AMERICAN ISRAELI PAPER MILLS LTD
Form 6-K
May 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 May 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 May 12, 2008 with respect to the Registrant s results of operations for the quarter ended March 31, 2008.

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 quarter ended March 31, 2008.

Attached hereto as Exhibit 3 and incorporated herein by reference are the Registrant s unaudited condensed consolidated financial statements for the quarter ended March 31, 2008.

Attached hereto as Exhibit 4 and incorporated herein by reference are the unaudited condensed interim consolidated financial statements of Mondi Paper Hadera Ltd. and subsidiaries with respect to the quarter ended March 31, 2008.

Attached hereto as Exhibit 5 and incorporated herein by reference are the unaudited condensed interim consolidated financial statements of Hogla-Kimberly Ltd. and subsidiaries with respect to the quarter ended March 31, 2008.

Attached hereto as Exhibit 6 and incorporated herein by reference are the unaudited condensed interim consolidated financial statements of Carmel Container Systems Ltd. and subsidiaries with respect to the quarter ended March 31, 2008.

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: May 12, 2008.

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**EXHIBIT INDEX**

| **Exhibit No.** | **Description** |
|---|---|
| 1. | Press release dated May 12, 2008. |
| 2. | Registrant's management discussion. |
| 3. | Registrant's unaudited condensed consolidated financial statements. |
| 4. | Unaudited condensed interim consolidated financial statements of Mondi Paper Hadera Ltd. and subsidiaries. |
| 5. | Unaudited condensed interim consolidated financial statements of Hogla- Kimberly Ltd. and subsidiaries. |
| 6. | Unaudited condensed interim consolidated financial statements of Carmel Container Systems Ltd. and subsidiaries. |

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**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 First Quarter**
**Announces Date of Annual General Meeting**

Hadera, Israel, May 12, 2008 American Israeli Paper Mills Ltd. (AMEX:AIP) (the Company or AIPM ) today reported its financial results for the first quarter ended March 31, 2008. 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 )), the consolidated data, which includes the results of all the companies in the AIPM Group (including the associated companies), is being presented without considering the rate of holding therein and net of mutual sales.

As a result of the Company s transition to reporting according to International Financial Reporting Standards ( IFRS ), the figures for the first quarter, as well as the comparison figures for the corresponding quarter last year and for the year ended December 31, 2007, are in accordance with IFRS.

Aggregate sales amounted to NIS 847.6 million during the first quarter, as compared with NIS 752.7 million in the corresponding period last year and NIS 826.1 million in the fourth quarter of 2007.

The aggregate operating profit amounted to NIS 59.8 million during the first quarter, as compared with NIS 28.3 million in the corresponding period last year and NIS 58.3 million in the fourth quarter of 2007. The significant improvement in the aggregate operating profit was primarily due to the improved performance in Israel, on the one hand, coupled with the continued trend of lowering the operating loss in Turkey, on the other hand.

The consolidated data set forth below excludes the results of operation of the associated companies: Mondi Hadera, H-K and Carmel Containers Systems Ltd. ( Carmel )

Consolidated sales during the first quarter amounted to NIS 142.5 million, as compared with NIS 136.6 million in the corresponding period last year and as compared with NIS 154.8 million in the fourth quarter of 2007.

Operating profit totaled NIS 17.5 million during the first quarter, as compared with NIS 16.5 million in the corresponding period last year, representing growth of 5.7%.

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Net profit amounted to NIS 21.3 million during the first quarter, as compared with a loss of NIS (-3.9) million in the corresponding period last year.

The net profit in the first quarter was affected by the improvement in the Group s profitability in Israel, coupled with the NIS 18.4 million reduction of the Company s share in the losses of Kimberly Clark Turkey (KCTR), a wholly-owned H-K subsidiary (from a share in the loss of NIS 22.8 million last year to NIS 4.4 million this year), as compared with the corresponding period last year.

Basic earnings per share amounted to NIS 4.20 per share ($1.18 per share) in the first quarter, as compared with NIS -0.96 per share ($-0.23 per share) in the corresponding period last year.

Mr. Avi Brener, Chief Executive Officer of the Company, said that the global trends in the paper sector primarily in Europe are affecting the group companies that are active in Israel. The reduced gaps between the supply and the demand for various types of paper, especially in Europe, in light of the relatively high growth rates in developing markets, especially Asia, are increasing the demand for paper and are leading to a continued increase in pulp prices in Europe as well as other input prices, such as chemicals, while also leading to higher prices for the different types of paper. These trends enable the Group companies to continue raising prices in most paper and paper products areas, thereby compensating for the high input prices, while improving profitability .

In the first quarter, KCTR continued to implement its strategic plan formulated together with its international partner, Kimberly Clark. The plan is intended to introduce Kimberly Clark s global brands to Turkey, on the basis of local manufacturing. If fully implemented, KCTR will grow to become a dominant and profitable company by 2015, with annual sales in the area of $300 million.

The financial expenses during the first quarter amounted to NIS 6.8 million, as compared with NIS 6.6 million in the corresponding period last year.

The Company s share in the earnings (losses) of associated companies totaled NIS 14.6 million during the first quarter, as compared with a loss of NIS (10.5) million in the corresponding period last year.

The following principal changes were recorded in the Company s share in the earnings of associated companies, in relation to the corresponding period last year:

The Company s share in the net profit of Mondi Hadera (49.9%) increased by approximately NIS 4.3 million. Most of the change in profit originated primarily from Mondi s improved profitability, primarily as a result of the higher selling prices that led to an improved gross margin. This improvement was the result of the said recovery in the European paper industry. The net profit also increased as a result of the decrease in financial expenses, primarily on account of the impact of the revaluation of the NIS against the dollar.



The company s share in the net profit of H-K (49.9%) increased by approximately NIS 2.1 million. The improved operating profit originated from a quantitative increase in sales, improved selling prices net of the impact of higher raw material prices and the continuing trend of raising the proportion of some of the premium products out of the products basket.

The Company s share in the losses of KCTR (formerly: Ovisan ) (49.9%) decreased by NIS 18.4 million. The significant decrease in the loss is attributed to the growth in the volumes of operation that led to a significant reduction in the operating loss, from NIS 27 million last year to approximately NIS 11 million this year. In the corresponding period last year, a non-recurring loss of NIS 6 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 12 million was reduced, of which our share is NIS 6.0 million. Moreover, due to the increase in the shareholders equity of KCTR through a financial influx from Hogla, the bank loans in Turkey were repaid, while significantly reducing the financial expenses, thereby leading to an additional reduction in the net loss.

The Company s share in the net profit of Carmel (36.21%) increased by approximately NIS 0.6 million. The factors that influenced the growth in the Company s share in the net profit of Carmel originated inter alia from the improved operating profitability as a result of the improved gross margin as a result of the raising of prices beyond the rise in raw material prices.

As part of the Options Plan that was approved by the Company s Board of Directors on January 14, 2008, for the allocation of 285,750 option warrants, a sum of 250,500 option warrants was allocated in the first quarter of 2008 to senior employees at the Company and at the subsidiaries, to the Company s CEO and to senior employees at associated companies, and the rest 35,250 of the said option warrants were allocated to a trustee as a pool for future granting to senior officers and employees at associated companies, subordinate to the Board of Directors approval.

In other Company news, the Board of Directors decided that the Annual General Meeting of Shareholders will be held at the registered office of the Company on June 24, 2008. If the meeting is postponed, it will be held on July 01, 2008.

This report contains various forward-looking statements based upon the Board of Directors 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 as well as certain other risks detailed from time to time in the Company s filings with the Securities and Exchange Commission. 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.

**AMERICAN ISRAELI PAPER MILLS LTD.**
**SUMMARY OF RESULTS**
**(UNAUDITED)**
**except per share amounts**

**Three months ended March 31,**

NIS IN THOUSANDS

| | 2008 | 2007 |
|---|---|---|
| Net sales | 142,519 | 136,638 |
| Net earnings | 21,270 | (3,877) |
| Basic Earnings (losses) per share | 4.20 | (0.96) |
| Fully diluted earnings (losses) per share | 4.20 | (0.96) |

The representative exchange rate at March 31, 2008 was NIS 3.553=$1.00

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**Exhibit 2**

## American Israeli Paper Mills Ltd

**Update of Chapter A (Description of the Corporate General Business) to the periodical report dated 31 December, 2007**

Details according to regulation 39A to the Securities Act regulations (immediate and periodical reports), 1970

**1. Update of paragraph 5, Chapter A Equity investments in the Company**

On March 26, 2008, the Company submitted the first draft of a shelf registration prospectus to the Securities Authority, on the basis of the Company s financial statements as at December 31, 2007. On April 29, 2008, the Company submitted a second draft of the shelf registration prospectus.

**2. Update of paragraph 9.1.4, Chapter C Developments in the paper and recycling activity**

In March 2008, as part of the construction of the new packaging paper manufacturing network, the Company completed the signing of central agreements for the purchasing of the main equipment for the said manufacturing network, from Italian company Voith, while complementary parts are acquired from Finnish company Metso for a total sum of approximately 48.4 million euro.

**3. Update of paragraph 22.1.1, Chapter D Investments in Associated Companies**

Mondi Hadera is held by the Company (49.9%) and by Mondi Business Paper ( MBP ). MBP was granted an option, unlimited by time and realizable at any time, pursuant to which MBP will be allowed to sell its holdings in Mondi to the Company at a price 20% lower than Mondi s value (as defined in the agreement), with this value being no lower than the sum set forth in the agreement. According to verbal understandings that were reached in proximity to the signing of the agreement, between elements at the company and elements at MBP, the latter can exercise the option only in the most exceptional cases, such as those that paralyze production in Israel for long periods of time. Due to the extended period of time that has passed since these understandings were reached and in view of changes in the management of MBP, that occurred in March this year, the Company has decided to adopt a conservative approach in this respect and to reflect the economic value of the option as part of the Note covering the transition to IFRS. As to the accounting implications, see section 2, Appendix 2 below.

**4. Financial information regarding the Corporate Activities**

**Update of the general development of the Corporate Business Activities according to the detailed paragraphs.**

As a result of the transition to reporting according to IFRS, the Company presented its financial statements for the reported period, as well as the comparison figures for the corresponding quarter last year and for the year ended December 31, 2007 according to IFRS. Accordingly, the data appearing in the Management Discussion and the comparison figures are presented according to IFRS.



True to March 31, 2008, there was no material impact on the financial situation, the results of operation, liquidity and sources of finance of the company as a result of the transition to IFRS, other than as mentioned at the table below. As to the accounting implications and the adjustments as a result of the transition to IFRS, see Note 10 to the Company s financial statements as at March 31, 2008.

| **Page No.** | **Clause No. (Periodical Report)** | **Contents of the Description of the Corporate General Business in the Periodical Report** | **Change due to the transition to IFRS** |
|---|---|---|---|
| 17 | 7.1 | Financial information for the Corporate activities of operation | Appendix 1 |
| 99 | 22.1.1.2 C' | Put option from associated company "Mondi" | Appendix 2 |
| | Appendix C' | Changes in investment in subsidiary and affiliated companies in the reported period | Appendix 3 |
| | Appendix D' | Revenues of subsidiary and affiliated companies | Appendix 4 |

**5. A Compensation program for employees in the Group 2008**

**Update of paragraph 12.4.5.1 Chapter D, Transactions with senior officers**

Subsequent to the balance sheet date, on January 14, 2008, following the approval of the audit committee, the board of directors of the company approved a bonus plan for senior employees in the company and/or in subsidiaries and/or in associated companies of the company (hereinafter in this clause: **the plan** ), under which up to 285,750 option warrants (hereinafter in this section: **Option Warrants** ), each exercisable into one ordinary share of the company, will be allotted to senior employees and officers in the group, including the CEO of the company which, on the date of approval of the allotment, accounted for 5.65% if the issued share capital of the company. The offerees in the said plan are not interested parties in the company, except for the CEO who is an interested party by virtue of his position. Pursuant to the conditions of the said option warrants, the offerees who will exercise the option warrants will not be allocated all of the shares derived therefrom, but only a quantity of shares that reflects the sum of the financial benefit that is inherent to the option warrants at the exercise date only.

In the context of the program, an allotment of 287,750 options was approved, of which 40,250 options were to the CEO of the company, 135,500 to management of the subsidiaries and 74,750 to management of the affiliates. The date of grant of the options was set for the months of January- March 2008, subject to restrictions of Section 102 (capital route) of the Income Tax Ordinance. As of the date of approval of the financial statements, 250,500 options had been allotted. On May 11, 2008, the board of directors of the company approved the allotment to a trustee of the balance of the options that had not been allotted through that date, in the amount of 32,250 options as a pool for the future grant to officers and employees of investees, subject to the approval of the board of directors.

The Option Plan influence on the consolidated financial statements is evaluated in approximately NIS 13.5 million.

**6. Taxation**

**Update of paragraph 15.2, Chapter D The General Development of the Corporate Business Activities**

On February 26, 2008, the Knesset ratified the third reading of the Income Tax Law ( Inflation Adjustments ) (Amendment 20) (Limitation of Term of Validity) 2008 (hereinafter: The Amendment ), pursuant to which the application of the inflationary adjustment law will terminate in tax year 2007 and as of tax year 2008, the law will no longer apply, other than transition regulations whose intention it is to prevent distortions in tax calculations.

According to the amendment, in tax year 2008 and thereafter, the adjustment of revenues for tax purposes will no longer be considered a real-term basis for measurement. Moreover, the linkage to the CPI of the depreciated sums of fixed assets and carryover losses for tax purposes will be discontinued, in a manner whereby these sums will be adjusted until the CPI at the end of 2007 and their linkage to the CPI will end as of that date.

**Appendix 1**

**Update Financial information regarding the Corporate Activities**

Below is data regarding financial information about the Company s sectors of operation in 2007:

| | Year ended December 31, 2007 | | | |
|---|---|---|---|---|
| NIS thousands | Paper & recycling sector | Office Supplies Marketing sector | Adjustments to consolidated** | Consolidated |
| **1. Revenues*** | | | | |
| **a. External sector revenues** | 464,653 | 118,997 | -- | 583,650 |
| **b. Revenues from other operating sectors** | -- | -- | -- | -- |
| **c. Total** | 464,653 | 118,997 | -- | 583,650 |
| **2. Costs*** | | | | |
| **a. Costs which constitute revenues of another sector of the corporation** | -- | -- | -- | -- |
| **b. Other Costs** | 395,059 | 118,533 | -- | 513,592 |
| **c. Total** | 395,059 | 118,533 | -- | 513,592 |
| **3. Operating Income** | 69,594 | 464 | -- | 70,058 |
| **4. Total assets as of December 31, 2007** | 624,782 | 64,688 | 630,763 | 1,320,233 |

* Reflects sales and costs associated with external entities.

** Adjustments are primarily for general assets not assigned to a specific operating sector (such as investment in associated companies, cash etc.)

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See also Note 8 to the financial statements, regarding information on activities of operation

It is stated that there is no change as to 2006 and 2005.

**Appendix 2**
**Mondi Paper Hadera**

Update to clause 22.1.1.2. (c)

MBP was granted an option, not limited in time and in realization, to sell its holdings in Mondi Hadera to the company, at a price 20% lower than its value (as defined in the agreement) that shall not be less then an amount determined in the agreement. According to oral understandings between persons in the company and persons in MBP, which were formulated in proximity to signing the agreement, MBP will exercise the option only in extremely extraordinary circumstances, such as those which obstruct manufacturing activities in Israel over a long period. In view of the extended period which has passed since the date of such understandings and due to changes in the management of MBP, occurring recently, the company has chosen to take a conservative approach, and, accordingly, to reflect the economic value of the option in the context of the transition to reporting according to international standards. Under accounting principles generally accepted in Israel, it was not required to give a value to the PUT option. According to the international standards, the value of the option was computed and recognized as a liability, measured according to fair value, with changes in fair value being recorded to operations in accordance with IAS 39.

As of January 1, 2007, a liability with respect to the option for sale of the shares of the investee in the amount of approximately NIS 1,612 thousands was presented.

As of March 31, 2007, a liability with respect to the option for sale of the shares of the subsidiary in the amount of approximately NIS 1,465 thousands was presented.

As of December 31, 2007, a liability with respect to the option for sale of the shares of the subsidiary in the amount of approximately NIS 3,901 thousands was presented.

As a result of the reevaluation of the option, other expenses declined by the amount of approximately NIS 147 thousands for the period of three months ended March 31, 2007, and rose in the amount of approximately NIS 2,289 thousands for the year ended December 31, 2007.

**Appendix 3**

**Update regulation 12 Amendments to investments in Subsidiaries and associated companies during the period ofthe report**

**Change of holdings in the reported period**

In the course of the second quarter, of 2007 Carmel, an associated company, made a repurchase of its own shares, held by some of its minority shareholders.As a result of this repurchase, the Company s holdings in Carmel rose from 26.25% to reach 36.21%.This increase in the holding rate led to a negative cost surplus of NIS 4,923 thousands for the Company. According to Standard 20 (amended), this was allocated to non-monetary items and will be realized in accordance with the realization rate of these items.

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During 2007, the Company included a sum of NIS 2,439 thousands in earnings from associated companies, as a result of the realization of these items.According to the directives of IAS 28 regarding the equity method of accounting, the balance of the negative cost surplus in the amount of NIS 4,923 thousands will be allocated to the Company s share in earnings of associated companies during 2007, thereby increasing the Company s earnings for the year ended on December 31, 2007 by a sum of NIS 2,484 thousands.The Investments in Associated Companies item in the balance sheet will also grow by the said sum.

**Appendix 4**
**Update regulation 13 income of subsidiaries and associated companies (For 2007)**

**In NIS thousands**

| Company Name | Profit (loss) before taxes | Profit (loss) after taxes | Dividend received | Management fees | Interest received (paid) (NIS `000, nominal) |
|---|---|---|---|---|---|

| | | | |
|---|---|---|---|
| **Consolidated Subsidiaries** | | | |
| Amnir Recycling Industries Ltd. | 26,410 | 20,318 | (9,152) |
| Graffiti Office Supplies & Paper Marketing Ltd. | (877) | (2,388) | 1,736 |
| AIPM Paper Industry (1995) Ltd. | 55,636 | 41,369 | (4,617) |
| **Associated Companies** | | | |
| Hogla-Kimberly Ltd. (1) | | (30,632) | (1,560) |
| Carmel Containers Systems Ltd. (2) | | 7,340 | |
| Mondi Hadera Paper Ltd. (3) | | 18,290 | 2,944 |

(1) Of which our share = 49.9%

(2) Of which our share = 36.21%, in addition to 37.93% in an associated company of Carmel

(3) Of which our share = 49.9%



**Translation from Hebrew**

May 11, 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 first three months of 2008. 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. Data Updates to IFRS**

As a result of the transition to reporting according to IFRS, the Company presented its financial statements for the reported period, as well as the comparison figures for the corresponding quarter last year and for the year ended December 31, 2007 according to IFRS. Accordingly, the data appearing in the Management Discussion and the comparison figures are presented according to IFRS. Regarding material influences of the transition to IFRS, see Section H below.



**B. The Operations in Israel**

1. **The Business Environment**

The Israeli economy continued to grow during the reported period (January-March 2008), although the capital market suffered from volatility as a result of the crisis in global financial markets, leading to great fluctuations in the stock market and to uncertainty in relation to the continued growth in global markets in general and in the Israeli market in particular.

The global trends in the paper sector primarily in Europe are affecting the group companies that are active in Israel.

The reduced gaps between the supply and the demand for various types of paper, especially in Europe, in light of the relatively high growth rates that characterized the economies in developing markets, especially Asia, are increasing the demand for paper, are leading to a continuing rise in pulp prices in Europe, as well as other input prices, such as chemicals on the one hand, while also leading to higher prices for the different types of paper, on the other hand.

These trends enable the Group companies to continue raising prices 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 and changes in the supply and demand of global paper products.

The sharp rise in global fuel prices is not materially affecting the Company due to its transition to the use of natural gas instead of fuel oil in its manufacturing processes, starting with the fourth quarter last year. This fact serves to improve the Group s competitive capabilities from Europe and China.

Electricity prices rose by approximately 18% in relation to the electricity prices in the corresponding quarter last year.

The inflation rate during the reported period amounted to 0.1%, as compared with a negative inflation rate of -0.2% in the corresponding period last year.

The erosion in the US dollar exchange rate against the NIS grew more severe in the first quarter of the year, along with considerable volatility. The US dollar exchange rate fell by 7.6% in the first quarter of the year, in addition to a 9% decrease in 2007.

The recent change in the currency exchange rate and the weakening US dollar against the Israeli shekel is eroding the selling prices and profitability of some of the Group companies, while improving profitability at other companies. The overall impact on the financial results is immaterial however.



2. **Current Operations in Israel**

The sales turnover of most subsidiaries and associated companies (hereinafter: The Group ) continued to grow during the reported period, while raising prices across most areas of operation, in parallel to the successful implementation of efficiency measures.

The Group consequently recorded a significant improvement in the volume of sales and in the operating profit in relation to the corresponding period last year.

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

In the course of the reported period, the Group companies continued to implement and assimilate processes that are intended to empower Group operations and support continued growth and increased profitability in organizational development, Group purchasing, B2B marketing, development and innovation.

**4. The Strategic Plans**

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

1. Expanding the recycled packaging paper manufacturing network

The investment budget in the project for the construction of the new manufacturing network, totaling NIS 690 million ($170 million) was approved on October 15, 2007 by the Company s Board of Directors. The Company has selected the most highly advanced technologies in this area, from the leading suppliers in the sector, in order to amplify its competitive advantage and potential for profitability in the long term.

The implementation of the project is advancing as planned and the Company has completed the signing of central agreements for the purchasing of the main manufacturing equipment.

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

As part of the preparations for financing the project, additional capital of approximately NIS 211 million was raised in November 2007, by way of a private placement of shares to the controlling shareholders and to institutional investors. The company is currently examining additional ways to complete the financing for the project.

2. New Power Plant

The project for the new power plant, 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 private customers, is in the final stages of configuration and feasibility studies on the basis of the license for a 230 mega-watts (MW) power station, to be constructed on a plot of land that was acquired for this purpose, in immediate proximity to the Company s site in Hadera.

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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 last year.

**C. The Strategic Investment in Turkey**

In the reported period, 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 Worldwide. The plan is intended to introduce Kimberly Clark s global brands to Turkey, on the basis of local manufacturing. If fully implemented, KCTR will grow to become a dominant and profitable company by 2015, with annual sales in the area of $300 million. In the first three months of the year, KCTR s sales turnover amounted to approximately $30 million, as compared with approximately $63.0 million in all of 2007.

In the first quarter of the year, KCTR continued to develop products and launched new product lines under the Huggies® and Pedo® brands. These products are produced at the Company s advanced manufacturing site, that currently serves as a regional Kimberly Clark manufacturing center, whose products are exported to various countries in Europe and to South Africa. 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.

In the course of the current quarter, 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 high level of competition in the markets where the company is working to penetrate and empower its brands calls for 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. KCTR recorded an operating loss of approximately NIS 11 million (approximately $3 million) in the reported period, as compared with approximately NIS 74 million (approximately $18 million) in all of 2007.

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The Company is continuing the implementation of its strategic business plan. The strengthening brands, along with the gradual growth of the Unilever sales and distribution platform and the reduction of costs at the diaper plant, enabled the company to maintain the trend of improving gross profitability in the current quarter, while significantly reducing the operating loss to a sum of approximately NIS 11 million, down from NIS 27 million in the corresponding quarter last year, and as compared with NIS 13 million in the fourth quarter last year.

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 decreased from NIS 58.0 million on March 31, 2007 to NIS 7.3 million on March 31, 2008. The decrease in the cash balance, along with additional balances that originated from the private placement totaling NIS 113.3 million were deposited in euro-linked deposits and are intended for payments for the construction of the new packaging paper manufacturing network and are presented under the item Designated Cash.

The accounts receivable item for packaging paper and recycling activity decreased from NIS 138.7 million on March 31, 2007 to NIS 119.3 million on March 31, 2008. This decrease is primarily attributed to the impact of the lower prices as a result of the weaker dollar. Accounts receivable for the office supplies marketing activity rose from NIS 38.7 million as at March 31, 2007 to NIS 42.6 million as at March 31, 2008.

The other accounts receivable item for packaging paper and recycling activity rose from NIS 84.5 million on March 31, 2007 to NIS 88.4 million on March 31, 2008. Other receivables for the office supplies marketing activity decreased from NIS 11.9 million on March 31, 2007 to NIS 10.4 million on March 31, 2008.

The inventories item for packaging paper and recycling activity increased from NIS 51.1 million on March 31, 2007 to NIS 52.1 million on March 31, 2008. This increase originates primarily from an increase in the paper waste inventories, due to Amnir s preparations in anticipation of the new packaging paper machine (see also a.2.b.4.1., above). In the office supplies marketing activity, the Inventories item increased from NIS 14.7 million on March 31, 2007, to NIS 16.7 million on March 31, 2008, primarily as a result of the increase in the proportion of products imported from East-Asia so as to improve profitability.

Investments in associated companies increased from NIS 335.2 million on March 31, 2007 to NIS 341.3 million on March 31, 2008. The principal components responsible for this growth were the Company s share in the net earnings of associated companies during the reported period, net of the impact of the Company s share in a capital reserve from translation differences at an associated company.



Short-term credit fell from NIS 202.2 million on March 31, 2007 to NIS 83.0 million on March 31, 2008. The decrease in this item is primarily attributed to repayment of credit from proceeds obtained from the private placement to shareholders in November last year, coupled with the positive cash flows from operating activities, net of investments in fixed assets.

The other accounts payables item for packaging paper and recycling activity grew from NIS 67.8 million on March 31, 2007 to NIS 87.6 million on March 31, 2008. The increase is primarily attributed to changes in the timing of salary payments that were paid early last year as a result of the Passover holiday that occurred in early April. Other accounts payable for the office supplies marketing activity decreased from NIS 4.4 million on March 31, 2007 to NIS 3.6 million on March 31, 2008.

The Company s shareholders equity increased from NIS 418.4 million on March 31, 2007 to NIS 672.0 million on March 31, 2008. The change is primarily attributed to the net proceeds from the issue of shares by private placement to controlling shareholders and institutional investors in November 2007 in the sum of NIS 211.6 million, coupled with the net profit between the periods of NIS 56.7 million, net of the increase of the debitory capital reserve from translation differences at an associated company in the sum of approximately NIS 16 million.

**1. Investments in Fixed Assets**

Investments in fixed assets amounted to NIS 57.9 million in the reported period, as compared with NIS 11.2 million in the corresponding period last year. The investments this year consisted primarily of payments on account of purchasing from equipment vendors for the new packaging paper manufacturing network (Machine 8). The Company also made current investments in environmental issues (effluent treatment) and current investments in equipment renewal, means of transportation and in the maintenance of buildings at the Hadera site.

**2. Financial Liabilities**

The long-term liabilities (including current maturities) amounted to NIS 295.1 million as at March 31, 2008, as compared with NIS 294.4 million as at March 31, 2007. Long-term liabilities decreased as a result of the repayment of debentures on the one hand, along with the assuming of long-term loans intended for the financing of payments for Machine 8 on the other hand. The long-term liabilities totaled NIS 261.7 million on December 31, 2007.

The long-term liabilities include primarily two series of debentures and long-term bank loans, as follows:

Series 1: NIS 14.2 million, for repayment until 2009 by private placement to institutional investors.

Series 2: NIS 182.8 million, for repayment until 2013 by private placement to institutional investors.

Long-term loans from banks: NIS 67.1 million.

The outstanding short-term credit from banks totaled NIS 83.0 million as at March 31, 2008, as compared with NIS 202.2 million as at March 31, 2007 and NIS 143.0 million as at December 31, 2007.



**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 PaperLtd. [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 (4) below.**

A. Aggregate Data from Israeli Operations

The aggregate sales in Israel amounted to NIS 744.9 million during the reported period, as compared with NIS 708.2 million in the corresponding period last year (growth of 5.2%) and NIS 745.6 million in the fourth quarter of 2007.

The aggregate operating profit in Israel amounted to NIS 70.9 million during the reported period, as compared with NIS 55.3 million in the corresponding period last year (28.2% growth) and NIS 70.8 million in the fourth quarter of 2007.

The significant improvement in the operating profit 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, coupled with the gradual implementation of organization-wide processes at the various companies. This improvement was partially offset by the continuing rise in raw material prices.

B. Aggregate Data (including Turkey)

The aggregate sales amounted to NIS 847.6 million during the reported period, as compared with NIS 752.7 million in the corresponding period last year (growth of 12.6%) and NIS 826.1 million in the fourth quarter of 2007.

The aggregate operating profit amounted to NIS 59.8 million during the reported period, as compared with NIS 28.3 million in the corresponding period last year (111.3% growth) and NIS 58.3 million in the fourth quarter of 2007. The significant improvement in the aggregate operating profit is attributed to the performance improvement in Israel on the one hand, coupled with the continuing trend of lowering the operating loss in Turkey on the other hand.

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

**2. Net Profit and Earnings Per Share**

The net profit amounted to NIS 21.3 million during the reported period, as compared with a loss of NIS (-3.9) million in the corresponding period last year.



The net profit in the reported period was affected by the improvement in the Group s profitability in Israel, coupled with the significant reduction of the Company s share in the losses of the operations in Turkey (KCTR), amounting to NIS 18.4 million (from a share in the loss of NIS 22.8 million last year to NIS 4.4 million this year), as compared with the corresponding period last year (see Strategic Investment in Turkey, above, and Section C7, below).

Basic earnings per share amounted to NIS 4.20 per share ($1.18 per share) in the reported period, as compared with NIS -0.96 per share ($-0.23 per share) in the corresponding period last year.

The diluted earnings per share amounted to NIS 4.20 per share ($1.18 per share) in the reported period, as compared with NIS -0.96 per share ($-0.23 per share) in the corresponding period last year.

**4. Analysis of Operations and Profitability**

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

1. **Sales**

The consolidated sales during the reported period amounted to NIS 142.5 million, as compared with NIS 136.6 million in the corresponding period last year (growth of approximately 4.3%) and as compared with NIS 154.8 million in the fourth quarter of 2007.

Sales of the packaging paper and recycling activity amounted to NIS 109.3 million in the reported period, as compared with NIS 107.2 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.

The sales of the office supplies marketing activity during the reported period amounted to NIS 33.2 million, as compared with NIS 29.4 million last year, representing growth of 12.9% that originated from the continuing trend of growth in the volumes of operation in this activity.

2. **Cost of Sales**

The cost of sales amounted to approximately NIS 106 million or 74.4% of sales during the reported period, as compared with NIS 104.5 million or 76.5% of sales in the corresponding period last year.

The gross profit totaled NIS 36.5 million during the reported period (approximately 25.6% of sales), as compared with NIS 32.2 million (23.5% of sales) in the corresponding period last year, representing growth of 13.6% in relation to the corresponding period last year.

The considerable increase in profitability and in gross profit is primarily attributed to the improvement in selling prices and continuing efficiency, the transition to manufacturing using natural gas and was achieved despite the slight quantitative decrease in the local market as a result of the freezing spell and the approximately 18% rise in electricity prices, in relation to the corresponding period last year.



- **Labor Wages**

The labor wages within the cost of sales amounted to NIS 29.5 million during the reported period (20.7% of sales), as compared with approximately NIS 26.9 million last year (19.9% of sales).

The labor wages within the general and administrative expenses amounted to NIS 17.5 million during the reported period (approximately 12.3% of sales), as compared with NIS 16.4 million last year (12% of sales).

The change in payroll costs in relation to the corresponding period last year reflects a certain increase in personnel, especially at Amnir, as part of the preparations and implementation for increasing paper waste collection in anticipation of the future operation of the new packaging paper manufacturing network, along with a nominal increase of 3% in the wages.

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

The selling, general and administrative expenses (including wages) and others amounted to NIS 19.1 million in the reported period or 13.4% of sales as compared with NIS 15.7 million or 11.5% of sales in the corresponding period last year.

The increase in selling, general and administrative expenses and others originated primarily from growth in labor expenses, , as stated above in the Labor Wages section and as a result of the recording of wage expenses on account of options to senior executives, as approved in January this year, in the sum of NIS 0.7 million, coupled with growth in other expenses on account of the valuation of a PUT option by Mondi in the sum of NIS 1.2 million, according to IFRS.

**4. Operating Profit**

The operating profit totaled NIS 17.5 million during the reported period (12.3% of sales), as compared with NIS 16.5 million (12.1% of sales) in the corresponding period last year, representing growth of 5.7%.

The operating profit from the paper and recycling activity totaled approximately NIS 17 million during the reported period, identical to the corresponding period last year.

The operating profit of the office supplies activity amounted to NIS 0.6 million, as compared with NIS -0.5 million in the corresponding period last year.

**5. Financial Expenses**

The financial expenses during the reported period amounted to NIS 6.8 million, as compared with NIS 6.6 million in the corresponding period last year.

The total average of the Company s net, interest-bearing liabilities decreased by an average of approximately NIS 110 million between the periods 2007 and 2008. The decrease is primarily attributed to the proceeds from the private placement last year and the positive cash flows from operating activities between the periods, net of investments in fixed assets.



The interest forshort-term credit decreased by approximately NIS 0.8 million on account of the decrease in the short-term credit balance and on account of the lower interest rate between the two periods. Expenses on account of the interest on CPI-linked long-term liabilities (debentures) increased slightly, despite the decrease in the debenture balances on account of repayment to debenture holders, due to the higher price of hedging transactions on the CPI-linked debentures against the rise in the CPI, that rose by 2.6% per annum in 2008, as compared with 1.3% in 2007.

Moreover, financial expences in the amount of NIS 1 million were recorded, mostly attricuted to the revaluation of the dollar exchange rate by 7.6% this year, as compared with a 1.7% revaluation last year, on account of balance dollar-denominated assets.

**6. Taxes on Income**

Taxes on income amounted to NIS 4.0 million in the reported period, as compared with NIS 3.3 million in the corresponding period last year. The NIS 0.7 million increase originates from the growth in pre-tax profit this year in relation to last year.

**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 and Carmel Container Systems Ltd. ("Carmel").

The Company s share in the earnings (losses) of associated companies totaled NIS 14.6 million during the reported period, as compared with a loss of NIS (10.5) million in the corresponding period last year.

The following principal changes were recorded in the Company s share in the earnings of associated companies, in relation to the corresponding period last year:

> The Company s share in the net profit of Mondi Hadera (49.9%) increased by approximately NIS 4.3 million. Most of the change in profit originated primarily from Mondi s highly improved profitability, which recorded an increase from operating profit of NIS 1.7 million last year to an operating profit of NIS 9.6 million this year primarily as a result of the higher selling prices that led to an improved gross margin. This improvement was the result of the said recovery in the European paper industry. The net profit also increased as a result of the decrease in financial

expenses, primarily on account of the impact of the revaluation of the NIS against the dollar.



The company s share in the net profit of Hogla-Kimberly Israel (49.9%) increased by approximately NIS 2.1 million. Hogla s operating profit grew from NIS 36.0 million to NIS 41.1 million this year. The improved operating profit originated from a quantitative increase in sales, improved selling prices net of the impact of higher raw material prices and the continuing trend of raising the proportion of some of the premium products out of the products basket.

The Company s share in the losses of KCTR (formerly: Ovisan ) (49.9%) decreased by NIS 18.4 million. The significant decrease in the loss is attributed to the growth in the volumes of operation (see above Strategic Investment in Turkey ) that led to a significant reduction in the operating loss, from NIS 27 million last year to approximately NIS 11 million this year. In the corresponding period last year, a non-recurring loss of 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 12 million (approximately $3 million) was reduced, of which our share is NIS 6.0 million. Moreover, due to the increase in the shareholders equity of KCTR through a financial influx from Hogla, the bank loans in Turkey were repaid, while significantly reducing the financial expenses, thereby leading to an additional reduction in the net loss.

The Company s share in the net profit of Carmel (36.21%) increased by approximately NIS 0.6 million. The factors that influenced the growth in the Company s share in the net profit of Carmel originated inter alia from the improved operating profitability of Carmel as a result of the improved gross margin as a result of the raising of prices beyond the rise in raw material prices.

The Company s share in the earnings of associated companies from current operations in Israel (excluding Turkey) grew by approximately NIS 6.7 million this year and amounted to approximately NIS 19.1 million.

**D. Liquidity**

**Cash Flows**

The cash flows from operating activities totaled approximately NIS 38.3 million during the reported period, as compared with NIS (-0.2) million in the corresponding period last year. The significant change in the cash flows from operating activities during the reported period, originated primarily from the improvement in net profit, coupled with the reduction in working capital in the reported period that amounted to NIS 17.8 million, as compared with growth of approximately NIS 15 million last year. The decrease in working capital during the reported period originated primarily from the reduction in the accounts receivable balance as a result of the lower dollar exchange rate that is affecting the selling prices in NIS, especially as regards packaging paper and recycling.



**E. Sources of Finance**

See Section B2 Financial Liabilities.

**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, the Company s Comptroller.

**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 foreign currency 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 fluctuations in the exchange rate of the NIS vis-à-vis the US dollar. This exposure includes economic exposure (on account of surplus proceeds on payments in foreign currency or linked thereto) and accounting exposure (on account of a surplus of dollar-linked assets over foreign-currency-denominated liabilities).

The Company periodically reexamines the need for hedging on account of this exposure. True to March 31, 2008, the Company entered into sale and purchase transactions in the sum of 20 million euro, in order to hedge the cash flows for the acquisition of fixed assets from equipment vendors for Machine 8.

Consumer Price Index Risks

The Company is exposed to changes in the Consumer Price Index, pertaining to the debentures issued by the Company, in the total sum of NIS 197 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 190 million, pursuant to previous transactions that were made in December 2006 and January 2007 and terminated at the end of 2007.

Interest Rate Risks

The Company is exposed to changes in interest rates, primarily on account of debentures, in the sum of NIS 197 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 of linked instruments to changes in the exchange rate**

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

**In NIS thousands**

**Sensitivity of linked instruments to changes in the exchange rate**

| | | | | | |
|---|---|---|---|---|---|
| Transaction with supplier- Alstom | (168) | (84) | 1,685 | 84 | 168 |
| Designated deposits | 11,331 | 5,666 | 113,314 | (5,666) | (11,331) |

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**Linkage Base Report**

Following below are the balance sheet items, according to linkage bases, as at March 31, 2008:

| NIS millions | Unlinked | CPI-linked | In foreign currency, or linked thereto (primarily US$) | Non-Monetary Items | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Cash and cash equivalents** | 3.0 | | 4.4 | | 7.4 |
| **Short-term deposits and investments** | | | 113.3 | | 113.3 |
| **Other Accounts Receivable** | 247.9 | 0.4 | 10.8 | 1.6 | 260.7 |
| **Inventories** | | | | 68.8 | 68.8 |
| **Current tax assets** | 0.4 | | | | 0.4 |
| **Investments in Associated Companies** | 52.1 | | 2.7 | 286.5 | 341.3 |
| **Deferred taxes on income** | | | | 20.8 | 20.8 |
| **Fixed assets, net** | | | | 461.7 | 461.7 |
| **Other assets** | | | | 31.6 | 31.6 |
| **Assets on account of employee benefits** | 1.1 | | | | 1.1 |
| **Total Assets** | 304.5 | 0.4 | 131.2 | 871.0 | 1,307.1 |
| **Liabilities** | | | | | |
| **Short-term credit from banks** | 83.0 | | | | 83.0 |
| **Other Accounts Payable** | 188.9 | | 6.4 | | 195.3 |
| **Deferred taxes on income** | | | | 42.1 | 42.1 |
| **Long-term loans, including current maturities** | 67.2 | | | | 67.2 |
| **Notes (bonds) - including current maturities** | | 196.3 | | | 196.3 |
| **Liabilities on account of employee benefits** | 19.6 | | | | 19.6 |
| **Other liabilities - including current maturities** | 31.6 | | | | 31.6 |
| **Equity, funds and reserves** | | | | 672.0 | 672.0 |
| **Total liabilities and equity** | 390.3 | 196.3 | 6.4 | 714.1 | 1,307.1 |
| **Surplus financial assets (liabilities) as at March 31, 2008** | **(85.8)** | **(195.9)** | **124.8** | **156.9** | |
| **Surplus financial assets (liabilities) as at December 31, 2007** | **(80.9)** | **(195.1)** | **170.0** | **106.0** | |

* As to hedging transactions associated with surplus CPI-linked liabilities, see Section F(2), above.

**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 inflation 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 forecasts that constitute forward-looking statements, as defined in the Securities Law, 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. **Material Influence of the Transition to IFRS**

True to March 31, 2008, there was no material impact on the financial situation, the results of operation, liquidity and sources of finance of the company as a result of the transition to IFRS, other than that stated in Section A (description of the Corporate business) to the financial statements of the Company dated December 31, 2007 and to the said below. As to the accounting implications and the adjustments as a result of the transition to IFRS, see Note 10 to the Company s financial statements as at March 31, 2008.

1. **Put Option for investee**

As part of an agreement dated November 21, 1999 with Mondi Business Paper (hereafter MBP, formerly Neusiedler AG), Mondi Hadera purchased the operations of the Group in the area of writing and typing paper and issued 50.1% of its shares to MBP.

As part of this agreement, MBP was granted an option to sell its holdings in Mondi Hadera to the company, at a price 20% lower than its value (as defined in the agreement) or $ 20 million less 20%, whichever is higher. According to oral understandings between persons in the company and persons in MBP, which were formulated in proximity to signing the agreement, MBP will exercise the option only in extremely extraordinary circumstances, such as those which obstruct manufacturing activities in Israel over a long period.

In view of the extended period which has passed since the date of such understandings and due to changes in the management of MBP, occurring recently, the company has chosen to take a conservative approach, and, accordingly, to reflect the economic value of the option in the context of the transition to reporting according to international standards. Under accounting principles generally accepted in Israel, it was not required to give a value to the PUT option. According to the international standards, the value of the option was computed and recognized as a liability, measured according to fair value, with changes in fair value being recorded to operations in accordance with IAS 39.



As of January 1, 2007, a liability with respect to the option for sale of the shares of the investee in the amount of approximately NIS 1,612 thousands was presented.

As of March 31, 2007, a liability with respect to the option for sale of the shares of the subsidiary in the amount of approximately NIS 1,465 thousands was presented.

As of December 31, 2007, a liability with respect to the option for sale of the shares of the subsidiary in the amount of approximately NIS 3,901 thousands was presented.

Other expenses declined by the amount of approximately NIS 147 thousands for the period of three months ended March 31, 2007, and rose in the amount of approximately NIS 2,289 thousands for the year ended December 31, 2007.

2. **Employee Benefits**

In accordance with generally accepted accounting principles in Israel, the Company s liability for severance pay is calculated based on the recent salary of the employee multiplied by the number of years of employment.

Pursuant to IAS 19, the provision for severance pay is calculated according to an actuarial basis taking into account the anticipated duration of employment, the value of time, the expected salary increases until retirement and the possible retirement under conditions not entitling severance pay.

In addition, under Israeli GAAP, deposits made with regular policies or directors insurance policies which are not in the employee s name, but in the name of the employer, were also deducted from the company s liability.

Most of the Group s employees are covered according to Section 14 of the Compensation Law. Employee deposits are not reflected in the Company s financial statements and accordingly, no provision is necessary in the books.

However, the Company is required to pay employees differences from entitlement to severance pay and unutilized vacation pay. These liabilities are computed in accordance with the actuary s assessment based on an estimate of their utilization and redemption.

In addition, net liabilities in respect of benefits to employees after retirement, which relate to defined benefit plans, are measured based on actuarial estimates and discounted amounts.

According to the international standards, a policy or executive insurance as above, which does not conform to the definition of plan assets as per IAS 19, will be presented separately in the balance sheet and not offset from the liabilities of the employer.

According to the policy adopted by the Company, actuarial profits are recorded to retained earnings but, due to lack of materiality, they have been recorded in full to operations.

As a result, as of January 1, 2007, an increase in the net liabilities for employees benefit plans in the amount of NIS 5,563 thousands was created, and in addition, an increase in the deferred tax asset was created in the amount of NIS 1,391 thousands.

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As of March 31, 2007, an increase in the net liabilities for employees benefit plans in the amount of NIS 5,896 thousands was created, and in addition, an increase in the deferred tax asset was created in the amount of NIS 1,474 thousands

As of December 31, 2007, an increase in the net liabilities for employees benefit plans in the amount of NIS 5,762 thousands was created, and in addition, an increase in the deferred tax asset was created in the amount of NIS 1,436 thousands.

Payroll expenses grew by the amount of approximately NIS 333 thousands for the period of three months ended on March 31, 2007 and increased by the amount of approximately 199 thousands for the year ended December 31, 2007, in addition, tax expenses decreased by the amount of approximately NIS 84 thousands for the period of three months ended on March 31, 2007 and decreased by the amount of approximately 46 thousands for the year ended December 31, 2007.

Moreover, assets with regard to employee benefits were classified from other current liabilities to non current assets. The amount of approximately NIS 1,132 thousands, NIS 1,113 thousands and NIS 1,179 thousands as of January 1, 2007, March 31, 2007 and December 31, 2007.

**I. 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: General Manager Avi Brenner; CFO Shaul Glicksberg. 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.

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The approval of the financial statements involves several meetings, as necessary: The first, held 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, is held 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<br>Chairman of the<br>Board of Directors | Avi Brenner<br>General Manager |

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**Exhibit 3**

**AMERICAN ISRAELI PAPER MILLS LIMITED**
**UNAUDITED CONDENSED INTERIM CONSOLIDATED**
**FINANCIAL STATEMENTS**
**AS OF MARCH 31, 2008**

**AMERICAN ISRAELI PAPER MILLS LIMITED**
**UNAUDITED CONDENSED INTERIM CONSOLIDATED**
**FINANCIAL STATEMENTS**
**AS OF MARCH 31, 2008**

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**AMERICAN ISRAELI PAPER MILLS LIMITED**
**CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS**
**(NIS in thousands)**

| | March 31, | | December 31, |
|---|---|---|---|
| | 2 0 0 8 | 2 0 0 7 | 2 0 0 7 |
| | (Unaudited) | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 7,330 | 58,022 | 167,745 |
| Designated deposits | 113,314 | - | - |
| Trade receivables | 161,880 | 177,391 | 178,553 |
| Other receivables | 98,754 | 96,421 | 94,415 |
| Current tax assets | 392 | - | - |
| Inventories | 68,847 | 65,766 | 69,607 |
| | 450,517 | 397,600 | 510,320 |
| **Non-Current Assets** | | | |
| Property plant and equipment, net | 461,653 | 368,827 | 410,840 |
| Investments in associated companies | 341,302 | 335,243 | 346,403 |
| Deferred tax assets | 20,833 | 19,613 | 20,622 |
| Deferred expenses | 30,232 | 29,836 | 29,291 |
| Other non-current assets | 1,409 | 2,096 | 1,578 |
| Employee benefit assets | 1,129 | 1,113 | 1,179 |
| | 856,558 | 756,728 | 809,913 |
| | 1,307,075 | 1,154,328 | 1,320,233 |
| **Current Liabilities** | | | |
| Credit from banks and others | 82,973 | 202,237 | 143,015 |
| Current maturities of long-term notes and long term loans | 49,964 | 41,454 | 42,775 |
| Trade payables | 99,117 | 95,604 | 108,409 |
| Other payables and accrued expenses | 91,174 | 72,185 | 73,230 |
| Other financial liabilities | 31,600 | - | - |
| Financial liabilities at fair value through profit and loss | 4,960 | 1,465 | 3,901 |
| Current tax liabilities | - | 8,176 | 908 |
| | 359,788 | 421,121 | 372,238 |
| **Non-Current Liabilities** | | | |
| Loans from banks and others | 54,755 | 32,181 | 28,127 |

| | March 31, | | December 31, |
|---|---|---|---|
| Notes | 158,797 | 189,212 | 158,134 |
| Other financial liabilities | - | 31,600 | 31,210 |
| Deferred tax liabilities | 42,086 | 41,475 | 40,515 |
| Employee benefit liabilities | 19,605 | 20,385 | 20,038 |
| | 275,243 | 314,853 | 278,024 |
| **Capital and reserves** | | | |
| Issued capital | 125,267 | 125,257 | 125,267 |
| Reserves | 289,070 | 92,072 | 308,267 |
| Retained earnings | 257,707 | 201,025 | 236,437 |
| | 672,044 | 418,354 | 669,971 |
| | 1,307,075 | 1,154,328 | 1,320,233 |

| **Z. Livnat** | **A. Brener** | **S. Gliksberg** |
|---|---|---|
| Vice-Chairman of the Board of Directors | Chief Executive Officer | Chief Financial and Business Development Officer |

Approval date of the interim financial statements: May 11, 2008.

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



**AMERICAN ISRAELI PAPER MILLS LIMITED**
**CONDENSED INTERIM CONSOLIDATED INCOME STATEMENTS**
**(NIS in thousands)**

| | Three months ended March 31, | | Year ended December 31, |
|---|---|---|---|
| | 2 0 0 8 | 2 0 0 7 | 2 0 0 7 |
| | (Unaudited) | | |
| Revenue | 142,519 | 136,638 | 583,650 |
| Cost of sales | 105,979 | 104,467 | 441,381 |
| **Gross profit** | **36,540** | **32,171** | **142,269** |
| Selling and marketing expenses | 7,888 | 7,696 | 31,367 |
| General and administrative expenses | 10,124 | 8,107 | 36,377 |

| | Three months ended March 31, | | Year ended December 31, |
|---|---|---|---|
| Other income (expenses), net | 1,067 | (147) | 4,467 |
| Total expenses | 19,079 | 15,656 | 72,211 |
| **Profit from ordinary operations** | **17,461** | **16,515** | **70,058** |
| Finance income | 1,894 | 1,275 | 10,648 |
| Finance expenses | 8,701 | 7,859 | 31,766 |
| Finance income (expenses), net | (6,807) | (6,584) | (21,118) |
| **Profit after financial income (expenses)** | **10,654** | **9,931** | **48,940** |
| Share in profit (losses) of associated companies - net | 14,633 | (10,495) | 856 |
| **Profit (loss) before taxes on income** | **25,287** | **(564)** | **49,796** |
| Taxes on income | 4,017 | 3,313 | 18,261 |
| **Profit (loss) for the period** | **21,270** | **(3,877)** | **31,535** |
| Earning for share: | | | |
| Primary | 4.20 | (0.96) | 7.63 |
| Fully diluted | 4.20 | (0.96) | 7.62 |
| Number of share used to compute the primary earnings per share | 5,060,774 | 4,034,732 | 4,132,728 |
| Number of share used to compute the fully diluted earnings per share | 5,063,560 | 4,034,732 | 4,139,533 |

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

**AMERICAN ISRAELI PAPER MILLS LIMITED**
**CONDENSED INTERIM CONSOLIDATED STATEMENT**
**OF RECOGNIZED INCOME AND EXPENSES**
**(NIS in thousands)**

| | Three months ended March 31, | | Year ended December 31, |
|---|---|---|---|
| | 2 0 0 8 | 2 0 0 7 | 2 0 0 7 |
| | (Unaudited) | | |
| Exchange differences arising on translation of foreign operations | (20,008) | (598) | 3,810 |
| Profit (loss) on cash flow hedges | 88 | (63) | (635) |
| Actuarial profit (loss) and defined benefit plans | - | - | - |
| Net income recognized directly in equity | (19,920) | (661) | 3,175 |
| Profit (loss) for the period | 21,270 | (3,877) | 31,535 |
| Total recognized income and expense for the period | 1,350 | (4,538) | 34,710 |



**AMERICAN ISRAELI PAPER MILLS LIMITED**
**CONDENSED INTERIM CONSOLIDATED CASH FLOWS STATEMENTS**
**(NIS in thousands)**

| | Three months ended March 31, | | Year ended December 31, |
|---|---|---|---|
| | 2 0 0 8 | 2 0 0 7 | 2 0 0 7 |
| | (Unaudited) | | |
| **Cash flows - operating activities** | | | |
| Operating profit (loss) for the period | 21,270 | (3,877) | 31,535 |
| Deferred taxes, net | 1,360 | (1,009) | (2,997) |
| Linkage differentials of long term liabilities | 1,014 | (719) | 7,624 |
| Capital loss on disposal of property, plant and equipment | (8) | (47) | 1,403 |
| Capital loss (gains) on sale of investment in associated company | - | 28 | 28 |
| Share in losses (profits) of associated companies, net | (14,633) | 10,495 | (856) |
| Depreciation and amortization | 11,084 | 8,613 | 36,138 |
| Share based payments expense | 723 | - | - |

| | Three months ended March 31, | | Year ended December 31, |
|---|---|---|---|
| | 20,810 | 13,484 | 72,875 |
| **Changes in assets and liabilities:** | | | |
| Decrease (Increase) in trade and other receivables | 12,334 | (11,031) | (10,184) |
| Decrease (Increase) in inventories | 760 | (3,657) | (7,498) |
| Increase (Decrease) in trade payables and other payables | 4,759 | (132) | 14,077 |
| Increase (decrease) in other long term liabilities | (383) | 1,168 | 268 |
| | 17,470 | (13,652) | (3,337) |
| **Net cash generated by (used in) operating activities** | 38,280 | (168) | 69,538 |

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



**AMERICAN ISRAELI PAPER MILLS LIMITED**
**CONDENSED INTERIM CONSOLIDATED CASH FLOWS STATEMENTS**
**(NIS in thousands)**

| | Three months ended March 31, | | Year ended December 31, |
|---|---|---|---|
| | 2 0 0 8 | 2 0 0 7 | 2 0 0 7 |
| | (Unaudited) | | |
| **Cash flows - investing activities** | | | |
| Acquisition of property plant and equipment | (57,985) | (11,171) | (85,959) |
| Proceeds from disposal of Property plant and equipment | 145 | 30,517 | 31,415 |
| Investment in designated deposits | (113,314) | - | - |
| Prepaid leasing expenses | (1,169) | - | - |
| Associated companies: | | | |
| Granting of loans | - | - | (318) |
| Collection of loans | - | - | 2,893 |
| Proceeds from sale of investment of associated companies | - | 27,277 | 27,277 |
| **Net cash used in investing activities** | (172,323) | 46,623 | (24,692) |
| **Cash flows - financing activities** | | | |
| Proceeds gain from private share allocating | - | - | 211,645 |
| Short-term bank credit | (60,042) | (766) | (59,988) |
| Borrowings received from banks | 35,000 | - | - |
| Repayment of borrowings from banks | (1,330) | (1,288) | (5,212) |
| Redemption of notes | - | - | (37,167) |

| | Three months ended March 31, | | Year ended December 31, |
|---|---|---|---|
| **Net cash generated by (used in) financing activities** | (26,372) | (2,054) | 109,278 |
| **Increase in cash and cash equivalents** | (160,415) | 44,401 | 154,124 |
| **Cash and cash equivalents - beginning of period** | 167,745 | 13,621 | 13,621 |
| **Cash and cash equivalents - end of period** | 7,330 | 58,022 | 167,745 |
| **Supplementary disclosure of cash flow information-** payments in cash during the period: | | | |
| Income taxes paid | 3,744 | 3,948 | 23,415 |
| Interest paid | 2,606 | 3,391 | 26,428 |

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



**AMERICAN ISRAELI PAPER MILLS LIMITED**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED**
**FINANCIAL STATEMENTS AS OF MARCH 31, 2008**

## NOTE 1 DESCRIPTION OF BUSINESS AND GENERAL

**A. Description Of Business**

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 productions 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 8.

**B. Definitions:**

| | |
|---|---|
| **The Company** | American Israeli Paper Mills Limited. |
| **The Group** | the Company and its Subsidiaries. |
| **Subsidiaries** | companies in which the Company control,(as defined by IAS 27) directly or indirectly, and whose financial statements are fully consolidated with those of the Company. |
| **Affiliated Companies** | companies in which the group has significant influence, and the group investments in them, directly or indirectly are included in the financial statements using the equity method. |

| | |
|---|---|
| **Related Parties** | as defined by IAS 24. |
| **Interested Parties** | as defined in the Israeli Securities Regulations (Presentation of Financial Statements), 1993. |
| **Controlling Shareholder** | as defined in the Israeli Securities law and Regulations 1968. |
| **NIS** | New Israeli Shekel. |
| **CPI** | the Israeli consumer price index. |
| **Dollar** | the U.S. dollar. |

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Applying International Accounting Standards (IFRS)

#### (1) Basis of preparation

The condensed interim financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards and in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting .

The principal accounting policies described in the following notes were applied in accordance to the IFRS, in a manner consistent with previous reporting periods presented in these condensed interim financial statements and in accordance to the opening balance sheet.

**AMERICAN ISRAELI PAPER MILLS LIMITED**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED**
**FINANCIAL STATEMENTS AS OF MARCH 31, 2008**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**A. Applying International Accounting Standards (IFRS) (Cont.)**

**(1) Basis of preparation (Cont.)**

The unaudited condensed interim consolidated financial statements as of March 31, 2008 and for the three months then ended ( interim financial statements ) of the Company and subsidiaries should be read in conjunction with the audited consolidated financial statements of the Company and subsidiaries as of December 31, 2007 and for the year then ended, including the notes thereto including the note regarding the adoption of IFRS.

**(2) First term IFRS standards adoption**

According to standard No. 29 Adoption of International Financial Reporting Standards IFRS ( standard No. 29 ), the Company applies International Financial Reporting Standards and interpretations of the committee of the International Accounting Standard Board (IASB) Starting January 1, 2008.

In compliance with the abovementioned, the condensed interim financial statements, as of March 31, 2008 and for the three months then ended, including all previous reporting periods have been prepared under accounting policies consistent with International Financial Reporting Standards and interpretations published by the International Accounting Standard Board (IASB) and in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting.

In these condensed interim financial statements the Company applied IFRS 1 First time Adoption of International Financial Reporting Standards ( IFRS No. 1 ), which determines instructions for first time implementation of IFRS.

According to IFRS No. 1 the effective date for implementing IFRS standards is commencing January 1, 2007.

The Company has applied in a retroactive manner the IFRS standards for all reporting periods presented in the condensed interim financial statements. The Company implemented the IFRS standards which have been published as of the preparation date of the condensed interim Financial Statements and expected to be affective as of December 31, 2008.

In implementing the transitional rules as above, the Group elected to apply the following concessions permitted by IFRS 1:

1. Share based payments
   The rules of IFRS 2, which deals with share based payments, were not retroactively applied with regard to capital instruments which had been granted prior to November 7, 2002 and vested before the transition date.

2. Translation differences
   The company elected to desist from retroactively applying the rules of IAS 21 for translation differences accumulated as of January 1, 2007 with respect to foreign operations. As a result, accumulated translation differences have not been included in the Opening Balance Sheet.

**AMERICAN ISRAELI PAPER MILLS LIMITED**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED**
**FINANCIAL STATEMENTS AS OF MARCH 31, 2008**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**A. Applying International Accounting Standards (IFRS) (Cont.)**

**(2) First term IFRS standards adoption (cont.)**

3. Deemed cost for items of fixed assets
IFRS 1 permits the measurement of items of fixed assets as of the transition date to the IFRS, or at an earlier date, on the basis of a revaluation executed according to previously applied generally accepted accounting principles, as deemed cost as of the date of the revaluation, if, in general, the revaluation was comparable to cost or undepreciated cost according to the IFRS, adjusted for changes such as changes in the index of prices.

Through December 31, 2007, the company adjusted its financial statements to changes in the rate of exchange of the dollar, in accordance with the rules of Accounting Opinion 36 of the Institute of Certified Public Accountants.

For purposes of the transition to reporting pursuant to the IFRS, the company chose to apply the concession in IFRS 1 as above and to measure the items of its fixed assets acquired or constructed through December 31, 2003 at deemed cost as of that date, based on their amounts, as adjusted to changes in the rate of exchange of the dollar up to that date.

Prior to the adoption of the IFRS, the Group prepared its financial statements according to accounting principles generally accepted in Israel. The latest annual financial statements of the company according to accounting principles generally accepted in Israel were prepared as of December 31, 2007 and for the year ended on that date. Comparative figures for that period were restated in these financial statements pursuant to the IFRS.

See Note 10 with respect to the material differences between reporting pursuant to the IFRS and reporting according to Israeli generally accepted accounting principles, as they are relevant to the Group.

**B.** The condensed Financial Statements were prepared in accordance with section D of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

**C. Basis of preparation**

Until December 31, 2003, Israel was considered a country in which hyper-inflation conditions exist. Therefore, non-monetary balances in the balance sheet were presented on the historical nominal amount and were adjusted to changes in the exchange rate of the U.S. dollar. As of December 31, 2003 when the economy ceases to be hyper-inflationary and the Company no longer adjusted its financial statements to the U.S. dollar, the adjusted amounts as of this date were used as the historical costs. The financial statements were edited on the basis of the historical cost, except for:

Derivative financial instruments measured by fair value.

Inventories are stated at the lower of cost and net realizable value.

Property, plant and equipment and intangibles assets are presented at the lower of the cost less accumulated amortizations and the recoverable amount.

Liabilities to employees as described in note 2S below.

**AMERICAN ISRAELI PAPER MILLS LIMITED**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED**
**FINANCIAL STATEMENTS AS OF MARCH 31, 2008**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**D. Foreign currencies**

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in the New Israeli Shekel ( NIS ), which is the functional currency of the Company and the presentation currency for the consolidated financial statements, see note 2U (3) as follows with regard to the exchange rate and the changes in them during the reported period.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity s functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period which they were created, except for exchange differences on transactions entered into in order to hedge certain foreign currency risks. Hedge accounting details are set out in Note 2M below.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group s foreign operations of affiliated company (mainly because of it s investment in a subsidiary company that presents it s financial statements in foreign currency) are expressed in NIS using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

**E. Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

For the effect of the issuance of IAS 27 (revised) Consolidated and Separate Financial Statements see note 2V below.

**AMERICAN ISRAELI PAPER MILLS LIMITED**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED**
**FINANCIAL STATEMENTS AS OF MARCH 31, 2008**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**F. Investments in associated companies**

An associated company is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The financial statements of the consolidated companies adopted to the accounting policies of the group.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition change in the Group s share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group s interest in that associate (which includes any long-term interest that, in substance, form part of the Group s net investment in the associate) are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. With regard to the group s examination for impairment in the investment in affiliated companies in accordance to IAS 36 see note 2I below.

Where a group entity transacts with an associate of the Group material, profits and losses are eliminated to the extent of the Group s interest in the relevant associate.

**G. Property, plant and equipment**

Property, plant and equipments are tangible items, which are held for use in the manufacture or supply of goods or services, or leased to others, which are predicted to be used for more than one period. The Company presents its property, plant and equipments items according to the cost model.

Under the cost method a property, plant and equipment are 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.

Spare parts which are not used on a current basis are designated for use in the context of specific items of fixed assets, where necessary. The reason for holding them is to prevent delays in the manufacturing process and to avoid a shortage in spare parts in the future. The spare parts that are not used on a current basis have not been installed on items of fixed assets and are, therefore, not available for use in their present state. In the light of this, spare parts that are not being used currently are presented with fixed assets and are depreciated beginning from the date that they are installed on the items of fixed assets for which they were purchased.

Depreciation is calculated using the straight-line method at rates considered adequate to depreciate the assets over their estimated useful lives. The depreciation starts once the asset is ready for use and takes into consideration of the anticipated scrap value at the end of the asset s useful lives.

**AMERICAN ISRAELI PAPER MILLS LIMITED**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED**
**FINANCIAL STATEMENTS AS OF MARCH 31, 2008**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**G. Property, plant and equipment (Cont.)**

The annual depreciation and amortization rates are:

| | % |
|---|---|
| Buildings | 10-50 |
| Machinery and equipment | 7-20 |
| Motor vehicles | 5-7 |
| Office furniture and equipment | 3-17 |

Scrap value, depreciation method and the assets useful lives are being reviewed by management in the end of every financial year. Changes are handled as a change of estimation and are applied from here on.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in income statement.

**H. Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are assed to the costs of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. The rest of the borrowing costs are recognized in profit or loss.

For the effect of the issuance of IAS 23 (revised) Borrowing costs see Note 2V below.

**I. Impairment of tangible assets**

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

**AMERICAN ISRAELI PAPER MILLS LIMITED**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED**
**FINANCIAL STATEMENTS AS OF MARCH 31, 2008**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**I. Impairment of tangible assets (cont.)**

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

**J. Inventories**

Inventories are assets held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are stated at the lower of cost and net realizable value. Cost of inventories includes all the cost of purchase, direct labor, fixed and variable production over heads and other cost that are incurred, in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Inventories that purchased on differed settlement terms, which contains a financing element, are stated in purchase price for normal credit terms. The difference between the purchase price for normal credit terms and the amount paid is recognized as interest expense over the period of the financing.

Cost determined as follows:

| | |
|---|---|
| Raw, auxiliary materials and others | Based on weighted-average basis. |
| Finished products | Based on overhead absorption costing. |
| Products | Based on weighted-average basis. |

The spare parts that are in continuous use, are not associated with the specific fixed assets. Some of these spare parts are even sold to the Group s affiliated companies, as needed, and are part of the inventory. Based on the experience accumulated by the Company, these spare parts are held for no longer than 12 months. In light of the above, the spare parts that are in continuous use are presented in inventory clause, and recognized in the profit and loss report when used.

**AMERICAN ISRAELI PAPER MILLS LIMITED**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED**
**FINANCIAL STATEMENTS AS OF MARCH 31, 2008**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**K. Financial assets**

**(1) General**

Investments are recognized and derecognized on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into loans and receivables and to financial assets through profit and loss. The classification of this category arises from the reason of the financial assets holding and it is determined at its initial recognition.

**(2) Loans and receivables**

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

**(3) Financial assets at FVTPL**

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

it has been acquired principally for the purpose of selling in the near future; or

it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

**AMERICAN ISRAELI PAPER MILLS LIMITED**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED**
**FINANCIAL STATEMENTS AS OF MARCH 31, 2008**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**K. Financial assets (Cont.)**

**(4) Impairment of financial assets**

Financial assets, are assessed for indicators of impairment at each balance sheet date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include:

significant financial difficulty of the issuer or counterparty; or

default or delinquency in interest or principal payments; or

it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain financial assets, such as customers as to which no indications of value impairment have been identified, the company evaluates value impairment on a specific basis, in reliance on past experience and changes in the level of delinquency in payments, as well as economic changes related to the sector and the economic environment in which it operates.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**L. Financial liabilities and equity instruments issued by the Group**

**(1) Classification as debt or equity**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities are classified as either financial liabilities at FVTPL or Other financial liabilities for the published IAS 32 (amended), financial instruments: present an IAS-1: presentation of financial statements see note 2V as follows.

**(2) Options to sell sales of an investee**

The company has an obligation that is derived from an option that it gave for the sale of shares of an investee, which provide the holder thereof with the right to sell its holdings in the investee in consideration of a variable amount of cash.

The value of the option was computed according to the economic value of the option and is presented with non current liabilities, and classified as a liability at fair value through operations.

Any gain or loss that results from changes in the fair value of the option is recognized in operations.

See Note 10 E (4) below for further details on the conditions of the option.

**(3) Other financial liabilities**

Other financial liabilities (capital note issued to an investee), are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

For the treatment at CPI-linked other financial liabilities see note 2L(4) below.

**(4) CPI-linked liabilities**

The Company has liabilities that are linked to the Consumer Price Index (hereinafter the CPI), which are not measured at fair value under the statement of income. The Company determines the effective interest rate in respect of these liabilities as a real rate with the addition of linkage differences in line with actual changes in the CPI until the balance sheet date. This is also the approach used under generally accepted accounting principles in Israel.

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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**L. Financial liabilities and equity instruments issued by the Group (cont.)**

**(4) CPI-linked liabilities (cont.)**

As of the balance sheet date, the Company has CPI-linked financial liabilities in the total sum of NIS 195,644 thousands.

There is another interpretation of IFRS, under which the effective interest rate in respect of these assets and liabilities should include the anticipated inflation up to the relevant repayment dates (instead of accumulation of real interest plus linkage differences in line with changes in the CPI until the balance sheet date).

The vast majority of loans and long-term and medium-term financing arrangements in Israel are linked to the CPI. Therefore, the Israeli Institute for Accounting Standards has submitted a request to the International Financial Reporting Interpretation Committee (IFRIC) to clarify the applicable method in the measurement of the effective interest rate of such assets and liabilities under IFRS.

The Committee s response in this matter and the implications thereof cannot be reliably predicted. If the Committee s response indicates that the method used in Israel and which was implemented in these financial statements is not appropriate in accordance with IFRS, the Company will have to change the method of measurement of these assets and liabilities and it may have to do so by way of restating its financial statements. Under the present circumstances, the Company is unable to reliably measure the potential impact on its financial statements in such a case.

**M. Derivative financial instruments**

**(1) General**

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, including foreign exchange forward contracts on exchange rate, options on exchange rate and contracts on the CPI due to notes.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**M. Derivative financial instruments (Cont.)**

**(2) Hedge accounting**

The Group designates certain hedging instruments, which include derivatives, and non-derivatives in respect of foreign currency risk, as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

**Cash flow hedges**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in capital fund. Since the hedge is for expected acquisition of fixed assets, the company chose to add the capital fund to the initial cost of the hedges item immediately. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the finance income or finance expenses lines of the income statement. Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in fixed assets at that time remains in fixed assets and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

**N. Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable.
Revenue is reduced for estimated customer returns, rebates and other similar allowances.

**(1) Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold

The amount of revenue can be measured reliably;

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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**N. Revenue recognition (cont.)**

**(1) Sale of goods (Cont.)**

It is probable that the economic benefits associated with the transaction will flow to the entity; and

The costs incurred or to be incurred in respect of the transaction can be measured reliably.

**(2) Interest revenue**

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset s net carrying amount.

**(3) Dividends**

Revenue is recognized when the Group s right to receive the payment is established.

**(4) Reporting of revenues on a gross basis or a net basis**

The Company s revenues as an agency or intermediary from providing electricity, water, steam, and logistical services to the Group without bearing the risks and returns that derive from the transaction, are presented on a net basis.

**O. Leasing**

Leases are classified as finance leases whenever the term of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

**Leases of land from the Israel Lands Administration**

Leases of land from the Israel Lands Administration are classified as operating leases. The deferred lease payments that were made on the date of the start of the lease are presented in the balance sheet with long term receivables , and are amortized on the straight line basis over the balance of the lease period, including the extension option.

The company has land lease rights from the Municipality of Tel Aviv which comply with the definition of investment real estate, and, pursuant to IAS 40, have been classified as operating leases and not as investment real estate.

**P. Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**P. Provisions (Cont.)**

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**Q. Share Based payments**

In accordance with IFRS 2 and IFRIC 11, equity-settled share based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The Company determines the fair value of equity-settled share-based transaction according to the Black-Scholes model. Details regarding the determination of the fair value of share-based transactions are set out in note 6.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group s estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss over the remaining vesting period, with a corresponding adjustment to the equity-settled employee benefits reserve.

For the effect of the issuance of amendment to IFRS 2 Share Based Payment- Vesting and Revocation Conditions, see note 2V below.

**R. Taxation**

**(1) General**

Income tax expense represents the sum of the tax currently payable and change in deferred tax excluding deferred tax.as result of transaction that was attribute directly to the equity.

**(2) Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

**(3) Deferred tax**

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**R. Taxation (Cont.)**

**(3) Deferred tax (Cont.)**

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**S. Employee benefits**

**(1) Benefits after termination of employment**

Company benefits after the termination of employment include mainly benefits to pensioners (Most of the employees of the company fall under Section 14 of the Severance Pay Law).

Actuarial gains and losses recognized when incurred are recorded to the statement of income and expenses but due to lack of materiality, they are recorded to the statements of operations. Past service cost is recognized immediately in the company s statements of operations up to the extent that the benefit has vested. Unvested past service cost is amortized over the average vesting period under the date of vesting.

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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**S. Retirement benefit costs (cont.)**

**(2) Other long term employee benefits**

Other long term employee benefits are benefits which it is anticipated will be utilized or which are to be paid during a period that exceeds 12 months from the end of the period in which the service that creates entitlement to the benefit was provided.

Other employee benefits of the company include liabilities for vacation pay. These liabilities are recorded to operations in accordance with the projected unit credit method, through the use of actuarial estimates which are performed at each balance sheet date. The present value of the company s obligation for vacation pay was determined by means of the capitalization of anticipated future cash flows from the program at market yields of government bonds, denominated in the currency in which the benefits for vacation will be paid and having redemption dates nearly identical to the forecasted payment dates of the vacation pay.

Gains and losses are recorded to the statement of operations at the time that they are created. Past service cost is immediately recognized in the financial statements of the company.

**(3) Short term employee benefits**

Short term employee benefits are benefits which it is anticipated will be utilized or which are to be paid during a period that does not exceed 12 months from the end of the period in which the service that creates entitlement to the benefit was provided.

Short term company benefits include the company s liability for short term absences, payment of grants, bonuses and compensation. These benefits are recorded to the statement of operations when created. The benefits are measured on a non capitalized basis. The difference between the amount of the short term benefits to which the employee is entitled and the amount paid is therefore recognized as an asset or liability.



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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**T. 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).

**U. Exchange Rates and Linkage Basis**

(1) Foreign currency balance, or balances linked to foreign currency are included in the financial statements according to the exchange rate announced by the Bank of Israel on the balance sheet date.

(2) Balances linked to the CPI are presented according to index of the last month of the report period (the index of the month of the financial reports).

(3) Following are the changes in the representative exchange rates of the Euro and the U.S. dollar vis-a-vis the NIS and in the Israeli Consumer Price Index ( CPI ):

| **As of:** | **Representative exchange rate of the Euro (NIS per 1)** | **Representative exchange rate of the dollar (NIS per $1)** | **CPI "in respect of" (in points)** |
|---|---|---|---|
| March 31, 2008 | 5.616 | 3.553 | 102.60 |
| March 31, 2007 | 5.534 | 4.155 | 98.90 |
| December 31, 2007 | 5.6592 | 3.846 | 102.50 |
| **Increase (decrease) during the:** | **%** | **%** | **%** |
| Three months ended March 31, 2008 | (0.8) | (7.6) | 0.1 |
| Three months ended March 31, 2007 | (1.7) | 1.65 | (0.2) |
| Year ended December 31, 2007 | 1.7 | (9.0) | 3.4 |

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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**V. Adoption of new and revised Standards and interpretations**

**Standards, Amended Standards and Clarifications that have been Published but not yet Become Effective, and have not been Adopted by the Company in Early Adoption**

**IAS 1 (Amended) Presentation of Financial Statements**

The standard stipulates the presentation required in the financial statements, and itemizes a general framework for the structure of the financial statements and the minimal contents which must be included in the context of the report. Changes have been made to the existing presentation format of the financial statements, and the presentation and disclosure requirements for the financial statements have been broadened, including the presentation of an additional report in the framework of the financial statements known as the report of comprehensive income , and the addition of a balance sheet as of the beginning of the earliest period that was presented in the financial statements, in cases of changes in accounting policy by means of retroactive implementation, in cases of restatement and in cases of reclassifications.

The standard will be effective for reporting periods beginning from January 1, 2009. The standard permits earlier application.

At this stage, the management of the Group is unable to assess the effect of the standard on the financial statements.

**IAS 23 (Amended) Borrowing Costs**

The standard stipulates the accounting treatment of borrowing costs. In the context of the amendment to this standard, the possibility of immediately recognizing borrowing costs related to assets with an uncommon period of eligibility or construction in the statement of operations was cancelled. The standard will apply to borrowing costs that relate to eligible assets as to which the capitalization period began from January 1, 2009. The standard permits earlier implementation.

At this stage, the management of the Group is unable to assess the effect of the standard on its financial condition and operating results.

**IFRS 8, Operating Segments**

The standard, which replaces IAS 14, details how an entity must report on data according to segments in the annual financial statements. The standard, among other things, stipulates that segmental reporting of the company will be based on the information that management of the company uses for purposes of evaluating performance of the segments, and for purposes of allocating resources to the various operating segments. The standard will apply to annual reporting periods commencing on January 1, 2009, with restatement of comparative figures for prior reporting periods. The standard permits earlier adoption.

At this stage, the management of the Group estimated that the implementation of the standard is not expected to have any influence on the financial statements of the Group.

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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**V. Adoption of new and revised Standards and interpretations (cont.)**

**Standards, Amended Standards and Clarifications that have been Published but not yet Become Effective, and have not been Adopted by the Company in Early Adoption (cont.)**

**IAS 27 (Amended) Consolidated and Separate Financial Statements**

The standard prescribes the rules for the accounting treatment of consolidated and separate financial statements. Among other things, the standard stipulates that transactions with minority shareholders, in the context of which the company holds control of the subsidiary before and after the transaction, will be treated as capital transactions. In the context of transactions, subsequent to which the company loses control in the subsidiary, the remaining investment is to be measured as of the date that control is lost, at fair value, with the difference as compared to book value to be recorded to the statement of operations. The minority interest in the losses of a subsidiary, which exceed its share in shareholders equity, will be allocated to it in every case, while ignoring its obligations and ability to make additional investments in the subsidiary.

The provisions of the standard apply to annual financial reporting periods which start on January 1, 2010 and thereafter. Earlier adoption is permitted, on the condition that it will be done simultaneous with early adoption of IFRS 3 (amended). The standard will be implemented retrospectively, excluding a number of exceptions, as to which the provisions of the standard will be implemented prospectively. At this stage, the management of the Group estimated that the implementation of the standard is not expected to have any influence on the financial statements of the Group.

**IFRS 3 (Amended) Business Combinations**

The new standard stipulates the rules for the accounting treatment of business combinations. Among other things, the standard determines measurement rules for contingent consideration in business combinations which is to be measured as a derivative financial instrument. The transaction costs directly connected with the business combination will be recorded to the statement of operations when incurred. Minority interests will be measured at the time of the business combination to the extent of their share in the fair value of the assets, including goodwill, liabilities and contingent liabilities of the acquired entity, or to the extent of their share in the fair value of the net assets, as aforementioned, but excluding their share in goodwill.

As for business combinations where control is achieved after a number of acquisitions (acquisition in stages), the earlier purchases of the acquired company will be measured at the time that control is achieved at their fair value, while recording the difference to the statement of operations.

The standard will apply to business combinations that take place from January 1, 2010 and thereafter. Earlier adoption is possible, on the condition that it will be simultaneous with early adoption of IAS 27 (amended).

At this stage, the management of the Group is unable to assess the effect of the standard on its financial condition and operating results.

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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**V. Adoption of new and revised Standards and interpretations (cont.)**

**Standards, Amended Standards and Clarifications that have been Published but not yet Become Effective, and have not been Adopted by the Company in Early Adoption (cont.)**

**IFRIC 13, Customer Loyalty Programs**

The clarification stipulates that transactions for the sale of goods and services, for which the company confers reward grants to its customers, will be treated as multiple component transactions and the payment received from the customer will be allocated between the different components, based upon the fair value of the reward grants. The consideration attributed to the grant will be recognized as revenue when the reward grants are redeemed and the company has made a commitment to provide the grants.

The directives of the clarification apply to annual reporting periods commencing on January 1, 2009. Earlier implementation is permissible**.**

At this stage, the management of the Group is unable to assess the effect of the standard on its financial condition and operating results.

**Amendment to IFRS 2, Share Based Payment- Vesting and Revocation Conditions**

The amendment to the standard stipulates the conditions under which the measurement of fair value must be considered on the date of the grant of a share based payment and explains the accounting treatment of instruments without terms of vesting and revocation. The provisions of the standard apply to annual financial reporting periods which start on January 1, 2009 and thereafter. Earlier adoption is permitted.

At this stage, the management of the Group is unable to assess the effect of the standard on its financial condition and operating results.

**Amendment to IAS 32, Financial Instruments: Presentation, and IAS 1,Presentation of Financial Statements**

The amendment to IAS 32 changes the definition of a financial liability, financial asset and capital instrument and determines that certain financial instruments, which are exercisable by their holder, will be classified as capital instruments.

The provisions of the standard apply to annual financial reporting periods which start on January 1, 2009 and thereafter. Earlier adoption is permitted.

At this stage, the management of the Group is unable to assess the effect of the standard on its financial condition and operating results.

**NOTE 3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

**A. General**

In the application of the Group s accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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**NOTE 3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont.)**

**B. Critical judgments in applying accounting policies**

The following are the critical judgments, apart from those involving estimations (see below), that the management have made in the process of applying the entity s accounting policies and that have the most significant effect on the amounts recognized in financial statements:

Deferred taxes- the company recognizes deferred tax assets for all of the deductible temporary differences up to the amount as to which it is anticipated that there will be taxable income against which the temporary difference will be deductible. During each period, for purposes of calculation of the utilizable temporary difference, management uses estimates and approximations as a basis which it evaluates each period.

Approximation of length of life of items of fixed assets- each period, the company s management evaluates salvage values, depreciation methods and length of useful lives of the fixed assets.

Measurement of provisions and contingent liabilities and contingent liabilities- see C(1) below.

Measurement of obligation for defined benefits and employee benefits- see C(2) below.

Measurement of share based payments- see Note 6 below.

**C. Key sources of estimation uncertainty**.

**1. Provisions for legal proceeding**

Against the company and its subsidiaries there are 6 claims pending and open in a total amount of approximately NIS 20,024 thousands (March 31, 2007: NIS 11,334 thousands, December 31, 2007: NIS 23,154 thousands), as to which a provision of approximately NIS 400 thousands (March 31, 2007: NIS 300 thousands, December 31, 2007: NIS 300 thousands) was recorded. For purposes of evaluating the legal relevance of these claims, as well as determining the reasonableness that they will be realized to its detriment, the company s management relies on the opinion of legal and professional advisors. After the company s advisors expound their legal position and the probabilities of the company as regards the subject of the claim, whether the company will have to bear its consequences or whether it is will be able to rebuff it, the company approximates the amount which it must record in the financial statements, if at all. An interpretation that differs from that of the legal advisors of the company as to the existing legal situation, a varying understanding by the company s management of the contractual agreements as well as changes derived from relevant legal rulings or the addition of new facts may influence the value of the overall provision with respect to the legal proceedings that are pending against the company and, thus affect the company s financial condition and operating results.

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**NOTE 3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont.)**

**2. Employee benefits**

The present value of the company s obligation for the payment of benefits to pensioners and severance pay to employees that are not covered under Section 14 to the Severance Pay Law is based upon a great amount of data, which are determined on the basis of an actuarial estimation, through the utilization of a large number of assumptions, including the capitalization rate. Changes in the actuarial assumptions could affect the book value of the obligation of the company for employees benefits. The company approximates the capitalization rate once annually, on the basis of the capitalization rate of government bonds. Other key assumptions are determined on the basis of conditions present in the market, and on the basis of the cumulative past experience of the company.

**NOTE 4 SEGNIFICANT TRANSACTIONS AND EVENTS**

During the first quarter of the year, the company signed material agreements with various suppliers in connection with the construction of a new production system for packaging paper (Machine 8).

On January 14, 2008, the Board of Directors of the company decided to approve the issuance of options to executive employees, see Note 6 below.

**NOTE 5 FIXED ASSETS**

**Acquisition of items of fixed assets**

During the period of three months ended March 31, 2008 and March 31, 2007, the company became committed in agreements to purchase fixed assets at a cost of approximately NIS 57,985 thousands and NIS 11,171 thousands, respectively. Most of the acquisitions of the fixed assets during the first quarter of the year were made for Machine 8- a machine for the new packaging paper system. The total fixed assets acquired for suppliers credit amounted to NIS 3,652 thousands as of March 31, 2008.

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## NOTE 6 SHARE BASED PAYMENT

In January 2008, the Board of Directors of the Company approved a program for the allotment, for no consideration, of non marketable options to the CEO of the company, to employees and officers of the company and investees. In the context of the program, an allotment of 287,750 options was approved, of which 40,250 options were to the CEO of the company, 135,500 to management of the subsidiaries and 74,750 to management of the affiliates.

On May 11, 2008, the board of directors of the company approved the allotment to a trustee of the balance of the options that had not been allotted through that date, in the amount of 32,250 options as a pool for the future grant to officers and employees of investees, subject to the approval of the board of directors.

The date of grant of the options was set for the months of January- March 2008, subject to restrictions of Section 102 (capital route) of the Income Tax Ordinance. As of the date of approval of the financial statements, 250,500 options had been allotted. Each option is exercisable into one ordinary share of the company with NIS 0.01 par value against the payment of an exercise increment in the amount of NIS 223.965 (subject to adjustments). The options will vest in installments as follows: 25% of the total options will be exercisable from January 14, 2009; 25% of the total options will be exercisable from January 14, 2010; 25% of the total options will be exercisable from January 14, 2011; and 25% of the total options will be exercisable from January 14, 2012. The vested options are exercisable through January 14, 2012, 2013, 2014 for the first and second, third and fourth portions, respectively.

The cost of the benefit embedded in the allotted options as above, on the basis of the fair value as of the date they are granted, was approximated to be the amount of approximately NIS 13.5 million. This amount will be charged to the statement of operations over the vesting period. The debt for the grant to officers of the affiliates will be paid in cash.

The fair value of the options granted as aforementioned was estimated by applying the Black and Scholes model. In this context, the effect of the terms of vesting will not taken into account by the company, other than the market condition of fair value of the capital instruments granted.

The parameters which were used for implementation of the model are as follows:

| | |
|---|---|
| Share price (NIS) | 217.10 - 245.20 |
| Exercise price (NIS) | 223.965 |
| Anticipated volatility (*) | 27.04% |
| Length of life of the options (years) | 3-5 |
| Non risk interest rate | 5.25% |

(*) The anticipated volatility is determined on the basis of historical fluctuations of the share price of the company. The average length of life of the option was determined in accordance with management s forecast as to the holding period by the employees of options granted to them, in consideration of their functions in the company and past experience of the company with employees leaving.

## NOTE 7 INCOME TAX CHARGE

On February 26, 2008, the Knesset ratified the third reading of the Income Tax Law ( Inflation Adjustments ) (Amendment 20) (Limitation of Term of Validity) 2008 (hereinafter: The Amendment ), pursuant to which the application of the inflationary adjustment law will terminate in tax year 2007 and as of tax year 2008, the law will no longer apply, other than transition regulations whose intention it is to prevent distortions in tax calculations.

According to the amendment, in tax year 2008 and thereafter, the adjustment of revenues for tax purposes will no longer be considered a real-term basis for measurement. Moreover, the linkage to the CPI of the depreciated sums of fixed assets and carryover losses for tax purposes will be discontinued, in a manner whereby these sums will be adjusted until the CPI at the end of 2007 and their linkage to the CPI will end as of that date.

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**AMERICAN ISRAELI PAPER MILLS LIMITED**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED**
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## NOTE 8 SEGMENT INFORMATION

| | Three months ended March 31, 2008 (Unaudited) | | |
|---|---|---|---|
| | Paper and recycling | Marketing of office supplies | Total |
| Revenue | 109,347 | 33,172 | 142,519 |
| Segment results | 16,866 | 595 | 17,461 |

| | Three months ended March 31, 2007 (Unaudited) | | |
|---|---|---|---|
| | Paper and recycling | Marketing of office supplies | Total |
| Revenue | 107,215 | 29,423 | 136,638 |
| Segment results | 16,983 | (468) | 16,515 |

| | Year ended December 31, 2007 | | |
|---|---|---|---|
| | Paper and recycling | Marketing of office supplies | Total |
| Revenue | 464,653 | 118,997 | 583,650 |
| Segment results | 69,594 | 464 | 70,058 |

**AMERICAN ISRAELI PAPER MILLS LIMITED**
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**NOTE 9 CHANGES IN EQUITY**

| | Share capital | Capital reserves | Share based payments reserves | Capital reserves resulting from tax benefit on exercise of employee options | Hedging reserves | Foreign currency translation reserves | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|
| | NIS in thousands | | | | | | | |
| **Three months ended March 31, 2008 (unaudited)** | | | | | | | | |
| Balance - January 1, 2008 | 125,267 | 301,695 | - | 3,397 | (635) | 3,810 | 236,437 | 669,971 |
| Exchange differences arising on translation of foreign operations | - | - | - | - | - | (20,008) | - | (20,008) |
| Cash flow hedges | - | - | - | - | 88 | - | - | 88 |
| Share based payment | - | - | 723 | - | - | - | - | 723 |
| Profit for the period | - | - | - | - | - | - | 21,270 | 21,270 |
| Balance - March 31, 2008 | 125,267 | 301,695 | 723 | 3,397 | (547) | (16,198) | 257,707 | 672,044 |

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**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF MARCH 31, 2008**

**NOTE 9 CHANGES IN EQUITY (Cont.)**

| | Share capital | Capital reserves | Capital reserves resulting from tax benefit on exercise of employee options | Hedging reserves | Foreign currency translation reserves | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| | NIS in thousands | | | | | | |
| **Three months ended March 31, 2007 (unaudited)** | | | | | | | |
| Balance - January 1, 2007 | 125,257 | 90,060 | 2,414 | - | - | 204,902 | 422,633 |
| Exchange differences arising on translation of foreign operations | - | - | - | - | (598) | - | (598) |
| Cash flow hedges | - | - | - | (63) | - | - | (63) |
| Exercise of employee option into shares | - | - | 259 | - | - | - | 259 |
| Profit (loss) for the period | - | - | - | - | - | (3,877) | (3,877) |
| Balance - March 31, 2007 | 125,257 | 90,060 | 2,673 | (63) | (598) | 201,025 | 418,354 |

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**AMERICAN ISRAELI PAPER MILLS LIMITED**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED**
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**NOTE 9 CHANGES IN EQUITY (Cont.)**

| | Share capital | Capital reserves | Foreign currency translation reserves | Capital reserves resulting from tax benefit on exercise of employee options | Hedging reserves | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| | NIS in thousands | | | | | | |
| **Year ended December 31, 2007** | | | | | | | |
| Balance - January 1, 2007 | 125,257 | 90,060 | - | 2,414 | - | 204,902 | 422,633 |
| Issuance of shares (deduction of cost issuance in the amount of NIS 1,581 thousands) | 10 | 211,635 | - | - | - | - | 211,645 |
| Exchange differences arising on translation of foreign operations | - | - | 3,810 | - | - | - | 3,810 |
| Cash flow hedges | - | - | - | - | (635) | - | (635) |
| Exercise of employee options into shares | - | - | - | 983 | - | - | 985 |
| Profit for the year | - | - | - | - | - | 31,535 | 31,535 |
| Balance - December 31, 2007 | 125,267 | 301,695 | 3,810 | 3,397 | (635) | 236,437 | 669,971 |

**AMERICAN ISRAELI PAPER MILLS LIMITED**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED**
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## NOTE 10 DISCLOSURE REGARDING THE ADOPTION OF IFRS

### A. General

Following the publication of Accounting Standard No. 29, the Adoption of International Financial Reporting Standards (IFRS) in July 2006, the Company adopted IFRS starting January 1, 2008.

Pursuant to the provisions of IFRS1, which deals with the first-time adoption of IFRS, and considering the date in which the Company elected to adopt these standards for the first time, the financial statements which the Company must draw up in accordance with IFRS rules, are the consolidated financial statement as of December 31, 2008, and for the year ended on that date. The date of transition of the Company to reporting under IFRS, as it is defined in IFRS 1, is January 1, 2007 (hereinafter: the transition date ), with an opening balance sheet as of January 1, 2007 (hereinafter: Opening Balance ). The Company s interim financial statements for 2008 will also be drawn up in accordance with IFRS, and shall include comparative figures for the year.

Under the opening balance sheet, the Company performed the following reconciliations:

Recognition of all assets and liabilities whose recognition is required by IFRS.

De-recognition of assets and liabilities if IFRS do not permit such recognition.

Classification of assets, liabilities and components of equity according to IFRS.

Application of IFRS in the measurement of all recognized assets and liabilities.

IFRS 1 states that all IFRS shall be adopted retroactively for the opening balance sheet. At the same time, IFRS 1 includes 14 reliefs, in respect of which the mandatory retroactive implementation does not apply. As to the reliefs implemented by the Company, see section F below.

Changes in the accounting policy which the Company implemented retroactively in the opening balance sheet under IFRS, compared to the accounting policy in accordance with Generally Accepted Accounting Principles in Israel, were recognized directly under Retained Earnings or another item of Shareholders Equity, as the case may be.

This note is formulated on the basis of International Financial Reporting Standards and the notes thereto as they stand today, that have been published and shall enter into force or that may be adopted earlier as at the Group s first annual reporting date according to IFRS, December 31, 2008. Pursuant to the above, the Company s management has made assumptions regarding the anticipated financial reporting regulations that are expected to be implemented when the first annual financial statements are prepared according to IFRS, for the year ended December 31, 2008.

The IFRS standards that will be in force or that may be adopted in the financial statements for the year ended December 31, 2008 are subject to changes and the publication of additional clarifications. Consequently, the financial reporting standards that shall be applied to the represented periods will be determined finally only upon preparation of the first financial statements according to IFRS, as at December 31, 2008.

Listed below are the Company s consolidated balance sheets as of January 1, 2007, March 31, 2007 and December 31, 2007, the consolidated statement of income and the shareholders equity for the year ended on December 31, 2007 and the three months ended March 31, 2007 prepared in accordance with International Accounting Standards. In addition, the table presents the material reconciliations required for the transition from reporting under Israeli GAAP to reporting under IFRS.

**AMERICAN ISRAELI PAPER MILLS LIMITED**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED**
**FINANCIAL STATEMENTS AS OF MARCH 31, 2008**

**NOTE 10 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)**

**B. Reconciliation of balance sheets from Israeli GAAP to IFRS:**

| | | March 31, 2007 | | |
|---|---|---|---|---|
| | | Israeli GAAP | Effect of Transition to IFRS | IFRS |
| | Note | NIS in thousands | | |
| **Current Assets** | | | | |
| Cash and cash equivalents | | 58,022 | - | 58,022 |
| Trade receivables | | 177,617 | (226) | 177,391 |
| Other current assets | E1 | 107,124 | (10,703) | 96,421 |
| Inventories | | 65,766 | - | 65,766 |
| | | 408,529 | (10,929) | 397,600 |
| **Non-Current Assets** | | | | |
| Property, plant and equipment | E2 | 403,662 | (34,835) | 368,827 |
| Investment in associated companies | E8 | 336,902 | (1,659) | 335,243 |
| Deferred tax assets | E1 | 6,490 | 13,123 | 19,613 |
| Lease receivables | E2 | - | 29,886 | 29,886 |
| Other assets | | - | 2,046 | 2,046 |
| Employee benefit assets | | - | 1,113 | 1,113 |
| | | 747,054 | 9,674 | 756,728 |
| | | 1,155,583 | (1,255) | 1,154,328 |
| **Current Liabilities** | | | | |
| Credit from banks and others | | 202,237 | - | 202,237 |
| Current maturities to long term notes and term loans | | 41,454 | - | 41,454 |
| Trade payables | | 95,604 | - | 95,604 |
| Other payables and accrued expenses | E4, E3 | 93,737 | (21,552) | 72,185 |
| Financial liabilities at fair value through Profit and loss | E4 | - | 1,465 | 1,465 |
| Current tax liabilities | E7 | - | 8,176 | 8,176 |
| | | 433,032 | (11,911) | 421,121 |
| **Non-Current Liabilities** | | | | |
| Loans from banks and others | | 32,181 | - | 32,181 |
| Notes | | 189,212 | - | 189,212 |
| Other non-current liabilities | | 32,770 | (1170) | 31,600 |
| Deferred tax liabilities | E7 | 41,475 | - | 41,475 |
| Employee benefit liabilities | E3 | - | 20,385 | 20,385 |
| | | 295,638 | 19,215 | 314,853 |

| | March 31, 2007 | | |
|---|---|---|---|
| **Capital and reserves** | 426,913 | (8,559) | 418,354 |
| | 1,155,583 | (1,255) | 1,154,328 |

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**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED**
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**NOTE 10 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)**

**B. Reconciliation of balance sheets from Israeli GAAP to IFRS (Cont.)**

| | | December 31, 2007 | | |
|---|---|---|---|---|
| | | Israeli GAAP | Effect of Transition to IFRS | IFRS |
| | Note | NIS in thousands | | |
| **Current Assets** | | | | |
| Cash and cash equivalents | | 167,745 | - | 167,745 |
| Trade receivables | | 178,771 | (218) | 178,553 |
| Other current assets | E1 | 105,109 | (10,694) | 94,415 |
| Inventories | | 69,607 | - | 69,607 |
| | | 521,232 | (10,912) | 510,320 |
| **Non-Current Assets** | | | | |
| Property, plant and equipment | E2 | 445,566 | (34,726) | 410,840 |
| Investment in associated companies | E8 | 346,186 | 217 | 346,403 |
| Deferred tax assets | E1 | 6,083 | 14,539 | 20,622 |
| Lease receivables | E2 | - | 29,291 | 29,291 |
| Other assets | | - | 1,578 | 1,578 |
| Employee benefit assets | | - | 1,179 | 1,179 |
| | | 797,835 | 12,078 | 809,913 |
| | | 1,319,067 | 1,166 | 1,320,233 |
| **Current Liabilities** | | | | |
| Credit from banks and others | | 143,015 | - | 143,015 |
| Current maturities to long term notes and term loans | | 42,775 | - | 42,775 |
| Trade payables | | 108,409 | - | 108,409 |
| Other payables and accrued expenses | E4, E3 | 87,235 | (14,005) | 73,230 |
| Financial liabilities at fair value through Profit and loss | | - | 3,901 | 3,901 |
| Current tax liabilities | E4 | - | 908 | 908 |
| | | 381,434 | (9,196) | 372,238 |
| **Non-Current Liabilities** | | | | |
| Loans from banks and others | | 28,127 | - | 28,127 |
| Notes | | 158,134 | - | 158,134 |
| Other non-current liabilities | | 32,770 | (1,560) | 31,210 |
| Deferred tax liabilities | E7 | 40,515 | - | 40,515 |
| Employee benefit liabilities | E3 | - | 20,038 | 20,038 |
| | | 259,546 | 18,478 | 278,024 |

| | December 31, 2007 | | |
|---|---|---|---|
| **Capital and reserves** | 678,087 | (8,116) | 669,971 |
| | 1,319,067 | 1,166 | 1,320,233 |

**AMERICAN ISRAELI PAPER MILLS LIMITED**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF MARCH 31, 2008**

**NOTE 10 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)**

**C. Reconciliation of Income Statements from Israeli GAAP to IFRS**

| | | Three months ended March 31, 2007 | | | Year ended December 31, 2007 | | |
|---|---|---|---|---|---|---|---|
| | | Israeli GAAP | Effect of Transition to IFRS | IFRS | Israeli GAAP | Effect of Transition to IFRS | IFRS |
| | | NIS in thousands | | | NIS in thousands | | |
| | Note | (Unaudited) | | | | | |
| Revenue | | 136,638 | - | 136,638 | 583,650 | - | 583,650 |
| Cost of sales | | 104,066 | 401 | 104,467 | 440,854 | 527 | 441,381 |
| **Gross profit** | | 32,572 | (401) | 32,171 | 142,796 | (527) | 142,269 |
| **Operating costs and expenses** | | | | | | | |
| Selling expenses | | 7,696 | - | 7,696 | 31,367 | - | 31,367 |
| General and administrative expenses | | 8,008 | 99 | 8,107 | 36,060 | 317 | 36,377 |
| Other income (expenses), net | E6 | - | 147 | 147 | (2,178) | (2,289) | (4,467) |
| **Operating profit** | | 16,868 | (353) | 16,515 | 73,191 | (3,133) | 70,058 |
| Finance expenses | E5 | 7,469 | 390 | 7,859 | 30,206 | (1,560) | 31,766 |
| Finance income | E5 | 1,275 | - | 1,275 | 10,648 | - | 10,648 |
| Finance income (expenses), net | | (6,194) | (390) | (6,584) | (19,558) | (1,560) | (21,118) |
| Profit (loss) after financial income (expenses) | | 10,674 | (743) | 9,931 | 53,633 | (4,693) | 48,940 |
| Share of profit (loss) of associated companies-net | E8 | (10,798) | 303 | (10,495) | (2,884) | 3,740 | 856 |
| **Profit (loss) before tax** | | (124) | (440) | (564) | 50,749 | (953) | 49,796 |
| Taxes on income | | 3,403 | (90) | 3,313 | 19,307 | (1,046) | 18,261 |
| **Profit (loss) for the period** | | (3,527) | (350) | (3,877) | 31,442 | 93 | 31,535 |

**AMERICAN ISRAELI PAPER MILLS LIMITED**
**NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED**
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**NOTE 10 DISCLOSURE REGARDING THE ADOPTION OF IFRS (Cont.)**

**C. Reconciliation of Income Statements from Israeli GAAP to IFRS (Cont.)**

| | Three months ended March 31, 2007 | | | Year ended December 31, 2007 | | |
|---|---|---|---|---|---|---|
| | Israeli GAAP | Effect of Transition to IFRS | IFRS | Israeli GAAP | Effect of Transition to IFRS | IFRS |
| | NIS in thousands | | | NIS in thousands | | |
| | (Unaudited) | | | | | |
| Earnings per share: | | | | | | |
| Primary | (0.87) | (0.09) | (0.96) | 7.61 | (0.02) | 7.63 |
| Fully diluted | (0.87) | (0.09) | (0.96) | 7.60 | (0.02) | 7.62 |
| Number of share used to compute the primary earnings per share | 4,034,732 | 4,034,732 | 4,034,732 | 4,132,728 | 4,132,728 | 4,132,728 |
| Number of shares used to compute the fully diluted earnings per share | 4,034,732 | 4,034,732 | 4,034,732 | 4,139,533 | 4,139,533 | 4,139,533 |