate at Atidim in the sum of NIS 28.5 million, while also including non-recurring expenses (net of tax influence) of NIS 18 million, primarily on account of a provision for impairment at an associated company (in the third quarter of the year) and the impact of the devaluation and modified tax rates in Turkey (in the second quarter of the year- approximately NIS 8 million included in the loss of the operations in Turkey).

The representative exchange rate at December 31, 2007 was NIS 3.846=$1.00

Exhibit 2

Translation from Hebrew

March 10, 2008

MANAGEMENT DISCUSSION

We are honored to present the consolidated financial statements of the American Israeli Paper Mills Ltd. Group (AIPM or The Company) for the year 2007. The Company, its consolidated subsidiaries and its associated companies hereinafter: The Group .

A. Description of the Company s Business

1. Company Description

AIPM deals in the manufacture and sale of packaging paper, in the recycling of paper waste and in the marketing of office supplies through subsidiaries. The Company also holds associated companies that deal in the manufacture and marketing of fine paper, in the manufacture and marketing of household paper products, hygiene products, disposable diapers and complementary kitchen products, corrugated board containers and packaging for consumer goods.

The Company s securities are traded on the Tel Aviv Stock Exchange and on the American Stock Exchange, AMEX.

2. General

A. The Operations In Israel

1. **The Business Environment**

2007 was characterized by continued growth in the Israeli economy of 4.7% , while the high demand in consumer spending persisted. Moreover, 2007 was characterized by the continued revaluation of the NIS against the US dollar, which amounted to 9%, in addition to a revaluation of 8.2% in 2006.

The positive global trends in the paper industry, primarily in Europe, due to the decline in the gap between paper supply and demand, have affected the group companies active in Israel. Moreover, the growth trend in developing markets, primarily in Asia, as reflected by relatively high growth rates, is creating high demand for pulp and paper waste, as well as for paper products.

These demands are causing a continuing rise in input prices primarily fibers and chemicals in parallel to a rise in global paper prices since the end of the previous year both in fine paper and in packaging paper.

These trends enable the Group companies to realize price hikes in most paper and paper products areas, thereby compensating for the high input prices, while improving profitability.

The above information pertaining to trends in the paper market constitutes forward-looking information as defined in the securities law, based on the company s estimates at the date of this report. These estimates may not materialize in whole or in part or may materialize in a different manner, inter alia on account of factors that lie outside the control of the company, such as changes in global raw material prices, changes in supply and demand of global paper products.

Energy prices (primarily fuel oil) that were at their lowest point in two years during the first quarter this year, have reversed their trend in the second quarter of 2007 and have started climbing back toward the high prices that prevailed in 2006. The trend of rising fuel prices that began in the second quarter of the year, accelerated in the second half of the year and amounted to 40%, as compared with the level of prices at the beginning of the year. Due to the gradual transition to the use of natural gas in the course of the fourth quarter of the year, the Group saved NIS 12 million in energy operation costs. These savings are attributed to the transition to natural gas and to the fuel oil price level during 2007.

Electricity prices rose by an average of 13% at the end of 2007.

The inflation rate in 2007 amounted to 3.4%, as compared with an inflation rate of 0% in 2006.

2. **Current Operations in Israel**

Most Group companies continued to grow both quantitatively and in terms of their sales turnover during the reported period while raising prices across most areas of operation, in parallel to the successful implementation of the efficiency plan.

The Group consequently recorded a significant improvement in the volume of sales and in the operating profit from the Israeli operations in 2007, in relation to 2006.

3. **Implementation and Assimilation of Organization-Wide Processes**

In the course of the reported period, the Group companies continued to successfully implement and assimilate organization-wide processes that were intended to empower Group operations and support continued growth and increased profitability:

Empowering organizational development while placing an emphasis on management by objectives and the development of the organization's middle management

Continuing reorganization of the Group s purchasing network, while exploiting synergy opposite the organization s suppliers.

Assimilation of the Centerlining process at the operational levels of the various companies to a gradual and continuing improvement in the efficiency of the primary manufacturing arrays.

Accelerating processes for encouraging innovation at the companies for the development of new products and to create competitive differentiation for improving profitability.

Formulating and assimilating B2B marketing methodologies, for improving perceived quality and service among company clients.

Establishing expense-cutting measures at the organization in order to improve savings anywhere and anytime .

Social responsibility Formulating a multi-annual plan that will be launched in early 2008 and will empower the organization s activities in this area.

4. **The Strategic Plans**

In parallel to the ongoing operations, the Company is working to successfully implement the strategic plans that will lead to continued growth in operations and improved profitability over the coming years:

1. Converting the boiler system from fuel oil to natural gas

As mentioned previously, as part of the Company s endeavors for cutting manufacturing costs and for additional environmental improvements, the Company is continuing the energy-generation plant project in Hadera, using natural gas.

As a first stage, the Company acted to convert its boilers systems from the use of fuel oil to natural gas. The laying of the gas pipeline and its connection to the plant facilities has been completed and the flow of natural gas to the Company by Israel Natural Gas Lines Ltd. started in late August. Acceptance tests were conducted at the Hadera site through September and in October the Company converted to full production of steam using natural gas, while discontinuing the use of fuel oil in October. The conversion of the central boiler to full production using natural gas was completed in the fourth quarter.

The gas that serves as a replacement for the fuel oil is purchased from the Yam Tethys Group, with whom the Company signed a natural gas purchase agreement in London on July 29, 2005, that is intended to provide the company s needs over the next few years (until July 1, 2011), in terms of the operation of the existing energy generation system, by cogeneration at the Hadera site. The total financial volume of this transaction is approximately $35 million over the term of the agreement.

Subsequent to the termination of the agreement with Yam Tethys, the company intends to rely on natural gas that will be purchased from EMG on the basis of the principles agreement signed in May 2007.

The transition to natural gas resulted in an improvement of the air quality. The company estimates that given the level of fuel oil and gas prices in the third quarter of 2007 and while operating the energy generation system at full capacity using natural gas, the full impact of the savings on the net income will amount to NIS 25 million, annually.

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The above information pertaining to the impact of the conversion to natural gas on the Company constitutes forward-looking information as defined in the securities law, based on the company s estimates at the date of this report. These estimates may not materialize in whole or in part or may materialize in a different manner, inter alia on account of factors that lie outside the control of the company, such as changes in fuel oil and gas prices and the gas and transportation suppliers to the Hadera site.

2. Expanding the manufacturing network of recycled packaging paper

The investment budget in the project was increased to NIS 690 million ($170 million) and was approved on October 15, 2007 by the Company s Board of Directors. The Company selected the most advanced technologies in this field and the leading suppliers in the sector.

The implementation of the project is advancing as planned and the Company signed a supply agreement with the main equipment supplier VOITH at the end of December. Moreover, the Company is promoting agreements with the building contractor and suppliers of equipment, electrical systems and additional auxiliary systems that are meant to be signed these days.

In parallel, Amnir Recycling Industries Ltd. (Amnir), is continuing preparations for the expansion of the collection of cardboard and newspaper waste and has started to accumulate inventories toward the planned operation of the new machine commencing during 2009.

As part of the preparations for financing the project, following approval from the Board of Directors, the Company has completed the raising of approximately NIS 211 million in capital, net of issuing expenses, by way of a private placement of shares to the controlling shareholders and institutional and/or private investors (additional details appear in the immediate reports published October 16, 2007 and November 25, 2007). The Company is also examining additional ways to raise the financing for the project.

3. New Power Plant

The power plant project that is intended to provide steam and electricity for the manufacturing operations in Hadera and to sell surplus electricity to Israel Electric Company (IEC) and/or to private customers, is currently at the final configuration definition stages and feasibility studies on the basis of a license for a plant that will generate 230 mega-watts, to be built on an area that was acquired for the project, in proximity to the Company s site in Hadera.

The company is awaiting the publication of the updated sales prices by the Electrical Authority and on this basis, upon completing the examination of the station and its feasibility, the business plan will be formulated, along with possible means of finance.

The Company plans for the said power plant to consume natural gas that will be provided by EMG, on the basis of the principles agreement that was signed in May this year.

B. The Strategic Investment in Turkey

In 2007, Kimberly Clark Turkey, KCTR, a wholly-owned Hogla Kimberly subsidiary (49.9% of which is held by the Company) continued to implement its strategic plan GBP (Global Business Plan) that was formulated together with the international partner, Kimberly Clark. The plan is designated to introduce Kimberly Clark s global brands to Turkey, on the basis of local manufacturing. If the plan will be fully implemented, KCTR whould grow to become a dominant and profitable company by 2015, with annual sales in the area of $300 million. The KCTR turnover amounted to approximately $63 million in 2007.

In the course of 2007, KCTR continued its marketing innovation and launched new product lines under the Huggies® and Pedo® brands, manufactured at KCTR s advanced manufacturing plant. The company also launched an advanced KOTEX® product (feminine hygiene) that was well-received by the market.

The company s continuing marketing and advertising operations are being felt in the gradual strengthening of the brands, as expressed by consumer studies that are being conducted regularly.

As part of the strategic plan, the Company intends to continue its marketing and sales promotion efforts, while launching new products that will support the establishment of the brands and the creation of customer loyalty. A strategic cooperation agreement was signed in the first quarter of the year between KCTR and Unilever in Turkey. Pursuant to this agreement, Unilever will conduct the sales, distribution and collection on behalf of KCTR in the entire Turkish market, except for nationwide large marketing chains that represent approximately 30% of the market potential, wherein KCTR intends to continue to operate directly.

In the course of the first half of 2007, KCTR continued to promote the collaboration with Unilever and expanded the number of points of sale in the Turkish market that sell KCTR brands.

The level of competition in the markets where the company is working to penetrate and empower its brands is high and calls for low prices level in the market and regular and significant investments in advertising and sales promotion.

All of the expenses detailed above associated with the penetration of brands, advertising, expansion of the distribution network and more are regularly recorded as an expenditure in the KCTR statements of income. The operating loss of KCTR in the reported period this year amounted to approximately NIS 74 million ($18.0 million), as compared with an operating loss of approximately NIS 83 million ($18.6 million) in 2006. The loss included a non-recurring expenditure of approximately NIS 6 million ($1.5 million), recorded in the first quarter, on account of the closing of commercial agreements with the previous distributors, following the implementation of the agreement with Unilever and also on account of the upgrading of brands on the Turkish market.

As to the reduction of the tax asset in Turkey this year, see Chapter 4 (7) Company Share in Earnings of Associated Companies.

The Company is continuing to implement the business and strategic plan. The strengthening brands and the gradual growth of the Unilever sales and distribution platform, coupled with the reduction of costs at the diaper plant, have led to improved gross profitability in the first quarter, while significantly curtailing the operating loss from a sum of NIS 27 million in the first quarter, NIS 19.3 million in the second quarter and NIS 15 million in the third quarter, to NIS 12.5 million in the fourth quarter of 2007.

The above information pertaining to the KCTR business plans and their implementation constitutes forward-looking information as defined in the securities law, based on the company s estimates at the date of this report. These estimates may not materialize in whole or in part or may materialize in a different manner, inter alia on account of factors that lie outside the control of the company, such as market conditions, legislation and various costs.

B. Analysis of the Company s Financial Situation

The cash and cash equivalents item rose from NIS 13.6 million on December, 31, 2006 to NIS 167.7 million on December 31, 2007. This increase is primarily attributed to some of the proceeds in the amount of approximately NIS 110 million, received from a private placement in a total amount of approximately NIS 211 million, to the shareholders , sums received as proceeds from the sale of land approximately NIS 30 million and from the realization of approximately NIS 27 million investment in TMM.

The accounts receivable item rose from NIS 168.1 million as at December 31, 2006 to NIS 178.8 million as at December 31, 2007. This increase is primarily attributed to the growth in the volume of operations, with no significant change in customer credit days.

The other accounts receivables decreased from NIS 146.7 million on December 31, 2006 to NIS 105.1 million on December 31, 2007. This decrease is primarily attributed to the payment of debt from the sale of land in late 2006 in the sum of approximately NIS 30 million.

The inventories item rose from NIS 62.1 million on December 31, 2006 to NIS 69.6 million on December 31, 2007. This increase originates primarily from an increase in the paper waste inventories, due to Amnir preparations in anticipation of the future operation of the new packaging paper machine (see also 2a 4(2), above).

Investments in associated companies decreased from NIS 375.5 million on December 31, 2006 to NIS 346.2 million on December 31, 2007. The principal components of the said decrease included the Company s net share in the losses of associated companies during the reported period, coupled with the realization of an investment in TMM in return for its book value of approximately NIS 27 million.

Short-term credit fell from NIS 203.0 million on December 31, 2006 to NIS 143.0 million on December 31, 2007. The decrease in this item is primarily attributed to repayment from proceeds obtained from the private placement to shareholders, the positive cash flows from operating activities, net of investments in fixed assets.

The other payables item decreased from NIS 103.7 million on December 31, 2006 to NIS 87.2 million on December 31, 2007. The decrease is primarily attributed to the payment of income tax on account of NIS 12 million in betterment taxes, originating from the transaction for the sale of land in late 2006.

The company s shareholders equity increased from NIS 430.8 million on December 31, 2006 to NIS 678.1 million on December 31, 2007. The change is primarily attributed to the issue of shares by private placement to the shareholders, net of issuing expenses, in the sum of approximately NIS 211.6 million, from net profit this year of NIS 31.4 million, and the decrease in the negative capital surplus from translation differences at an associated company.

1. Investments in Fixed Assets

The investments in fixed assets amounted to NIS 86 million in 2007, as compared with NIS 53.1 million in 2006. The investments in 2007 included payments for the acquisition of an reservesteam boiler and the completion of the conversion of the energy system to natural gas, along with the necessary infrastructure. The Company also made current investments in environmental issues (sewage treatment) and current investments in equipment renewal, means of transportation and in the maintenance of buildings at the Hadera site. The investments in 2006 included payments for converting the energy system to natural gas, improving the material preparation system so as to improve the quality of packaging paper and the treatment of waste water, as part of the environmental investments. The Company also invested regularly in equipment renewal and transportation.

2. **Financial Liabilities**

The long-term liabilities (including current maturities) amounted to NIS 261.7 million as at December 31, 2007, as compared with NIS 297.9 million as at December 31, 2006. The long-term liabilities decreased by NIS 36 million as a result of the repayment of debentures in 2007 in the sum of NIS 37 million, the repayment of long-term loans in the sum of NIS 5 million, net of the increase from the evaluation of CPI-linked debenture balances.

The long-term liabilities include primarily two series of debentures and the following long-term bank loans:

Series 1 NIS 14.1 million, for repayment until 2009 by private placement to institutional investors.

Series 2 NIS 182.1 million, for repayment until 2013 by private placement to institutional investors.

Long-term loans from banks NIS 33.5 million.

The balance of short-term credit from banks, as at December 31, 2007, amounted to NIS 143.0 million, as compared with NIS 203.0 million at December 31, 2006.

C. **Results of Operations**

1. **Aggregate Data**

Since the Company s share in the earnings of associated companies constitutes a material component in the Company s statement of income (primarily on account of its share in the earnings of Mondi Business Hadera Paper Ltd. [Mondi Hadera] and Hogla-Kimberly Ltd.), before the presentation of the consolidated data below, the aggregate data which include the results of all the companies in the AIPM Group (including the associated companies whose results appear in the financial statements under earnings from associated companies), is being presented without considering the rate of holding therein and net of mutual sales.

Regarding the consolidated data, see Section (2) below.

A. Aggregate Data from Israeli Operations

In early 2007, the Company sold its holdings in TMM Integrated Recycling Industries Ltd. (TMM) (43.02% directly and indirectly), as part of an agreement with Veolia Israel and in response to a tender offer for the acquisition of TMM shares from the public, by Veolia Israel. The aggregate sales and operating profit figures for the preceding year are consequently presented net of the TMM results.

The aggregate sales in Israel totaled NIS 2,864.1 million in 2007, as compared with approximately NIS 2,614.7 million in 2006, representing growth of 9.5%. The aggregate sales in 2005 amounted to NIS 2,425.9 million.

The aggregate operating profit in Israel totaled approximately NIS 263.1 million in 2007, as compared with NIS 177.7 million in 2006, representing growth of 48%. Net of TMM (that was sold at the beginning of 2007), the operating profit rose from NIS 186.2 million in 2006, to NIS 263.1 million in 2007, representing growth of 41.3%. The operating profit in 2005 amounted to NIS 142.3 million.

The significant improvement in the operating profitability in Israel is attributed to the raising of prices in most of the Group s areas of operation, the growth in quantitative sales and the continuing efficiency measures and group synergy. This improvement was partially offset by the continuing rise in raw material prices.

B. Aggregate Data (including Turkey)

The aggregate sales amounted to NIS 3,124.3 million in 2007, as compared with NIS 2,830.5 million in 2006 net of TMM representing growth of 10.4%. The aggregate sales in 2005 amounted to NIS 2,613.7 million.

The aggregate operating profit in 2007 amounted to NIS 189.4 million, as compared with NIS 103.1 million in 2006. The operating profit in 2005 amounted to NIS 115.8 million.

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The increase in the aggregate operating profitability in 2007 is primarily attributed to the raising of prices in most areas of operation, the rise in quantitative sales and the reduction of the operating loss in Turkey by NIS 9.4 million, originating from the continued trend of improvement in the Turkish results, despite the cost of introducing the international Kimberly Clark brands to Turkey, that began in 2006, along with the price war as part of the battle over competing market share in the market.

For the operations in Turkey see Section C7 below Company s share in the earnings of associated companies.

2. Consolidated Data

Excluding the results of operation of the associated companies: Mondi Hadera, Hogla-Kimberly and Carmel Container Systems Ltd. (Carmel).

The consolidated sales totaled NIS 583.6 million in 2007, as compared with NIS 530.1 million in 2006, representing growth of 10.1%.

The consolidated operating profit amounted to NIS 75.4 million in 2007, as compared with NIS 50.5 million in 2006, representing growth of approximately 49.3%.

Total revenues for the paper and recycling activity amounted to NIS 464.7 million, NIS 408.0 million and NIS 368.9 million in 2007, 2006 and 2005, respectively.

Gross profit for the paper and recycling activity amounted to NIS 110.3 million (24% of turnover) in 2007, NIS 78.7 million (19% of turnover) in 2006 and NIS 69.8 million (19% of turnover) in 2005.

Total revenues for the marketing of office supplies activity amounted to NIS 119 million in 2007, as compared with NIS 122.1 million and NIS 113.6 million in 2006 and 2005.

Gross profit for the marketing of office supplies activity amounted to NIS 32.9 million (28% of turnover) in 2007, compared with NIS 32.7 million (27% of turnover) in 2006 and NIS 29.4 million (26% of turnover) in 2005.

3. Net Profit and Earnings Per Share

The net profit in 2007 amounted to NIS 31.4 million, as compared with NIS 13.3 million in 2006 and NIS 45.7 million in 2005.

The net profit in 2007 was affected by the growth in the Company s share in the losses of the operations in Turkey (KCTR), amounting to approximately NIS 11.8 million (from NIS 52.0 million last year to NIS 63.8 million this year), as compared with the preceding year (see Strategic Investment in Turkey, above, and Section C7, below).

In 2007, the net profit included earnings from the realization of surplus cost at an associated company in the amount of NIS 2.5 million, a loss from the amortization of a tax asset at an associated company in the sum of NIS 13.4 million and a capital loss

from the sale of cardboard machines (machine 6) and hub machines in the sum of NIS 2.4 million.

The net profit in 2006 included net capital gains from the sale of real estate at Atidim in the sum of NIS 28.5 million, while also including non-recurring expenses (net of tax influence) of NIS 18 million, primarily on account of a provision for impairment at an associated company (in the third quarter of the year) and the impact of the devaluation and modified tax rates in Turkey (in the second quarter of the year). (Approximately NIS 8 million included in the above loss from Turkey).

The net profit in 2005 included capital gains of NIS 4.4 million plus a tax benefit of NIS 8 million (including the company s share in the benefit at the consolidated subsidiaries) on account of the impact of the tax law reforms that were passed by the Knesset (Israeli parliament) on July 25, 2005, that serve to gradually lower the corporate tax rate to a level of 25% by 2010.

The basic earnings per share amounted to NIS 7.61 per share in 2007 ($1.98 per share), as compared with NIS 3.31 per share ($0.78 per share) in 2006 and as compared with NIS 11.43 per share ($2.48 per share) in 2005.

The diluted earnings per share amounted to NIS 7.60 per share in 2007 ($1.98 per share), as compared with NIS 3.28 per share in 2006 ($0.77 per share) and NIS 11.35 per share in 2005 ($2.46 per share).

4. Analysis of Operations and Profitability

The analysis set forth below is based on the consolidated data.

1. Sales

The consolidated sales amounted to NIS 583.6 million in 2007, as compared with NIS 530.1 million in 2006 and NIS 482.5 million in 2005.

The increase in the turnover in 2007 originated primarily from the growth in sales of packaging paper and recycling as a result of the possibility of realizing price hikes in accordance with prevailing global conditions in the paper market.

Sales of the packaging paper and recycling activity amounted to NIS 464.7 million in 2007, as compared with NIS 408.0 million in the corresponding period last year.

The growth in the sales turnover of the packaging paper and recycling activity originated primarily from the raising of the selling prices.

Sales of the marketing of office supplies marketing activity amounted to NIS 119.0 million in the reported period, as compared with NIS 122.1 million last year. Most of the decrease in sales is attributed to the impact of not winning the Accountant General tender in early 2007, a fact that was somewhat compensated for by an increase in sales to other customers, at better margins.

The change in the turnover in 2006 in relation to 2005 originated primarily from a certain increase in sales of packaging paper and recycling and a marginal decrease in sales of the office supplies sector in light of a change in the customer mix toward a more profitable one.

2. Cost of Sales

The cost of sales amounted to NIS 440.9 million in 2007, representing 75.5% of sales, as compared with NIS 418.7 million, or 79.0% of sales in 2006 and as compared with NIS 383.2 million, or 79.4% of sales in 2005.

The gross profit as a percentage of sales grew in 2007 to reach 24.5%, as compared with 21.0% in 2006 and 20.6% in 2005.

The increase in the gross profit originated primarily from the improved selling prices and the quantitative growth in the local market, coupled with the savings in energy costs, primarily on account of the transition to natural gas in the last quarter. On the other hand, an increase was recorded in other manufacturing costs as a result of the increase of the volume of operations, including growth in collection by Amnir and the rise in diesel prices.

- **Labor Wages**

The labor wages in the cost of sales, in selling expenses and in General and Administrative expenses, amounted to approximately NIS 174.8 million in 2007, as compared with NIS 160.6 million in 2006 and NIS 149.7 million in 2005.

The change in payroll costs in relation to the corresponding period last year reflects a 5% increase in personnel especially at Amnir, as part of preparations for increasing paper waste collection in anticipation of the future operation of the new packaging paper machine along with a nominal increase of 3.5% in the wages. The wage expenses (in General and Administrative) also included non-recurring expenditures, primarily on account of the employment agreement with the Company s CEO. See Note 9D to the financial statements.

3. **Selling, General and Administrative Expenses**

The selling, general and administrative expenses (including wages) amounted to NIS 67.4 million in 2007 (11.6% of sales), as compared with NIS 60.9 million (11.5% of sales), in 2006 and NIS 55.9 million in 2005 (11.6% of sales).

The increase in selling, general and administrative expenses originated primarily from growth in labor expenses, including non-recurring influences, as stated above in the Labor Wages section.

4. **Operating Profit**

The operating profit amounted to NIS 75.4 million in 2007, representing 49% growth in relation to 2006, 13.0% of sales, as compared with NIS 50.5 million, or 9.5% of sales in 2006 and as compared with NIS 43.3 million, or 9.0% of sales in 2005.

The increase in operating profit in 2007, by 49% in relation to 2006, originated from the increase in sales of packaging paper and recycling, primarily on account of the improvement in selling prices and the efficiency measures, that were partially offset by rising energy prices, coupled with the improvement in the operating profit of the marketing of office supplies activity as a result of efficiency measures and the reorganization that the company initiated in the past several years.

In the marketing of office supplies activity, the trend of maintaining the operating profit of NIS 0.4 million in 2007, was attributed to the reorganization in the sector, accompanied by far-reaching efficiency measures and steps to increase sales, following the transition to an operating profit in 2006 as compared with a loss in 2005 (NIS 0.2 million in 2006, as compared with NIS -0.9 million in 2005).

5. **Financial Expenses**

Financial expenses amounted to NIS 19.6 million in 2007, as compared with NIS 31.1 million in 2006.

The total average of the Company s net, interest-bearing liabilities grew by an average of approximately NIS 10 million between the years 2007 and 2006. The increase is primarily attributed to investments in fixed assets, net of positive cash flows from operating activities.

Despite the said increase in the obligo, the financial expenses in 2007 were cut back in relation to the preceding year by NIS 11.5 million.

The said decrease in financial expenses originated from the decrease in the average interest rate on short-term credit (by approximately 1.2%), the lower expenses on account of CPI-linked notes, despite the sharp rise in the inflation rate in relation to 2006, on account of the lowering of the cost of hedging the CPI-linked notes against a rise in the CPI that fell from 1.8% in 2006, to 1.3% in 2007 and resulted in a approximately NIS 1.1 million decrease in note-related costs.

As a result of currency hedging transactions made by the company on the dollar/euro ratio, the company recorded financial revenues of NIS 4.6 million in the last quarter of the year. (These revenues, on account of hedging the expected cash flows for the new packaging paper Machine were allocated to the statement of income pursuant to accounting principles since the agreement with the machine s supplier VOITH was only signed in late December 2007).

Due to the decrease in the dollar exposure this year in relation to the preceding year, the financial expenses decreased this year by NIS 4.7 million in relation to last year on account of currency rate differential revenues on account of the assets in foreign currency.

6. Taxes on Income

Expenses for taxes on income from current operations totaled NIS 18.4 million in 2007, as compared with NIS 5.5 million in 2006 and NIS 10.2 million in 2005.

The principal factors responsible for the increase in tax expenses from operating activities in 2007 as compared with 2006, included the increase in operating profit before taxes this year, despite the impact of the lower tax rate on current and deferred taxes this year, in relation to last year. In addition, the tax expenses this year grew by NIS 2 million as a result of the sharp rise in the CPI this year by 3.4% in relation to last year.

Moreover, the tax expenses in 2007 included an additional tax expense of NIS 0.9 million in 2007 from taxes on previous years as a result of the completion of tax assessments for the years 2002-2005. An additional tax expense of NIS 11.2 million was recorded in 2006, primarily on account of betterment tax on the sale of real estate. A tax benefit of NIS 4.2 million was recorded in 2005 on account of the impact of the tax reforms that were passed by the Knesset in July 2005 (gradually lowering the corporate tax rate to 25% by 2010) on the company s deferred taxes.

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Total tax expenses amounted to NIS 19.3 million in 2007, as compared with NIS 5.5 million in 2006 and NIS 6.0 million in 2005.

7. Company s Share in Earnings of Associated Companies

The companies whose earnings are reported under this item (according to AIPM s holdings therein), include primarily: Mondi Hadera, Hogla-Kimberly, Carmel and TMM.

The Company s share in the earnings (losses) of associated companies amounted to NIS (2.9) million in 2007, as compared with losses of NIS (26.7) million in 2006 and earnings of NIS 16.4 million in 2005.

The following principal changes were recorded in the Company s share in the earnings of associated companies, in relation to 2006:

The Company s share in the net profit of Mondi Hadera (49.9%) increased by NIS 12.9 million this year. Most of the change in profit originated from the company s highly improved profitability, the transition from an operating loss of NIS 2.1 million last year to an operating profit of NIS 33.6 million this year primarily as a result of the improved trading conditions that allowed for higher selling prices that led to an improved gross margin, coupled with a decrease in certain raw material costs as a result of the lower dollar exchange rate, primarily in the course of the second half of the year, coupled with a significant improvement in the efficiency of the company s operational array. This said improvement was rendered possible as a result of the said recovery in the European paper industry, coupled with the quantitative increase in

sales to the local market. This improvement began in the second quarter of the year, accelerated in the second quarter and preserved the same trend in the second half of the year. The sharp improvement in profit was somewhat offset as a result of the rise in the net financial expenses, which originated primarily from working capital requirements due to the rise in the volumes of operation and the impact of changes in the exchange rate.

The Company s share in the net profit of Hogla-Kimberly Israel (49.9%) increased by NIS 5.4 million in 2007, as compared with 2006. The operating profit of Hogla grew from NIS 127.0 million to NIS 135.4 million this year. The improved operating profit originated from a quantitative increase in sales, improved selling prices and the continuing trend of raising the proportion of some of the premium products out of the products basket. This improvement was partially offset by the continuing rise in raw material prices. The net profit was also affected by the increase in financial expenses of NIS -1.7 million, as compared with financial revenues of NIS 1 million last year, as a result of the financing needs of the operations in Turkey. The net profit of Hogla-Kimberly Israel last year was influenced by non-recurring tax expenses of NIS 4.5 million (our share was approximately NIS 2.2 million).

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Company s share in the losses of KCTR (formerly: Ovisan) (49.9%) grew by approximately NIS 11.8 million in 2007, as compared with 2006. The operating loss decreased by approximately NIS 9.4 million in 2007 in relation to last year, due to the continuing growth in the penetration rate of brands and their strengthened position in the market. The launch process of premium KC products in the Turkish market (Kotex® and Huggies®), that began in the second quarter last year and was accompanied by fierce competition over shelf space, primarily against P&G coupled with the erosion of selling prices to the lowest levels in the world for same-quality disposable diapers. In the course of 2007, a non-recurring loss of approximately NIS 6 million ($1.5 million) was included on account of the termination of trade agreements with distributors due to the transition to distribution by Unilever, of which our share was approximately NIS 3 million. Moreover, the tax asset that was recorded in previous years in Turkey, in the sum of approximately approximately NIS 26 million ($6.4 million) was reduced, of which our share is NIS approximately 13.3 million. Last year, the loss included a non-recurring expenditure of approximately NIS 16 million, of which our share was approximately NIS 8 million, primarily as a result of the devaluation of the Turkish lira and the amortization of a tax asset in the sum of approximately NIS 6.7 million, of which our share was approximately NIS 3.3 million.

The Company s share in the net profit of Carmel (36.21%) increased by NIS 2.1 million in 2007 as compared with 2006. The factors that affected the growth in the company s share in the net profit of Carmel, originated inter alia from the improvement in the operating profitability at Carmel primarily in the second half of the year. This improvement originated primarily from higher prices and was partially offset by the sharp rise in raw material prices. In the course of the second quarter, the company s holding rate in Carmel rose from 26.25% to 36.21% due to Carmel s self purchase of some of the minority shareholders holdings. As a result of the acquisition, a negative surplus cost of NIS 4.9 million was created at the company, of which a sum of NIS 2.4 million was allocated to the statement of income this year and served to increase the company s share in the Carmel profits in 2007. In 2006, Carmel s net profit included capital gains from the sale of a real-estate asset in Netanya in the amount of NIS 3.9 million, of which the Company s share was approximately NIS 1 million.

In 2006, the Company s share in the earnings of associated companies included the Company s share in the losses of TMM, in the amount of NIS 14.8 million. As mentioned above, the Company sold its holdings in TMM in early 2007 and this item is therefore not included in the Company s share in the earnings of associated companies this year.

The Company s share in the earnings of associated companies from current operations in Israel (excluding Turkey and TMM) grew by NIS 20.7 million this year and amounted to NIS 60.9 million.

D. Liquidity

Cash Flows

The cash flows from operating activities in 2007 amounted to NIS 69.5 million, as compared with NIS 53.1 million in 2006. The change in the cash flows from operating activities in 2007 originated primarily from the increase in current operations and in profit.

The cash flows from operating activities in 2005 amounted to NIS 88.6 million.

The dividend that was declared in December 2005, in the amount of NIS 50 million, was paid in January 2006. Additional dividend of NIS 100 million was distributed in July 2006.

E. Sources of Finance

See Section B2 Financial Liabilities.

In November 2007, the Company performed a private placement of 1,012,585 ordinary shares of NIS 0.01 par value of the Company (hereinafter: Ordinary Shares) which, as of the date of issuance, accounted for 20% of the issued share capital of the Company (hereinafter in this section: The Shares) against an investment in the total sum of NIS 213 million (hereinafter in this section: the raised amount). About 60% of the shares (607,551 shares) were issued to the controlling shareholders in the Company, Clal Industries and Investments and Discount Investments (hereinafter: the special offerees), in accordance with the pro-rata holdings in the Company, and 40% of the shares (405,034 shares) were offered by way of a tender to institutional entities and private entities (whose number did not exceed 35) (hereinafter in this section: The Ordinary Offerees). The price per share for the ordinary offerees, as determined by tender was NIS 210. Accordingly, the price per share for the special offerees, considering the amount of shares offered to the special offerees, was set at NIS 211.05 (the price per share in the tender plus a rate of 0.5%). The Company paid the distributors a rate of 1.2% of the total consideration received from the ordinary offerees, that is, a sum of NIS 1,020,686. The consideration received in respect of the allotment of the shares offered as aforesaid, shall be used for the partial financing of the acquisition of the new packaging paper machine .

F. Exposure and Management of Market Risks

1. General

The Company conducts periodical discussions regarding market risks and exposure to exchange rate and interest rate fluctuations, with the participation of the relevant factors, so as to reach decisions in this matter. The individual responsible for the implementation of market risk management policy at the Company is Israel Eldar, that serves as the Company s Comptroller since 1981, and as a director in subsidiaries of the Company .

2. Market Risks to which the Company is Exposed

Description of Market Risks

The market risks reflect the risk of changes in the value of financial instruments affected by changes in the interest rate, in the Consumer Price Index and in exchange rates.

Exchange Rate Risks

Approximately half of the Company s sales are denominated in US dollars, whereas a significant share of its expenses and liabilities are in NIS. The Company is therefore exposed to exchange rate fluctuations of the NIS vis-à-vis the US dollar.

In September this year the Company entered into dollar-euro hedging transactions for a period of up to 4 months, in the amount of 13.4 million.

Consumer Price Index Risks

The Company is exposed to changes in the Consumer Price Index, pertaining to bank and other loans and to the bonds issued by the Company, in the total sum of NIS 196 million.

In early 2008, the Company entered into hedging transactions for a period of one year, to protect itself against a rise in the CPI, in the amount of NIS 140 million, pursuant to previous transactions that were made in December 2006 and January 2007 and terminated at the end of 2007.

Interest Risks

The Company is exposed to changes in interest rates, primarily on account of notes, in the sum of NIS 196 million.

Credit Risks

Most of the Group s sales are made in Israel to a large number of customers and the exposure to customer-related credit risks is consequently generally limited. The Group regularly analyzes through credit committees that operate within the various companies the quality of the customers, their credit limits and the relevant collateral required, as the case may be.

The financial statements include provisions for doubtful debts, based on the existing risks on the date of the statements.

Sensitivity Analysis Tables for Sensitive Instruments, According to Changes in Market Elements

Sensitivity to Interest Rates

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Interest rise 10%	Interest rise 5%	Fair value As at Dec-31-07	Interest decrease 10%	Interest decrease 5%
	In NIS thousands				
Series 1 Debentures	54	27	14,336	(54)	(27)
Series 2 Debentures	2,370	1,191	191,537	(2,417)	(1,203)
Other liabilities	121	60	31,510	(122)	(61)
Long-term loans and capital notes - granted	(186)	(93)	(48,644)	188	94

The fair value of the loans is based on a calculation of the present value of the cash flows, according to the generally-accepted interest rate on loans with similar characteristics (4% in 2007).

Regarding the terms of the debentures and other liabilities See Note 4 to the financial statements.

Regarding long-term loans and capital notes granted See Note 2 to the financial statements.

Sensitivity of linked instruments to changes in the(euro)exchange rate

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Revaluation of 10%	Revaluation of 5%	Fair value As at Dec-31-07	Devaluation of 10%	Devaluation of 5%
	In NIS thousands				

Sensitivity of linked instruments to changes in the(euro)exchange rate

NIS- forward transaction	6,038	4,028	994	(8,439)	(3,741)

See Note 12a to the financial statements.

Sensitivity to the US Dollar Exchange Rate

Sensitive Instruments	Profit (loss) from changes			Profit (loss) from changes	
	Revaluation of $ 10%	Revaluation of $ 5%	Fair value As at Dec-31-07	Devaluation of $ 10%	Devaluation of $ 5%
	In NIS thousands				
Other Accounts Receivable	1,272	636	12,720	(1,272)	(636)
Capital note	242	121	2,421	(242)	(121)
Accounts Payable	(1,036)	(518)	(10,363)	1,036	518

Other accounts receivable reflect primarily short-term customer debts.

Capital note See Note 2b to the financial statements.

Accounts payable reflect primarily short-term liabilities to suppliers.

Linkage Base Report

Below are the balance sheet items, according to linkage bases, as at December 31, 2007:

In NIS Millions	Unlinked	CPI-linked	In foreign currency, or linked thereto (primarily US$)	Non-Monetary Items	Total
Assets					
Cash and cash equivalents	2.5		165.2		167.7
Other Accounts Receivable	259.0	0.4	12.7	11.8	283.9
Inventories				69.6	69.6
Investments in Associated Companies	52.2		2.4	291.6	346.2
Deferred taxes on income				6.1	6.1
Fixed assets, net				445.6	445.6
Deferred expenses, net of accrued amortization					
Total Assets	313.7	0.4	180.3	824.7	1,319.1

In NIS Millions	Unlinked	CPI-linked	In foreign currency, or linked thereto (primarily US$)	Non-Monetary Items	Total
Liabilities					
Credit from Banks	143.0				143.0
Other Accounts Payable	185.3		10.4		195.7
Deferred taxes on income				40.5	40.5
Long-Term Loans	33.5				33.5
Notes (bonds)		195.5			195.5
Other liabilities - including current maturities	32.8				32.8
Equity, funds and reserves				678.1	678.1
Total liabilities and equity	394.6	195.5	10.4	718.6	1,319.1
Surplus financial assets (liabilities) as at December 31, 2007	**(80.9)**	**(195.1)**	**169.9**	**106.1**	

Below are the balance sheet items, according to linkage bases, as at December 31, 2006:

In NIS Millions	Unlinked	CPI-linked	In foreign currency, or linked thereto (primarily US$)	Non-Monetary Items	Total
Assets					
Cash and cash equivalents	5.0		8.6		13.6
Other Accounts Receivable	243.1	0.2	59.8	11.7	314.8
Inventories				62.1	62.1
Investments in Associated Companies	63.7		6.3	305.5	375.5
Deferred taxes on income				6.5	6.5
Fixed assets, net				400.8	400.8
Total Assets	311.8	0.2	74.7	786.6	1,173.3
Liabilities					
Credit from Banks	203.0				203.0
Other Accounts Payable	191.5		8.4		199.9
Deferred taxes on income				41.7	41.7
Long-Term Loans	38.7				38.7
Notes (bonds)		226.4			226.4
Other liabilities - including current maturities	32.8				32.8
Equity, funds and reserves				430.8	430.8
Total liabilities and equity	466.0	226.4	8.4	472.5	1,173.3
Surplus financial assets (liabilities) as at					

In NIS Millions	Unlinked	CPI-linked	In foreign currency, or linked thereto (primarily US$)	Non-Monetary Items	Total
December 31, 2006	**(154.2)**	**(226.2)**	**66.3**	**314.1**	

Associated Companies

AIPM is exposed to various risks associated with operations in Turkey, where Hogla-Kimberly is active through its subsidiary, KCTR. These risks originate from concerns regarding the economic instability, high devaluation and elevated interest rates that have characterized the Turkish economy in the past and that may recur and harm the KCTR operations.

G. Forward-Looking Statements

This report contains various forward-looking statements, based upon the Board of Directors present expectations and estimates regarding the operations of the Group and its business environment. The Company does not guarantee that the future results of operations will coincide with the forward-looking statements and these may in fact differ considerably from the present forecasts as a result of factors that may change in the future, such as changes in costs and market conditions, failure to achieve projected goals, failure to achieve anticipated efficiencies and other factors which lie outside the control of the Company. The Company undertakes no obligation to publicly update such forward-looking statements, regardless of whether these updates originate from new information, future events or any other reason.

H. Donations and Contributions

The AIPM Group, within the framework of its business and social commitment, invests efforts and funds in community assistance and support, while focusing on providing help to the weaker echelons of Israeli society and primarily teenagers.

As part of this policy, the company makes contributions to various institutions active in the said areas. The Group s contributions amounted to NIS 350 thousand in 2007.

In parallel, through its employees, the Company also participates in volunteer activity in the community, for promoting these same objectives.

This year the company focused on donations to youth clubs, community centers operating in the afternoons with the intention of fortifying and enriching teenagers while granting them a proper opportunity.

The company has also contracted an external company to conduct social mapping and intends to begin implementing the new program this year.

Moreover the company is active in the granting of student scholarships, through the Shenkar Foundation, that was established by the company together with its Austrian strategic partner in Mondi Hadera. Assistance was also provided to two projects: A women s club in Um-el-Fahem and a children s club in the Eastern Worker neighborhood of Hadera, as well as for the purchase of computers for the youth center in Hadera. The total contributions of the company through the Shenkar Foundation amounted to NIS 102 thousand.

I. Members of the Board of Directors Possessing Financial Skills and Qualifications

The minimum number of company directors possessing accounting and financial qualifications and skills was determined to be two for the company, in consideration of the nature of the accounting and financial issues that are raised in the preparation of the company s financial statements, in view of the company s areas of operation and in consideration of the composition of the board of directors as a whole, that includes individuals possessing business, management and professional experience that enables them to deal effectively with the tasks of managing the company, including reporting duties.

The members of the company s board of directors who possess accounting and financial qualifications and skills are:

Avi Yehezkel	Holds a degree in Economics from Tel Aviv University and a Law degree from Bar-Ilan University. External director at Bank Yahav. Served as a Knesset member between 1992-2003, also served as Chairman of the Economics Committee, Chairman of the Defense Budget Committee, Chairman of the Capital Market Sub-Committee, Chairman of the Banking Sub-Committee and member of the Finance Committee.
Ari Bronshtein	Holds a Bachelor's degree in Management and Economics from Tel Aviv University and a Master's degree in Management, Accounting and Finance from Tel Aviv University. Serves as VP of Discount Investments Ltd.; Director at Elron Electronic Industries Ltd. Former VP of Economics and Business Development and Director of Finance and Investments at Bezeq - The Israel Telecommunications Company Ltd.
Itzhak Manor	Holds an MBA from Hebrew University. Serves as director at various publicly-traded and privately-held companies within the IDB Group; Chairman of companies in the David Lubinsky Group Ltd.; member of the Balance Sheet Committee at Israel Union Bank Ltd.

Amos Mar-Haim	Holds a BA in economics and an MBA from Hebrew University. Formerly served and currently serves as Chairman or Deputy Chairman at publicly-traded or privately-held companies. Member of the Israeli Accounting Standards Board.
Amir Makov	Holds a Law degree from Hebrew University and an Engineering degree from the Haifa Technion. Served as CEO of Haifa Chemicals Ltd., Sonol Israel Ltd.. Served and serves as a director of various publicly-traded and privately-held companies including Bank Leumi Ltd., Dead Sea Works Ltd., Dead Sea Bromine Ltd. and more.

J. The Company s Internal Auditor

A. Auditor s Name: Eli Greenbaum
In the position since: July 16, 2006
Credentials: CPA

B. The Auditor is employed by the Company.

C. The Company s Audit Committee has approved the appointment of the Auditor on Mar-7-06. The Auditor is a CPA by training and has dealt in Treasury positions at the Company for 20 years and consequently possesses the necessary skills for the job.

D. The Internal Auditor is supervised by the General Manager.

E. The work plan for internal auditing is annual. The work plan is determined on the basis of: A five-year plan, covering numerous issues that were approved by the Audit Committee according to the auditing needs of the Company and covers issues that the Internal Auditor believes warrant his examination and consideration in the course of the current year. The work plan is determined by the Internal Auditor and the Audit Committee. The work plan is approved by the Audit Committee. The judgment of the Internal Auditor in terms of deviations from the audit program, subject to the approval of the Company s Audit Committee.

F. The Internal Auditing program includes auditing topics in corporations that constitute significant holdings of the Company.

G. Scope of employment: Full-time job as Auditor, plus an assistant. The auditing hours number a total of 416 monthly hours, totaling 4,100 hours annually, divided equally between the corporation and its investee companies:

Audited body	Estimated hours of audit annually
Internal auditing at the Company	370 hours

Audited body	Estimated hours of audit annually
Auditing at investee companies	3,730 hours
Total hours	4,100 hours

The Internal Auditor conducts the audit according to generally-accepted professional standards of internal auditing in Israel and worldwide, and to the estimation of the Company s Board of Directors, based on the Company s Audit Committee assessment, the audit is conducted according to the standards requirements.

H. The Company declares that it has granted the Internal Auditor free, constant and direct access to all the information at its disposal and at the disposal of the held companies.

I. Audit reports were submitted in writing and discussed on the following dates:

Submitted	Discussed
4.3.07	7.3.07
6.5.07	6.5.07
2.8.07	6.8.07
4.11.07	7.11.07

J. The scope of employment of the Internal Auditor is determined according to a cycle that renders it possible to audit all the significant topics at the Company, once every few years.

This scope of activity, the nature, the continuity of operation and the work plan of the Internal Auditor are reasonable according to the estimation of the Company s Audit Committee, while rendering it possible to realize the Internal Audit objectives of the organization.

K. The Auditor is employed by the Company. The Board of Directors believes that the compensation received by the Internal Auditor does not influence his professional judgment.

K. Senior Employee Compensation

In determining the compensation and bonuses of senior employees, the directors and Compensation Committee took into consideration the position and standing of each executive and his contribution to the operations and business of the Company.

In January 2008, the board of directors decided to adopt a senior employee stock option plan. The total general expenditure from the option plan amounts to approximately NIS 27 million. The option plan s influence on the consolidated financial reports amounts to approximately NIS 22 million

L. Auditing CPA Fees

Current Fees

The professional fees for the Company s auditing CPA, covering auditing services, including auditing of the internal control on the financial reports, amounted to $312 thousand in 2007, as compared with $150 thousand in 2006. The hours invested by the auditing CPAs on account of these services amounted to 7,800 hours and 9,700 hours in the years 2007 and 2006, respectively.

Follows all-inclusive fees details of the Company s and subsidiaries auditing CPA in the reported year and in the previous year:

	2007		2006	
	Thousands of $	**hours**	**Thousands of $**	**hours**
Auditing and tax services	150,000	4,510	150,000	9,700
Auditing of internal control	120,000	2,400	-	-
Auditing of IFRS	22,000	440	-	-
Differentials	20,000	450	-	-
Total	312,000	7,800	150,000	9,700

M. **Adoption of Accounting Standard No. 29 Adoption of International Financial Reporting Standards (IFRS)**

In July 2006, the Israel Accounting Standards Board issued Israel Accounting Standard No. 29 Adoption of International Reporting Financial Standards (IFRS) (hereinafter the standard or Standard 29).

Pursuant to the Standard, companies that are subject to the provisions of the Securities Law, 5728-1968, and that are required to report according to the regulations published thereunder, are to prepare their financial statements in accordance with IFRS starting from the period commencing on January 1, 2008. The standard allows for early adoption starting with the financial statements published after July 31, 2006. The above does not apply to entities subject to the Securities regulations (periodical and immediate reports of external corporations) and whose financial statements are formulated not in accordance with generally accepted accounting principles in Israel. Moreover, companies that are not subject to the provisions of the Securities Law, 5728-1968, and that are not required to report according to the regulations published thereunder, are also eligible to prepare their financial statements in accordance with IFRS starting from the financial statements published subsequent to July 31, 2006.

The initial adoption of IFRS standards shall be made according to the instructions of IFRS 1, Initial Adoption of IFRS Standards for the purposes of the transition.

According to the Standard, the Company is required to include in a note to the annual financial statements as of December 31, 2007, a balance sheet as of December 31, 2007, and a statement of income for the year then ended, that have been prepared based on the recognition, measurement and presentation criteria of IFRS. The company will implement the IFRS standards starting with the financial statements for the period commencing January 1, 2008.

For impact of international standards on the company s financial statements see Note 16 to the financial statements.

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N. **Detailed processes undertaken by the company s supreme supervisors, prior to the approval of the financial statements**

The Company s Board of Directors has appointed the Company s Audit Committee to serve as a Balance Sheet Committee and to supervise the completeness of the financial statements and the work of the CPAs and to offer recommendations regarding the approval of the financial statements and the discussion thereof prior to said approval.

The Committee consists of three directors, of which two possess accounting and financial expertise. The meetings of the Balance Sheet Committee, as well as the Board meetings during which the financial statements are discussed and approved, are attended by the Company s auditing CPA, who is instructed to present the principal findings if there are any that surfaced during the audit or review process, as well as by the Internal Auditor.

The Committee conducts its examination via detailed presentations from Company executives and others, including: CEO Avi Brenner; CFO Shaul Gliksberg. The material issues in the financial reports, including any extraordinary transactions if any, the material assessments and critical estimates implemented in the financial statements, the reasonability of the data, the financial policy implemented and the changes therein, as well as the implementation of proper disclosure in the financial statements and the accompanying information. The Committee examines various aspects of risk assessment and control, as reflected in the financial statements (such as reporting of financial risks), as well as those affecting the reliability of the financial statements. In case necessary, the Committee

demands to receive comprehensive reviews of matters with especially relevant impact, such as the implementation of international standards.

The approval of the financial statements involves several meetings, as necessary: The first, held at the Audit Committee several days before the approval date of the financial statements, is held to discuss the material reporting issues in depth and at great length, whereas the second, held in proximity to the approval date, by the Board of Directors, to discuss the actual results. As to the supreme supervision regarding the impact of the transition to international financial reporting standards, the Committee held a detailed discussion regarding the said disclosure and the accounting policy implemented in its respect.

Tzvika Livnat Chairman of the Board of Directors	Avi Brenner General Manager

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Exhibit 3

AMERICAN ISRAELI PAPER MILLS LIMITED

2007 CONSOLIDATED FINANCIAL STATEMENTS

AMERICAN ISRAELI PAPER MILLS LIMITED

2007 CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

To the shareholders of
AMERICAN ISRAELI PAPER MILLS LIMITED

We have audited the consolidated balance sheet of American Israeli Paper Mills Limited (hereafter - the Company) and its subsidiaries as of December 31, 2007 and the consolidated statement of income, changes in shareholders equity and cash flows for the year ended December 31, 2007. These financial statements are the responsibility of the Company s board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

The financial statements of the company for the years ended December 2006 and 2005 have been audited by other independent auditors who expressed their unqualified opinion as of March 7, 2007.

We did not audit the financial statements of certain associated companies, the Company s interest in which as reflected in the balance sheets as of December 31, 2007 is NIS 66.5 million, and the Company s share in excess of profits over losses of which is a net amount of NIS 2.9 million, for the year ended December 31, 2007. The financial statements of those companies were audited by other Independent registered Public Accounting Firms whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based solely on the reports of the other independent auditors.

We conducted our audits in accordance with auditing standards generally accepted in Israel including those prescribed by the Israeli Auditors (Mode of Performance) Regulations, 1973 and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company s board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other independent auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other independent auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2007 and the consolidated results of operations, changes in shareholders equity and cash flows for the year ended December 31, 2007 in conformity with accounting principles generally accepted (GAAP) in Israel. Furthermore, in our opinion, the financial statements referred to above have been prepared in accordance with the Israeli Securities (Preparation of Annual Financial Statements) Regulations, 1993.

As explained in note 1b, the financial statements referred to above are presented in new Israeli shekels, in conformity with accounting standards issued by the Israel Accounting Standards Board.

Brightman Almagor & Co.
Certified Public Accountants
A Member Firm of Deloitte Touche Tohmatsu

Tel-Aviv, Israel
March 10, 2008

AMERICAN ISRAELI PAPER MILLS LIMITED

CONSOLIDATED BALANCE SHEETS

	Note	December 31	
		2007	**2006**
		NIS in thousands (see note 1b.)	
Assets			
CURRENT ASSETS:	8		
Cash and cash equivalents	1u	167,745	13,621
Accounts receivable:	10a		
Trade		178,771	168,050

	Note	December 31	
Other		105,109	146,684
Inventories	10b	69,607	62,109
Total current assets		521,232	390,464
INVESTMENTS AND LONG-TERM RECEIVABLES:			
Investments in associated companies	2;8	346,186	375,510
Deferred income taxes	7f	6,083	6,490
		352,269	382,000
FIXED ASSETS:	3		
Cost		1,164,847	1,109,239
Less - accumulated depreciation		719,281	708,416
		445,566	400,823
DEFERRED CHARGES, net of accumulated amortization	1i		
Total assets		1,319,067	1,173,287

) **Chairman of the**

Zvi Livnat) **Board of Directors**

)

Avi Brener) **Chief Executive Officer**

)

Shaul Gliksberg) **Chief Financial and Business Development Officer**

Date of approval of the financial statements: 10 March 2008

The accompanying notes are an integral part of the financial statements

	Note	December 31 2007	December 31 2006
		NIS in thousands (see note 1b.)	
Liabilities and shareholders' equity			
CURRENT LIABILITIES:	8		
Credit from banks and others	10c	143,015	203,003

	Note	December 31	
Current maturities of long-term notes and long term loans	4a;b	42,775	41,567
Accounts payable and accruals:	10d		
Trade		108,409	96,273
Other		87,235	103,699
Total current liabilities		381,434	444,542
LONG-TERM LIABILITIES:			
Deferred income taxes	7f	40,515	41,613
Loans and other liabilities (net of current maturities):	4;8		
Loans from banks	4b	28,127	33,515
Notes	4a	158,134	190,005
Other liabilities	4c	32,770	32,770
Total long-term liabilities		259,546	297,903
COMMITMENTS AND CONTINGENT LIABILITIES	9		
Total liabilities		640,980	742,445
SHAREHOLDERS' EQUITY:	6		
Share capital (ordinary shares of NIS 0.01 par value: authorized - 20,000,000 shares; issued and paid: December 31, 2007 and 2006 - 5,060,774 and 4,032,723 shares, respectively)		125,267	125,257
Capital surplus		301,695	90,060
Capital surplus resulting from tax benefit on exercise of employee options		3,397	2,414
Differences from translation of foreign currency financial statements of associated companies		(5,166)	(8,341)
Retained earnings		252,894	221,452
Total shareholders equity		678,087	430,842
Total liabilities and shareholders' equity		1,319,067	1,173,287

The accompanying notes are an integral part of the financial statements.

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AMERICAN ISRAELI PAPER MILLS LTD.

CONSOLIDATED STATEMENTS OF INCOME

	Note	2007	2006	2005
		NIS in thousands (see note 1b.)		
SALES	10e;14	583,650	530,109	482,461

	Note	2007	2006	2005
COST OF SALES	10f	440,854	418,725	383,179
GROSS PROFIT		142,796	111,384	99,282
SELLING, MARKETING, ADMINISTRATIVE AND GENERAL EXPENSES:	10g			
Selling and marketing		31,367	31,366	30,482
Administrative and general		36,060	29,517	25,462
		67,427	60,883	55,944
INCOME FROM ORDINARY OPERATIONS		75,369	50,501	43,338
FINANCIAL EXPENSES - net	10h	19,558	31,111	12,490
OTHER INCOME (EXPENSES) - net	10i	(2,178)	37,305	4,444
INCOME BEFORE TAXES ON INCOME		53,633	56,695	35,292
TAXES ON INCOME	7	19,307	16,702	5,991
INCOME FROM OPERATIONS OF THE COMPANY AND ITS SUBSIDIARIES		34,326	39,993	29,301
SHARE IN PROFITS (LOSSES) OF ASSOCIATED COMPANIES - net	2	(2,884)	(26,202)	16,414
INCOME BEFORE CUMULATIVE EFFECT, AT BEGINNING OF YEAR, OF AN ACCOUNTING				
CHANGE IN ASSOCIATED COMPANIES		31,442	13,791	45,715
CUMULATIVE EFFECT, AT BEGINNING OF YEAR, OF AN ACCOUNTING CHANGE IN AN ASSOCIATED COMPANY	1m	-	(461)	-
NET INCOME FOR THE YEAR		31,442	13,330	45,715

		(See note 1b)NIS		
EARNINGS PER SHARE:	1v;11			
Primary:				
Before cumulative effect of a change in accounting policy		7.61	3.42	11.43
Cumulative effect, at beginning of year, of a change in accounting policy of an associated company		-	(0.11)	-
Net income per share		7.61	3.31	11.43
Fully diluted:				
Before cumulative effect of a change in accounting policy		7.60	3.39	11.35
Cumulative effect, at beginning of year, of a change in accounting policy of an associated company		-	(0.11)	-
Net income per share		7.60	3.28	11.35
Number of shares used to compute the primary earnings per share		4,132,728	4,025,181	3,999,867

The accompanying notes are an integral part of the financial statements

	Note	2007	2006	2005
Number of shares used to compute the fully diluted earnings per share		4,139,533	4,058,610	4,028,107

The accompanying notes are an integral part of the financial statements.

AMERICAN ISRAELI PAPER MILLS LIMITED

STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

	Share capital	Capital surpluses	Capital surplus resulting from tax benefit on exercise of employee options	Differences from currency translation resulting from financial statements of associated companies	Retained earnings	Total
	N I S in thousands (see note 1b.)					
BALANCE AT JANUARY 1, 2005	125,257	90,060	-	(2,807)	362,803	575,313
CHANGES IN 2005:						
Net income	-	-	-	-	45,715	45,715
Dividend paid***	-	-	-	-	(100,039)	(100,039)
Exercise of employee options into shares	*	-	401	-	-	401
Differences from currency translation resulting from financial statements of associated companies	-	-	-	1,994	-	1,994
BALANCE AT DECEMBER 31, 2005	125,257	90,060	401	(813)	308,479	523,384
CHANGES IN 2006:						
Net income	-	-	-	-	13,330	13,330
Dividend paid	-	-	-	-	(100,357)	(100,357)
Exercise of employee options into shares	*	-	2,013	-	-	2,013
Differences from currency translation resulting from financial statements of associated companies	-	-	-	(7,528)	-	(7,528)
BALANCE AT DECEMBER 31, 2006	125,257	90,060	2,414	(8,341)	221,452	430,842
CHANGES IN 2007:						
Net income	-	-	-	-	31,442	31,442
Costs Shares issuance (deduction of costs issuance in the amount of NIS 1,581 thousands)**	10	211,635	-	-	-	211,645
Exercise of employee options into shares	*	-	983	-	-	983
Differences from currency translation resulting from financial statements of associated companies	-	-	-	3,175	-	3,175
BALANCE AT DECEMBER 31, 2007	125,267	301,695	3,397	(5,166)	252,894	678,087

* Represents an amount less than NIS 1,000.

** See note 6a.
*** Includes a dividend, declared in December 2005 and paid in January 2006, amounting to approximately NIS 50 million.

AMERICAN ISRAELI PAPER MILLS LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2007	2006	2005
	NIS in thousands (see note 1b)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income for the year	31,142	13,330	45,715
Adjustments to reconcile net income to net cash provided by operating activities (A)	38,096	39,775	42,845
Net cash provided by operating activities	69,538	53,105	88,560
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets	(85,959)	(53,107)	(71,080)
Deposit and Marketable securities	-	11,582	51,003
Associated companies:			
Granting of loans	(318)	-	(2,744)
Collection of loans	2,893	2,112	
Proceeds from sale of investment of associated company	27,277	-	-
Proceeds from sale of subsidiary consolidated in the past (B)	-	-	2,004
Proceeds from sale of fixed assets	31,415	419	6,532
Net cash used in investing activities	(24,692)	(38,994)	(14,285)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds gain from private shares allocating	211,645	-	-
Receipt of long-term loans from banks	-	40,000	1,746
Repayment of long-term loans from banks	(5,212)	(1,277)	(277)
Redemption of notes	(37,167)	(6,913)	(6,680)
Dividend paid	-	(150,450)	(49,946)
Short-term credit from banks - net	(59,988)	109,832	(18,613)
Net cash used in financing activities	109,278	(8,808)	(73,770)
INCREASE IN CASH AND CASH EQUIVALENTS	154,124	5,303	505
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	13,621	8,318	7,813
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR	167,745	13,621	8,318

The accompanying notes are an integral part of the financial statements.

AMERICAN ISRAELI PAPER MILLS LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2007	2006	2005
	NIS in thousands (see note 1b.)		
(A) Adjustments to reconcile net income to net cash provided by operating activities:			
Income and expenses not involving cash flows:			
Share in losses (profits) of associated companies - net	2,884	26,663	(16,414)
Capital loss from sale of investment of an associated company	28	-	-
Dividend received from associated company	-	19,616	21,761
Depreciation and amortization	34,865	31,957	31,604
Deferred income taxes - net	(1,951)	(5,755)	(7,671)
Capital losses (gains) on:			
Sale of fixed assets - net	1,403	(28,823)	(3,570)
Sale of subsidiary consolidated in the past (B)	-	-	(874)
Losses (gains) on short-term deposits and securities	-	(166)	45
Linkage and exchange differences (erosion) on principal of long-term loans from banks - net	-	-	(111)
Linkage differences (erosion) on principal of notes	6,326	(415)	6,171
Linkage differences (erosion) on principal of long-term loans granted to associated companies	(265)	178	(975)
	43,290	43,255	29,966
Changes in operating asset and liability items:			
Increase in trade receivables	(10,721)	(17,641)	(7,162)
Decrease (increase) in other receivables (excluding deferred income taxes)	1,168	(1,661)	(1,587)
Decrease (increase) in inventories	(7,498)	1,890	(1,612)
Increase in trade payables	16,101	5,761	3,018
Increase (decrease) in other payables and accruals	(4,244)	8,171	20,222
	(5,194)	(3,480)	12,879
	38,096	39,775	42,845
Supplementary disclosure of cash flow information - Payments in cash during the year:			
Income taxes paid	23,415	23,877	1,559
Interest paid	26,428	23,714	15,828

The accompanying notes are an integral part of the financial statements.

AMERICAN ISRAELI PAPER MILLS LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2005 NIS in thousands (see note 1b)
(B) Proceeds from sale of subsidiary consolidated in the past -	
Assets and liabilities of the subsidiary consolidated in the past at the date of its sale:	509
Working capital (excluding cash and cash equivalents)	1,979
Fixed assets	(1,358)
Long-term liabilities	874
Capital gain from the sale	2,004

(C) Information on activities not involving cash flows:

1) Dividend declared by the Company in December 2005, in the amount of approximately NIS 50 million, was paid in January 2006.

2) Dividend declared by an associated company in December 2005 that the Company s share in this dividend amounts to NIS 2,650,000 was paid during 2006.

3) In December 2006 a land was sold in consideration of approximately NIS 40 million, net of tax, betterment levy and other accompanying selling cost. This amount was transferred to a trustee at the date of the transaction execution and received during January 2007 see note 10i.

4) For December 31, 2007 the acquisition of fixed assets on credit amounts to NIS 6,634 thousands and for December 31, 2006 amounts to NIS 10,599 thousands.

The accompanying notes are an integral part of the financial statements.

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AMERICAN ISRAELI PAPER MILLS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are drawn up in conformity with accounting principles generally accepted in Israel and in accordance with the Israeli Securities (Preparation of Annual Financial Statements) Regulations, 1993**.** The Company s financial statements are presented separately from these consolidated financial statements.

The significant accounting policies, which, except for the changes in the accounting policy resulting from the first-time application, in 2007, of new accounting standards of the Israel Accounting Standards Board (hereafter - the IASB) were applied on a consistent basis, as follows:

As to the adoption of International Financial Reporting Standards (IFRS), which is to be carried out in reporting periods commencing on January 1, 2008 and thereafter, see note 16 below.

a. General:

1) Activities of the Group

American Israeli Paper Mills Limited and its subsidiaries (hereafter the Company) are engaged in the production and sale of paper packaging, in paper recycling activities and in the marketing of office supplies. The Company also has holdings in associated companies that are engaged in the production and sale of paper and paper products including the handling of solid waste (the Company and its investee companies hereafter the Group). Most of the Group s sales are made on the local (Israeli) market. For segment information, see note 14.

2) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting years. Actual results could differ from those estimates.

3) Definitions:

Subsidiaries companies over which the Company has control and over 50% of the ownership, the financial statements of which have been consolidated with the financial statements of the Company.

Associated companies investee companies, which are not subsidiaries, over whose financial and operational policy the Company exerts material influence, the investment in which is presented by the equity method. Material influence is deemed to exist when the percentage of holding in said company is 20% or more, unless there are circumstances that contradict this assumption.

Interested parties as defined in the Israeli Securities (Preparation of Annual Financial Statements) Regulations, 1993.

Related parties as defined by opinion No. 29 of the Institute of Certified Public Accountants in Israel.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued):

Controlling shareholders Until December 31, 2006, transactions between the Company and a controlling shareholder therein were treated in accordance with the provisions of Securities Regulations (Presentation of Transactions between a Company and a Controlling Shareholder Therein in the Financial Statements), 1996 (hereinafter the Regulations).

As of January 1, 2007, the Company has been implementing Accounting Standard No. 23: The Accounting Treatment of Transactions between an Entity and the Controlling Shareholder Therein .

b. Basis of presentation of the financial statements

1) The Company draws up and presents its financial statements in Israeli currency (hereafter - shekels or NIS). in accordance with the provisions of Israel Accounting Standard No. 12 Discontinuance of Adjusting Financial Statements for Inflation of the IASB, which establishes principles for transition to nominal reporting, commencing January 1, 2004 (hereafter - the transition date). Accordingly, amounts that relate to non-monetary assets (including depreciation and amortization thereon), investments in associated companies (see also e below) permanent investments, and equity items, which originate from the period that preceded the transition date, are based on the data adjusted for the changes in the exchange rate of the dollar (based on the exchange rate of the dollar at December 31, 2003), as previously reported. All the amounts originating from the period after the transition date are included in the financial statements at their nominal values.

The financial statements of group companies which are drawn up in foreign currency, are translated into shekels or are remeasured in shekels for the purpose of inclusion in these financial statements, as explained in e. below.

2) The sums of non-monetary assets do not necessarily reflect the realization value or an updated economic value, but rather only the reported sums of the said assets, as stated in (1), above. The term cost in these financial statements shall mean the cost in reported sums.

c. Principles of consolidation:

1) The consolidated financial statements include the accounts of the Company and its subsidiaries. A list of the main subsidiaries is presented in a schedule to the financial statements.

2) Intercompany transactions and balances, as well as profits on intercompany sales that have not yet been realized outside the Group, have been eliminated.

d. Inventories

Commencing January 1, 2007, the Company has been implementing the provisions of Accounting Standard No. 26, Inventories .

Inventories are measured at the lower of cost or net realizable value. The cost of inventories includes acquisition costs, fixed and varied overhead costs, as well as others costs incurred in bringing the inventory to the current location and condition.

The net realization value represents the selling price estimate during the ordinary course of business, net of the estimate of completion costs and the estimate of costs required to perform the sale.

Until December 31, 2006, inventory was presented at the lower of cost or market value.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued):

In accordance with the Standard, when inventories are purchased under credit terms whereby the arrangement involves a financing element, the inventories should be presented at cost reflecting the purchase price under ordinary credit terms. The difference between the actual purchase amount and the cost reflecting the purchase price under ordinary credit terms, is recognized as an interest expense during the credit period.

The cost of inventory is determined on a moving average basis.

The spare parts of machinery and equipment, which are not intended for current use, are presented under fixed assets .

The first-time application of the standard did not have any effect on the Company s financial statements.

e. Investments in associated companies:

1) The investments in these companies are accounted for by the equity method. According to this method, the Company records, in its statement of income, its share in the profits and losses of these companies that were created after acquisition, and, in its statement of changes in shareholders equity, its share in changes in capital surpluses (mostly translation differences relating to their investments in subsidiaries that present their financial statements in foreign currency) that were created after acquisition.

2)

Profits on intercompany sales, not yet realized outside the Group, have been eliminated according to the percentage of the Company s holding in such companies.

3) The Company reviews at each balance sheet date whether any events have occurred or changes in circumstances have taken place, which might indicate that there has been an impairment of its investments in associated companies see i. below.

4) The excess of cost of the investment in associated companies over the equity in net assets at time of acquisition (excess of cost of investment) or the excess of equity in net assets of associated companies at time of acquisition over the cost of their acquisition (negative excess of cost of investment) represent the amounts attributed to specific assets upon acquisition, at fair value. The excess of cost of investment and the negative excess of cost of investment are presented at their net amount and are amortized over the remaining useful life of the assets. The average rate of amortization is 10%.

5) In accordance with the provisions of Standard No. 20 (As Amended), which is applied by the group companies since January 1, 2006, as of that date, amortization of goodwill at associated company, which until then was included under share in profits (losses) of associated companies , was discontinued. The amounts of amortization of goodwill, included under share in profits (losses) of associated companies , as above, for the year ended December 31, 2005 are NIS 4 million.

f. Marketable securities

These securities are stated at market prices.

The changes in value of the above securities are carried to financial income or expense.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued):

g. Real estate for investment

Commencing January 1, 2007, when the standard became effective, the Company has been implementing Accounting Standard No. 16, Real Estate For Investment .

Real estate for investment is defined as real estate (land or a building or part of a building or both), which is held (by the owners or under a financing lease), for the purpose of producing rental income or realizing a capital appreciation or both, and not for the purpose of:

The use of manufacture or supply of goods or services or for administrative purposes, or

Sale during the ordinary course of business

The Company does not own any buildings that fall under the definition of Real Estate for Investment. The Company has several leasing rights in real estate which, in accordance with IFRS, are classified as operating leases. Upon initial adoption of IFRS, the Company does not intend to classify these leasehold rights as real estate held for investment. The Company has consequently decided not to classify these leasehold rights as real estate held for investment according to Standard 16, but rather to continue to present them at cost, as part of fixed assets, pursuant to generally accepted accounting principles in Israel. The initial adoption of the provisions of the Standard did not consequently have a material impact on the Company s financial statements.

h. Fixed assets:

Commencing January 1, 2007, The Company has been implementing Accounting Standard No. 27 Fixed Assets and Accounting Standard No. 28 Amendment of Transition Provisions in Accounting Standard No. 27, Fixed Assets .

A fixed asset is a tangible item, which is held for use in the manufacture or supply of goods or services, or leased to others, which is predicted to be used for more than one period. The Company presents its fixed assets items according to the cost model.

Under the cost method a fixed asset item is presented at the balance sheet at cost (net of any investment grants), less any accumulated depreciation and any accumulated impairment losses. The cost includes the cost of the asset s acquisition as well as costs that can be directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost of qualifying assets also includes credit costs which have to be discounted as stated in note k. below.

The depreciation is carried out systematically by the straight line method over the expected useful life of the item s components from the date in which the asset is prepared for its intended use.

The useful life that was used in the calculation of the asset s depreciation is as follows:

	Years	
Buildings	10 to 50	(primarily 33)
Machinery and equipment	7 to 20	(Primarily 10 and 20)
Vehicles	5 to 7	(primarily 7)
Office furniture & equipment (including computers)	3 to 17	(primarily 4)

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued):

In accordance with the implementation of the transitional provisions of Accounting Standard No. 28 Amendment of Transition Provisions in Accounting Standard No. 27, Fixed Assets , as of January 1, 2007, the Company has been adopting the cost model.

i. Impairment of assets

The Company assesses at each balance sheet date whether any events have occurred or changes in circumstances have taken place, which might indicate that there has been an impairment of non-monetary assets, mainly fixed assets and investments in associated companies. When such indicators of impairment are present, the Company evaluates whether the carrying value of the asset is recoverable from the cash flows expected from that asset.

The recoverable value of an asset is determined according to the higher of the net selling price of the asset or its value in use to the Company. The value in use is determined according to the present value of anticipated cash flows from the continued use of the asset, including those expected at the time of its future retirement and disposal.

When it is not possible to assess whether an impairment provision is required for a particular asset on its own, the need for such a provision is assessed in relation to the recoverable value of the cash-generating unit to which that asset belongs.

In accordance with the transitional provisions of Standard 22, commencing January 1, 2006, in addition to the aforesaid, the financial statements include the following changes:

The balance of deferred issuance costs, which at December 31, 2005 amounted to NIS 946 thousands, has been reclassified and presented as a deduction from the amount of the liabilities to which such expenses relate. Through December 31, 2005, deferred issuance costs were included under other assets and amortized according to the straight-line method.

The change in the amortization method of deferred issuance costs, as above, do not have a material effect on the operating results in the reported years.

j. Deferred charges

Until December 31, 2005, the deferred charges in respect of issue of debentures were displayed in Other Assets at their cost, deduction of accumulated amortization. The above expenses that were attributed to the debenture issuance were amortized at the straight line method on the basis of the weighted average of the debentures in turnover, till their redemption date.

The balance of deferred issuance costs, which at December 31, 2005 amounted to NIS 946 thousands, has been reclassified and presented as a deduction from the amount of the liabilities to which such expenses relate. Through December 31, 2005, deferred issuance costs were included under other assets and amortized according to the straight-line method.

k. Credit costs

The Company has been discounting credit costs in accordance with Standard No. 3 Discounting of Credit Costs of the Israeli Institute of Accounting Standards.

Pursuant to Standard No. 3, specific and non-specific financing costs are to be capitalized to qualifying assets (assets under preparation or establishment, which still do not serve their purpose and the preparation of which for their intended use or sale require considerable time, all in accordance with the rule established in Standard No. 3). Non-specific financing costs are capitalized to such qualifying assets, or portion thereof, which was not financed with specific credit, by means of a rate which is the weighted-average cost of the financing sources which were not specifically capitalized.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued):

l. Deferred income taxes:

The Company and the companies in the Group allocate taxes in respect of temporary differences between the value of assets and liabilities in the financial statements and their tax base and in respect of losses for tax purposes, whose realization is predictable. Deferred taxes are computed at the tax rates expected to be in effect at the time of realization thereof, as they are known at the balance sheet date.

The current taxes, as well as the changes in the deferred tax balances, are included in the tax expenses or income in the reporting period.

Taxes that would apply in the event of disposal of investments in subsidiaries and associated companies have not been taken into account in computing the deferred taxes, as it is the Company s policy to hold these investments, not to realize them.

The Group may incur an additional tax liability in the event of an intercompany dividend distribution derived from approved enterprises profits see note 7a. No account was taken of this additional tax, since it is the Group s policy not to cause distribution of dividends, which would involve an additional tax liability to the Group in the foreseeable future.

In April 2005, the IASB issued Clarification No. 7 Accounting Treatment of the Tax Benefits, in Respect of Capital Instruments Granted to Employees, For Which No Compensation was Recognized . The provisions of this clarification apply to such tax benefits, which have not been allowed as a deduction through December 31, 2004. The clarification stipulates that, commencing on January 1, 2005, the tax benefit derived by the Company from the exercise of options granted to employees is to be carried to shareholders equity, in the period in which the benefit to the employees is allowed as a deduction for tax purposes. Formerly, the aforesaid tax saving was credited to the statement of income, as part of the taxes on income item.

m. Revenue recognition

Commencing January 1, 2006, the company applies Israel Accounting Standard No. 25 of the IASB Revenue , which prescribes recognition, measurement, presentation and disclosure criteria for revenues originating from the sale of goods purchased or manufactured by the company.

Revenue is measured, as detailed below, at the fair value of the consideration received or the consideration that the company is entitled to receive, taking into account trade discounts and/or bulk discounts granted by the entity:

Revenue from sale of goods is recognized when all the following conditions have been satisfied: (a) the significant risks and rewards of ownership of the goods have been transferred to the buyer; (b) the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c) the amount of revenue can be measured reliably; (d) it is probable that the economic benefits associated with the transaction will flow to the company; and (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

AMERICAN ISRAELI PAPER MILLS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued):

The Company implements Clarification No. 8 of the Israeli Institute of Accounting Standard regarding the reporting of revenues on a gross basis or a net basis. Accordingly, the Company s revenues as an agency or intermediary, without bearing the risks and returns that derive from the transaction, are presented on a net basis.

Interest income is accrued on a cumulative basis, taking into consideration the principal to be repaid and by using the effective interest rate.

Dividend income in respect of investments is recognized on the date in which the entitlement for said income was created for the shareholders.

Upon the application of the standard, an associated company separates the financing component embedded in revenue from sales made on credit for periods exceeding the customary credit period in its industry (mainly 90 days), that does not bear interest at the appropriate rate; the financing component is determined according to the amount by which the nominal amount of consideration for the transaction exceeds the present value of future cash payments in respect thereof, based on the customary market interest rate applicable to credit extended under similar terms. Revenue from the financing component is recognized over the credit period. Through December 31, 2005, the company did not separate the financing component in respect of sales made on credit, as above, and included within revenue from the sale on the date of recognition of such revenue.

In accordance with the transitional provisions of the standard, on January 1, 2006 the company recognized an expense of NIS 1.1 million as a result of presentation in present value, resulting from the adjustment of trade receivables in respect of such credit transactions to their present value on the effective date of the standard, the share of the company at the adjustment effect as above was approximately NIS 0.5 million which is presented in these financial statements under Cumulative effect, at beginning of year, of an accounting change in an associated company .

n. Shipping and handling costs

Shipping and handling costs are classified as a component of selling and marketing expenses.

o. Allowance for doubtful accounts

The allowance is determined mainly in respect of specific debts doubtful of collection (see note 12b).

p. Derivate financial instruments

Gains and losses on derivatives that are hedging existing assets or liabilities are recognized in income commensurate with the results from those assets or liabilities.

AMERICAN ISRAELI PAPER MILLS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued):

q. Fair Value of Financial Instruments

The fair value of financial instruments traded in active markets is based on the quoted prices as of the balance sheet date. The fair value of financial instruments that are not traded in an active market will be determined on the market prices of similar financial instruments and in the absence thereof, based on accepted valuation methods.

The Company uses several valuation techniques, which are accompanied by assumptions based on the existing economic conditions at each balance sheet date.

The applied valuation methods include the current value of cash flows, economic models for the valuation of options and additional acceptable valuation methods.

r. Offset of Financial instruments

Financial assets and financial liabilities are presented on the balance sheet at their net amount, only when the Company has a legally enforceable right to effect such set off, and subject to the existence of intent to settle the asset and the liability on a net basis, or to realize the asset and settle the liability simultaneously.

s. Share-based payment

Commencing January 1, 2006, the company applies Israel Accounting Standard No. 24 of the IASB, Share-Based Payment (hereafter - Standard 24), which prescribes the recognition and measurement principles, as well as the disclosure requirements, relating to share-based payment transactions.

Since the company has not granted any equity-settled awards, nor made modifications to existing grants, subsequent to March 15, 2005, the measurement criteria of the standard do not apply to past grants made by the company, and its application has not had any effect on the financial statements of the Company.

t. Transactions between the Company and Controlling Shareholders Therein

1. Until December 31, 2006, transactions between the Company and a controlling shareholder therein were treated in accordance with the provisions of Securities Regulations (Presentation of Transactions between a Company and a Controlling Shareholder Therein in the Financial Statements), 1996 (hereinafter the Regulations).

   As of January 1, 2007, the Company has been implementing Accounting Standard No. 23: The Accounting Treatment of Transactions between an Entity and the Controlling Shareholder Therein .

   This standard stated that the basis of valuation in transactions between an entity and the controlling shareholder therein is the fair value. Transactions such as loans of controlling shareholders or distribution pf dividend to controlling shareholders are not be recorded in shareholders equity and should to be included in the operating results of the controlled entity. The differences between the proceeds determined in the transactions between an entity and a controlling shareholder therein and the fair value of these transactions, shall be carried to shareholders equity. Current taxes and deferred taxes that relate to items carried to shareholders equity in respect of transactions with controlling shareholders, shall also be carried directly to shareholders equity. The provisions of the standard do not apply to transactions of business combinations under the same controlling interest.

The implementation of the standard did not have any effect on the financial statements of the Company.

AMERICAN ISRAELI PAPER MILLS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued):

2. Until December 31, 2006, loans provided/received to/from a controlling shareholder, not under market conditions, were presented in the financial statements at their fair value only if the difference between the proceeds of the loan and its fair value exceeded 5 percent.

As of January 1, 2007, loans provided/received are presented on the date of the initial recognition of the fair value, while the difference between the amount of the loan and its fair value is carried to shareholders equity.

The standard applies to transactions between an entity and a controlling shareholder therein, which were carried out after January 1, 2007, as well as to loans provided or received from a controlling shareholder prior to January 1, 2007, starting from this date.

Pursuant to the standard, the balance of loans that were granted by the Company to an associated company, as at January 1, 2007, is measured at fair value.

The implementation of the standard did not have material effect on the financial statements of the Company.

u. Cash equivalents

The Company considers all highly liquid investments, which include short-term bank deposits that are not restricted as to withdrawal or use, the period to maturity of which did not exceed three months at time of deposit, to be cash equivalents.

v. Net income per share

The computation of basic net income per share is generally based on earnings available for distribution to holders of ordinary shares, divided by the weighted average number of ordinary shares outstanding during the period.

In computing diluted net incomeper share, the weighted average number of shares to be issued, assuming that all dilutive potential shares are converted into shares, is to be added to the average number of ordinary shares used in the computation of the basic income (loss) per share. Potential shares are taken into account, as above, only when their effect is dilutive (reducing net income per share from continuing activities).

Comparative net income per share figures for the year 2005 included in these financial statements reflect a retrospective application of the new standard s computation directives**.**

As to the data used in the computation of net income per share, as above see note 11

w. Israel Accounting Standard No. 29 Adoption of International Reporting FinancialStandards (IFRS)"

In July 2006, the Israel Accounting Standards Board issued Israel Accounting Standard No. 29 Adoption of International Reporting Financial Standards (IFRS) (hereafter the standard or Standard 29).

The standard stipulates that companies, which are subject to the Securities Law, and are required to report pursuant to regulations issued thereunder, except for offshore corporations, shall draw up their financial statements under International Financial Reporting Standards (IFRS) and the clarifications thereto, which are issued by the IASB (The International Accounting Standards Board).

AMERICAN ISRAELI PAPER MILLS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued):

An entity implementing the IFRS as of January 1, 2008, which elected to report comparative data for one year only (2007), shall be required to prepare an opening balance sheet as of January 1, 2007 (hereafter opening balance sheet) in accordance with IFRS provisions.

The transition to reporting under IFRS shall be conducted in accordance with the provisions of IFRS 1, First-Time Adoption of International Financial Reporting Standards . IFRS 1 prescribes rules on how an entity should make the transition from financial reporting based on previous local accounting rules, to financial reporting based on international accounting standards. IFRS 1 supersedes all the transitional provisions established by other IFRS (including transitional provisions established in previous local accounting standards) and states that all IFRS should be adopted retroactively in the opening balance sheet. At the same time, IFRS 1 provides reliefs concerning mandatory retroactive implementation with regard to certain defined topics. In addition, IFRS 1 specifies several exceptions to the principle of retrospective application of certain aspects of other IFRS.

The Company s management has elected to adopt IFRS starting from January 1, 2008, see Note 16 regarding reconciliations to be carried out during the transition to reporting under IFRS and the reliefs which the Company has chosen pursuant to the provisions of IFRS1.

AMERICAN ISRAELI PAPER MILLS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 INVESTMENTS IN ASSOCIATED COMPANIES:

a. The Company has a number of investments in associated companies, which are held either directly or through investee companies. The financial statements of significant associated companies (Mondi Business Paper Hadera Ltd. formerly Neusiedler Hadera Paper Ltd, NHP Hogla-Kimberly Ltd and Carmel container system Ltd.) are attached to these financial statements.

b. **Composed as follows:**

	December 31	
	2007	2006
	NIS in thousands	
Shares:		
Cost	7,325	54,241
Excess of cost of investment - net	6,929	2,086
L e s s - accumulated amortization	(6,929)	(2,086)
Gain on issuance of shares of an associated company to a third party	40,241	40,241
Differences from translation of foreign currency financial statements	(5,166)	(8,341)
Share in profits (after deduction of losses) accumulated since acquisition	249,132	219,328

	December 31	
	291,532	305,469
Long-term loans and capital notes *	54,654	70,041
	346,186	375,510

* Classified by linkage terms and rate of interest, the total amounts of the loans and capital notes are as follows:

	Weighted average interest rate at December 31, 2006	December 31 2007	December 31 2006
	%	NIS in thousands	
Capital notes in dollars		2,698	6,337
Unlinked loans and capital notes	4.8%	51,956	63,704
		54,654	70,041

As of December 31, 2007, the repayment dates of the balance of the loans and capital notes have not yet been determined.

AMERICAN ISRAELI PAPER MILLS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 2 INVESTMENTS IN ASSOCIATED COMPANIES (continued):

c. **The changes in the investments during 2007 are as follows:**

	NIS in thousands
Balance at the beginning of the year	375,510
Changes during the year:	
Share in losses of associated companies - net	(2,884)
Dividend from associated companies	(14,692)
Adjustments resulting from translation of foreign currency financial statements	3,175
Share in capital surplus from capital note to associated company	464
Increase in balance of long-term loans and capital notes - net	(15,387)
Balance at end of year	376,186

d. **Mondi Business Paper Hadera Ltd.** (hereafter - Mondi Hadera; formerly Neusiedler Hadera Paper Ltd. NHP):

Mondi Hadera is held to the extent of 49.9% by the Company and also by Mondi Business Paper LTD (hereafter MBP), under an agreement dated November 21, 1999. According to the said agreement, Mondi Hadera purchased the Group s activities in the field of printing and writing paper, and issued to MBP 50.1% of its shares. As part of the said agreement, Neusiedler was granted an option to sell to the Company its holdings in Mondi Hadera, at a price that is 20% lower than the value (as defined in the agreement). The understanding between the parties is that the option would only be exercised under prolonged, extraordinary circumstances that preclude the operation of Mondi Hadera in Israel. The Company believes that the likelihood of such circumstances is very remote.

e. **Hogla-Kimberly Ltd.** (hereafter Hogla-Kimberly)

Hogla-Kimberly is held to the extent of 49.9% by the Company and to the extent of 50.1% by Kimberly Clark Corporation (hereafter- KC).

f. **Investment in Carmel Container Systems Limited (hereafter Carmel)**

Carmel Container Systems was held to the extent of 26.25% by the Company. During the second quarter an affiliated company (Carmel Container Systems Limited hereafter Carmel) acquired its own shares which were held by part of its minority shareholders. As a result of this acquisition the share of holding in Carmel increased from 26.25% to 36.21%. The increase in the share of holding yielded to the company negative excess of cost in the amount of NIS 4,923 thousands which according to standard 20 (adjusted) was related to non financial assets, which will be realized according to the rate of realization of these assets.

During the period the Company included in the profits from affiliated companies, profit amount of NIS 2,439 thousands form the realization of these asstes.

NOTE 2 INVESTMENTS IN ASSOCIATED COMPANIES (continued):

g. **Investment in T.M.M Integrated Recycling Industries Ltd**.

On January 4, 2007, the Company entered into an agreement with Veolia Israel CGEA Ltd. (hereinafter: CGEA), whereby it will sell to CGEA its holdings in Barthelemi, along with its remaining holdings in T.M.M.Pursuant to the agreement, CGEA has acquired all of the Company s holdings in Barthelemi.CGEA also acquired all of the Company s holdings in T.M.M, as part of a complete tender offer and starting February 2007, the Company is no longer a shareholder in T.M.M.

The sale of the holdings in T.M.M was made in consideration of a sum approximately similar to the book value, after taking into account, the impairment as mention above.

NOTE 3 FIXED ASSETS:

a. **Composition of assets and the accumulated depreciation thereon, grouped by major classifications, and changes therein during 2007, are as follows:**

	Cost				Accumulated depreciation				Depreciated balance	
									December 31	
	Balance at beginning of year	Additions during the year	Retirements during the year	Balance at end of year	Balance at beginning of year	Additions during the year	Retirements during the year	Balance at end of year	2007	2006
	NIS in thousands				NIS in thousands				NIS in thousands	
Land and buildings thereon	228,747	21,434	99	250,082	113,944	3,673	154	117,463	132,619	114,803
Machinery and equipment	702,206	80,592	20,027	762,771	512,044	25,658	8,505	529,197	233,574	190,162
Vehicles	35,339	5,228	5,322	35,245	23,049	3,409	5,147	21,311	13,934	12,290
Office furniture and equipment (including computers)	70,913	2,377	807	72,483	59,379	2,125	10,194	51,310	21,173	11,534
Payments on account of machinery and equipment, net	49,329	(27,547)	-	21,782	-	-	-	-	21,782	49,329
Spare parts - not current, net	22,705		221	22,484	-	-	-	-	22,484	22,705
	1,109,239	82,084	26,476	1,164,847	708,416	34,865	24,000	719,281	445,566	400,823

AMERICAN ISRAELI PAPER MILLS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 3 FIXED ASSETS (continued):

b. The item is net of investment grants in respect of investments in approved enterprises (see notes 7a).

c. The Company s real estate is partly owned and partly leased to the extent of NIS 37.5 million, in respect of which lease fees of approximately NIS 25.8 million have been capitalized. The leasehold rights are for 49-57 year periods ending in the years 2008 to 2059, with options to extend for an additional 49 years.

d. As of December 31, 2007 and 2006, the cost of fixed assets includes borrowing costs of NIS 1,007,000 capitalized to the cost of machinery and equipment.

e. Depreciation expenses amounted to NIS 34,865,000, NIS 31,957,000 and NIS 31,604,000 , for the years ended December 31, 2007, 2006 and 2005, respectively.

NOTE 4 NOTES AND OTHER LONG-TERM LIABILITIES:

a. **Notes**

The item represents two series of notes issued to institutional investors as follows:

	December 31			
	2007		2006	
	NIS in thousands			
	Series II	Series I	Series II	Series I
Balance	182,052	14,098	206,627	20,522
Less - current maturities	30,342	7,049	29,518	6,841
	151,710	7,049	177,109	13,681

1) Series I May 1992

The balance of the notes as of December 31, 2007 is redeemable in two installments, due in June of each of the years 2008-2009, each installment amounting to 6.66% of the original par value of the notes, which is NIS 105,055,000, in December 2007 terms; the unpaid balance of the notes bears annual interest of 3.8%, payable annually each June. The notes principal and interest are linked to the Israeli known CPI (base CPI of February 1992).

2) Series II December 2003

The balance of the notes as of December 31, 2007 is redeemable in 6 equal, annual installments due in December of each of the years 2008-2013; the unpaid balance of the notes bears annual interest of 5.65%, payable annually each December. The notes principal and interest are linked to the Israeli known CPI (based CPI of November 2003).

NOTE 4 NOTES AND OTHER LONG-TERM LIABILITIES:

3) As of December 31 2007 the balance of the notes represents in deduction of issuance costs amounts to NIS 625 thousands. As to the change from January 2006 in the presentation of deferred issuance costs see note 1j above.

b. Long-Term Loans

The section refers to two long-term loans that were received from banks, as detailed below:

	2007	2006
	NIS Thousands	NIS Thousands
Loan 1	11,591	14,319
Loan 2	21,920	24,404
Less - current maturities	5,384	5,208
	28,127	33,515

1) Loan 1

In July 2006, the Company assumed a loan of NIS 15 million.The outstanding balance as at December 31, 2007, is scheduled for repayment in 17 quarterly installments through to January 2012, each in the sum of NIS 0.7 million.The outstanding balance of the loan carries a variable rate of interest, linked to the Prime lending rate.

2) Loan 2

In July 2006, the Company assumed a loan of NIS 25 million.The outstanding balance as at December 31, 2007, is scheduled for repayment in 27 quarterly installments through to July 2014, each in the sum of NIS 1.0 million including principal and interest component on the outstanding balance of principal.The outstanding balance of the loan carries a variable rate of interest, linked to the Prime lending rate.

c. Other liability

The capital note from an associated company is unlinked and interest free. No repayment date has been fixed, but the associated company does not intend to demand the repayment of the capital note before January 1, 2009.

NOTE 5 EMPLOYEE RIGHTS UPON RETIREMENT:

a. Israeli labor laws and agreements require the Company and its subsidiaries to pay severance pay to employees dismissed or leaving their employment under certain circumstances, computed on the basis of the number of years of service, or a pension upon retirement.

To cover the liability for employee rights upon retirement, pursuant to labor agreements in force and based on salary components that, in management s opinion, create entitlement to severance pay, deposits are made by the Company and its subsidiaries with various provident funds (including pension funds) or insurance policies for the benefit of the employees.

The severance pay and pension liability and the amounts funded as above are not reflected in the financial statements, as the pension and severance pay risks have been irrevocably transferred to the pension funds and the insurance companies, as allowed by the Severance Pay Law.

b. The expenses relating to employee rights upon retirement, which reflect the amounts that were deposited during the reported years with provident funds, pension funds and various insurance policies, are NIS 9,398,000, NIS 8,849,000 and NIS 8,710,000 in 2007, 2006, and 2005, respectively.

NOTE 6 SHAREHOLDERS EQUITY:

a. Share capital

Composed of ordinary registered shares of NIS 0.01 par value, as follows:

		December 31	
		2007	**2006**
	Authorized	**Issued and paid**	

		December 31	
Number of shares	20,000,000	5,060,774	4,032,723
Amount in NIS	200,000	50,608	40,327

The shares are traded on stock exchanges in Tel-Aviv and in the U.S. (AMEX). The quoted prices per share, as of December 31, 2007 are NIS 249.2 and $ 65.50 (NIS 251.91), respectively.

As part of the Company s arrangement for the financing of the acquisition of the new machine for the manufacture of packaging paper in November 2007, the Company performed a private allotment of 1,012,585 ordinary shares of NIS 0.01 par value of the Company, which, as of the date of allotment, accounted for 20% of the issued share capital of the Company against an investment in the total sum of $213 million (hereinafter in this section: the raised amount). About 60% of the shares (607,551 shares) were allotted to the shareholders in the Company, Clal Industries and Investments and Discount Investments (hereinafter: the special offerees), in accordance with the pro-rata holdings in the Company, and 40% of the shares (405,034 shares) were offered by way of a tender to institutional entities and private entities. The price per share for institutional entities and private entities as determined in the tender was NIS 210. Accordingly, the price per share for Clal Industries and Investments and Discount Investments considering the amount of shares offered to Clal Industries and Investments and Discount Investments, was set at NIS 211.05 (the price per share in the tender plus a rate of 0.5%). The Company paid the distributors a rate of 1.2% of the total consideration received from institutional entities and private entities, that is, a sum of NIS 1,020,686.

NOTE 6 SHAREHOLDERS EQUITY (continued):

The share capital was increased as a result from this issuance in amounts of NIS 10 thousands and the capital surplus that divided from the issuance in deduction of cost issuance as mentioned above amounts of NIS 211,635 thousands.

b. Employee stock option plans:

1) The 2001 plan for senior officers in the Group

On April 2, 2001, the Company s board of directors approved a stock option plan for senior officers in the Group (hereafter the 2001 plan for senior officers). Under this plan, 194,300 options were allotted on July 5, 2001 without consideration. Each option can be exercised to purchase one ordinary share of NIS 0.01 par value of the Company. The options are exercisable in four equal annual batches. The blocking period of the first batch is two years, commencing on the date of grant; the blocking period of the second batch is three years from the date of grant, and so forth. Each batch is exercisable within two years from the end of the blocking period.

The exercise price of the options granted as above was set at NIS 217.00, linked to the CPI, on the basis of the known CPI on April 2, 2001. The exercise price for each batch is determined as the lesser of the aforementioned exercise price or the average price of the Company s shares as quoted on the Tel-Aviv Stock Exchange (hereafter - the Stock Exchange) during the thirty trading days preceding to the effective date of each batch, less 10%. The 2001 plan for senior officers expired during July 2007.

In 2007, 2006 and 2005, 35,425, 44,998 and 13,877 options, respectively, were exercised under the 2001 plan for senior officers, and 15,466, 24,303 and 4,307 shares of NIS 0.01, respectively, were issued following the exercise of the options, as above. 8,250 options expired in 2005 (from the first batch) and 10,225 options expired in 2006 (from the second batch). In 2006 12,225 option were cancelled from the third batch and 12,225 were cancelled from the forth batch.

This plan is designed to be governed by the terms stipulated by Section 102 of the Israeli Income Tax Ordinance. Inter alia, these terms provide that the Company is allowed to claim, as an expense for tax purposes, the amounts credited to the

employees as a benefit in respect of shares or options granted under the plan.

The amount allowed as an expense for tax purposes, at the time the employee utilizes such benefit, is limited to the amount of the benefit that is liable to tax as labor income, in the hands of the employee; all being subject to the restrictions specified in Section 102 of the Income Tax Ordinance.

Since, in accordance with Israeli accounting principles, the Company does not recognize the expense in its accounts (with respect to the salary benefit embodied in these grants), then under Clarification No. 7 of the IASB (See note 1j), the Company credited the tax saving derived from the exercise of benefits by employees in the years 2005, 2006 and 2007 to capital surplus.

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AMERICAN ISRAELI PAPER MILLS LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 6 SHAREHOLDERS EQUITY (continued):

2) The 2001 employee plan

On August 29, 2001, the Company s board of directors approved a stock option plan for employees in the Group, according to a specification (hereafter the 2001 employee plan). Under this plan, up to 125,000 options will be allotted without consideration. Each option can be exercised to purchase one ordinary share of NIS 0.01 par value of the Company. The blocking period of the options is two years from the date of grant. Each option is exercisable within three years from the end of the blocking period.

On November 4, 2001, 81,455 options were granted under the 2001 employee plan.

The exercise price of all the options granted as above was set at NIS 160.99, linked to the CPI, on the basis of the known CPI on August 29, 2001. This price represents the average price of the Company s shares as quoted on the Tel-Aviv Stock Exchange during the thirty trading days prior to the date of the board of directors approval, less 10%. The 2001 employee Plan was expired during November 2006.

In 2006 and 2005 10,091 and 2,405 options, respectively, were exercised under the 2001 employee plan, and 6,215 and 1,224 shares of NIS&n