AMERICAN ISRAELI PAPER MILLS LTD
Form 20-F
June 30, 2006

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

AMERICAN ISRAELI PAPER MILLS LTD.

(Exact name of Registrant as specified in its charter and translation of Registrant s name into English)

Israel

(Jurisdiction of incorporation or organization)

P.O. Box 142, Hadera 38101, Israel

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Ordinary Shares par value NIS .01 per share	**American Stock Exchange**

Securities registered or to be registered

pursuant to Section 12(g) of the Act:

None

(Title of Class) Securities for which there is a reporting obligation

pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report:

4,002,205 Ordinary Shares, par value NIS .01 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. **Yes** **No.**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: **Yes** **No** **.**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non- accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Cheek one)

Large accelerated filer Accelerated filer Non- accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow: **Item 17** **Item 18**

PART I

ITEM 1 IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable to Annual Reports

ITEM 2 OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable to Annual Reports

ITEM 3 KEY INFORMATION

A. Selected Financial Data

American Israeli Paper Mills Ltd. (AIPM or the Company) prepares its financial statements in accordance with Israeli GAAP. Israeli GAAP and U.S. GAAP vary in certain respects, as described in ITEM 17 below.

The following selected financial data is derived from the audited consolidated financial statements of the Company.

The financial data is presented in New Israeli Shekel (NIS) as follows: AIPM made a transition to reporting in nominal New Israeli Shekels (NIS) in 2004, pursuant to the directives of Standard 12 of the Financial Accounting Standards Board in Israel. In the past AIPM s reports were in NIS, adjusted to changes in the exchange rate of the U.S. dollar against the NIS.

The comparison figures for the years 2000 2003 are the dollar figures, as reported in the past, multiplied by the exchange rate of the U.S. dollar as at December 31, 2003, the day of the transition to NIS-based reporting pursuant to Standard 12 ($1 = NIS 4.379). See also note 1b to the financial statements.

Five Fiscal Year Financial Summary

According to Israeli GAAP (In Thousands of NIS Except Per Share Amounts)	**Year Ended December 31**				
	2005	**2004**	**2003**	**2002**	**2001**
Income Statement data:					
Sales	482,461	482,854	465,092	455,775	469,708
Income from ordinary operations	47,782	53,930	46,584	36,455	20,526
Share in profits of associated companies, net	16,414	25,072	35,549	16,727	15,011
Net income	45,715	62,732(1)	60,047	37,460	34,447
Selected balance sheet data:					
Total assets	1,155,758	1,162,387	1,253,274	1,052,123	1,052,141
Fixed assets	379,934	*345,239	*340,543	*339,579	*321,966
Long-term debt	260,581	261,269	268,052	70,257	79,611
Shareholders' equity	525,384	575,313	614,230	650,950	634,472
Per Share Data:					
Shares outstanding at end of year	4,002,205	3,996,674	3,968,295	3,918,710	3,918,710
Amount in NIS	40,022	39,967	39,683	39,187	39,187
Net income per NIS 1 par value:					
Primary	1,127	1,544	1,494	947	873
Fully diluted	1,127	1,544	1,494	947	873
Dividend per share	(2)**24.99	(2)25.12	(2)25.12	(2)5.30	(2)-

* Reclassified

** Consists of two dividends that were declared in 2005 (see comment 2 below)

(1) The net income includes a material non-recurring gain in the years 2005, 2004 and 2003 (in the sum of NIS 8,000 thousands, NIS 14,440 thousands and NIS 2,700 thousands respectively, originated from certain tax benefits - see "net income" on page 20)

(2) Dividend for 2001, in the sum of NIS 5.30 per share ($1.21 per share) was declared in March 2002 and paid in April 2002.
Dividend for 2002, in the sum of NIS 6.31 per share ($1.44 per share) was declared in March 2003 and paid in April 2003.
Dividend paid in 2003 includes a special dividend for 2003 in the sum of NIS 18.81 per share ($4.29 per share).
Dividend for 2003 in the sum of NIS 25.12 per share ($5.54 per share) was declared in August 2004 and paid in September 2004.
Dividend for 2005 in the sum of NIS 12.50 per share ($2.71 per share) was declared in August 2005 and paid in September 2005.
Additional dividend for 2005 in the sum of NIS 12.49 per share ($2.71 per share) was declared in December 2005 and paid in January 2006.

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According to U.S. GAAP

(In Thousands of re-measured NIS except per share amounts)

	Year ended December 31				
	2005	**2004**	**2003**	**2002**	**2001**
Income statement and balance sheet data:					
Sales	482,461	482,854	481,491	492,990	451,152
Income from ordinary operations	63,258	63,974	53,688	53,751	25,723
Share in profits of associated companies, net	8,193	29,213	20,972	27,464	22,993

	Year ended December 31				
Net income	41,861	[1]58,720	[1]38,469	54,624	49,876
Total assets	1,097,543	1,107,725	1,189,215	1,026,083	966,747
Fixed assets	340,914	*300,746	*291,060	282,281	*247,082
Long-term debt	260,581	261,269	268,052	76,001	80,284
Shareholders' equity	461,406	520,482	550,354	602,675	569,920
Per Share Data: (re-measured NIS)					
Shares outstanding at end of year	4,002,205	3,996,674	3,968,295	3,918,710	3,918,710
Amount in NIS	40,022	39,967	39,683	39,187	39,187
Net income per share:					
Basic	10.47	14.76	9.77	13.94	12.75
Diluted	10.33	14.52	9.69	13.81	12.66
Dividend per share	[2]**24.99	[2]25.12	[2]25.55	[2]5.77	[2]-

For further information about the effect of application of U.S. GAAP, see Item 17.

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* Reclassified

** Consists of two dividends that were declared in 2005 (see comment 2 below)

(1) The net income includes a material non-recurring loss in the years 2005 and 2003, in the sum of NIS 10,000 thousands and NIS 16,986 thousands respectively, [representing other than temporary impairment of investment in associated companies (see Item 17-e)].
A material non-recurring gain was included in the years 2005, 2004 and 2003, in the sum of NIS 8,000 thousands, NIS 14,440 thousands and NIS 2,700 thousands respectively, originated from certain tax benefits (see "net income" on page 20).

(2) Dividend for 2001, in the sum of NIS 5.77 per share ($1.21 per share) was declared in March 2002 and paid in April 2002.
Dividend for 2002, in the sum of NIS 6.61 per share ($1.44 per share) was declared in March 2003 and paid in April 2003.
Dividend paid in 2003 includes a special dividend for 2003 in the sum of NIS 19.04 per share ($4.29 per share).
Dividend for 2003 in the sum of NIS 25.12 per share ($5.54 per share) was declared in August 2004 and paid in September 2004.
Dividend for 2005 in the sum of NIS 12.50 per share ($2.71 per share) was declared in August 2005 and paid in September 2005.
Additional dividend for 2005 in the sum of NIS 12.49 per share ($2.71 per share) was declared in December 2005 and paid in January 2006.

(In Thousands of re-measured NIS except per share amounts) 5

Exchange Rates

The exchange rate between the NIS and U.S. dollar published by the Bank of Israel was NIS 4.518 to the dollar on May 31, 2006. The high and low exchange rates between the NIS and the U.S. dollar during the six months of December 2005 through May 2006, as published by the Bank of Israel, were as follows:

Month	High 1 U.S. dollar =	Low 1 U.S. dollar =
December 2005	4.662 NIS	4.579 NIS
January 2006	4.658 NIS	4.577 NIS
February 2006	4.725 NIS	4.664 NIS
March 2006	4.717 NIS	4.658 NIS
April 2006	4.671 NIS	4.503 NIS
May 2006	4.522 NIS	4.428 NIS

The average exchange rate between the NIS and U.S. dollar, using the average of the exchange rates on the last day of each month during the period, for each of the five most recent fiscal years was as follows:

Period	Exchange Rate
January 1, 2001 - December 31, 2001	4.219NIS/$1
January 1, 2002 - December 31, 2002	4.736NIS/$1
January 1, 2003 - December 31, 2003	4.512NIS/$1
January 1, 2004 - December 31, 2004	4.483NIS/$1
January 1, 2005 - December 31, 2005	4.878NIS/$1

Forward Looking Statements

This Annual Report on Form 20-F contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the 1934 Act) (collectively, the Safe Harbor Provisions). These are statements that are not historical facts and include statements about our beliefs and expectations. These statements contain potential risks and uncertainties and actual results may differ significantly. Forward-looking statements are typically identified by the words believe , expect , intend , estimate and similar expressions. Such statements appear in this Annual Report and include statements regarding the intent, belief or current expectation of the Company or its directors or officers. Actual results may differ materially from those projected, expressed or implied in the forward-looking statements as a result of various factors including, without limitation, the factors set forth below under the caption Risk Factors (the Company refers to these factors as Cautionary Statements). Any forward-looking statements contained in this Annual Report speak only as of the date hereof, and the Company cautions potential investors not to place undue reliance on such statements. The Company undertakes no obligation

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to update or revise any forward-looking statements. All subsequent written or oral forward-looking statements attributable to the company or persons acting on the company s behalf are expressly qualified in their entirety by the Cautionary Statements.

B. Capitalization and indebtedness

Not applicable.

C. Reason for the offer and use of proceeds

Not applicable.

D. Risk factors

Macro-economic risk factors

A slowdown in the market may result in a reduction of profitability

A slowdown in the global markets as well as in the Israeli market may cause: a decrease in the demand for the Company s and its associated companies products, an increase in the competition with imported products and a decrease in the profitability of export and that could result in a reduction in the Group *ssales and a decline in its profitability.

Future legal restriction may negatively affect the results of operations

The Company s activities and its subsidiaries and associated companies activities are imposed by legal restrictions (such as government policy on various subjects, different demands made by the authorities supervising environmental regulations and governmental decisions to raise minimum wages) . These restrictions may affect the results of operations of these companies.

Any future rise in the inflation rate may negatively affect business

Since the Company possesses a significant amount of CPI-linked liabilities, a high inflation rate may cause significant financial expenses. Consequently, the Company makes hedges from time to time to cover the exposure due to the liabilities. A high inflation rate may also affect wage expenses, which, at the long run, tend to be adjusted to the changes in the CPI.

Changes in the foreign exchange rates may cause erosion in profitability

The Company, its subsidiaries and associated companies are exposed to risks due to changes in the foreign exchange rates, either due to importing raw materials and finished products or due to exporting to international markets. Change in the foreign exchange rates of the different currencies compared to the New Israeli Shekel may cause erosion in profitability and cash flow, especially in the associated companies.

Risk Factors relating to the Company

The company faces significant competition in the markets the Company operates in

The Company operates in the packaging paper and office supplies industries, both of which are highly competitive. In the packaging paper industry the Company faces competition from imported paper. In the office equipment sector the Company faces competition from many suppliers that operate in the Company s markets. The associated companies are also exposed to competition in all of their operations. This competition may negatively affect the future results.

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* The Group The Company and its subsidiaries and associated companies

For further information see the section titled Competition .

The Company is exposed to increases in the cost of raw materials.

The increase in the activity of the paper machines, which are based on paper waste as a recycled fiber, makes it necessary to increase collection of paper waste and to add more expensive resources. The lack of enforcement of the Israeli recycling laws, which require waste recycling, makes it difficult to find alternative resources at a competitive cost.

There is an exposure in the associated companies resulting from fluctuation of prices of raw material and of the imported products, which arrive to Israel without customs or entry barriers. Exceptional price increase of raw materials and imported products may have an adversary effect on these Companies profitability.

The Company is dependent on energy prices.

AIPM s activities are highly dependent on the consumption of energy and therefore are influenced by fuel and electricity prices. AIPM s profitability may suffer if there is an exceptional increase in energy prices.

Credit Risks

Most of the Company s and its subsidiaries sales are made in Israel to a large number of customers. Part of the sales is made without full security of payment. The exposure to credit risks relating to trade receivables is usually limited, due to the relatively large number of our customers. The Company performs ongoing credit evaluations of its customers to determine the required amount of allowance for doubtful accounts. An appropriate allowance for doubtful accounts is included in the financial statements.

The operations in Turkey may suffer as a result of the Turkish economy.

The Company is exposed to various risks related to its activities in Turkey, where Hogla-Kimberly Ltd (H-K) operates through its subsidiary, Kimberly Clark Turkey (KCTR). These risks result from economic instability and high inflation rates, which have characterized the Turkish economy during the past years, and may be repeated and adversely affect KCTR s activities.

For further information, see Item 11 Quantitative and Qualitative Disclosure about Market Risk .

ITEM 4 INFORMATION ON THE COMPANY

A. History and Development of the Company

The Company was incorporated in 1951 under the laws of the State of Israel, and, together with its subsidiaries and associated companies (which together with the Company are referred to as the Group) is Israel s largest manufacturer of paper and paper products.

The Company's principal executive offices are located at 1 Meizer St., Industrial Zone, P.O. Box 142, Hadera, Israel, Tel: (972-4) 634-9349, fax: (972-4) 633-9740.

The organizational structure of the Company and certain subsidiaries was changed as of January 1, 1999. This change was intended to result in an operational separation between various activities, especially in the paper and board divisions, to allow for better business focus, greater operating efficiency and the formulation of business strategies that facilitate the establishment of additional international strategic alliances.

Within the framework of the organizational changes, different fields of operations were defined and separated, including printing and writing paper and packaging paper. For each of them a separate management team was assigned.

Over the last few years, the Group has created several new joint ventures as follows:

1. In July 1992, the Group purchased 25% of the shares of Carmel Container Systems Ltd. (Carmel), a leading Israeli designer, manufacturer and marketer of containers, packaging materials and related products. As of May 31, 2006, the Group held 26.25% of the shares of Carmel. Other major shareholders in this company are Kraft Group LLC (an American shareholder) (35.46%) and Ampal Ltd. (21.75%). Carmel shares were traded in AMEX and were deregistrated and delisted in 2005.

2. In 1996, Kimberly Clark Ltd. (KC) acquired 49.9% of the shares of Hogla, a wholly-owned subsidiary of the Company and a leading Israeli consumer products company, which was then renamed Hogla-Kimberly Ltd (H-K). H-K is engaged in the production and marketing of household paper products, hygiene products, disposable diapers and complementary kitchen products. The partnership was intended to expand the local production base in Israel, in order to serve both local and regional demand, and to offer H-K access to international markets. In 1999, H-K purchased Ovisan , which was renamed to Kimberly Clark Turkey (KCTR), a Turkish manufacturer and marketer of diapers and paper products.. On March 31, 2000, KC increased its holdings in H-K to 50.1%.

3. Effective January 1, 2000, AIPM entered into a joint venture agreement with Neusiedler AG (NAG), pursuant to which NAG acquired 50.1% of AIPM s printing and writing paper operations. The printing and writing paper operation was separated from AIPM upon the completion of this transaction and was sold to Neusiedler Hadera Paper (NHP), a subsidiary that was established for this purpose. In return for the acquisition of 50.1% of the shares of the new company, NAG paid NHP $10 million in cash and loaned to NHP $10 million. NHP was renamed in 2004 and is now called Mondi Business Hadera Paper (Mondi Hadera).

4. Amnir Recycling Industries Ltd. (Amnir) (a wholly owned subsidiary of AIPM), which is engaged in the collection and recycling of paper and plastic waste and in the confidential data destruction, acquired in 1997 and 1998 20% and 10%, respectively, of Cycle-Tec Recycling Technologies Ltd. (Cycle-Tec), a research and development company which develops a process for manufacturing of a high strength / low cost composite material, based on recycled post consumer plastic and paper, treated with special chemical additives. As of May 31, 2006, Amnir owned 30.18% of Cycle-Tec.

In 2004 Amnir established a new company in Switzerland for data destruction through the operation of mobile shredder trucks at customers sites, in which the Amnir held 75% together with a partner that held 25%. In the end of 2005, the Group signed an agreement, for the sale of all its 75% shares in the company, to the other partner.

5. In July 1998, the Company signed an agreement with a strategic partner, Compagnie Generale d Entreprises Automobiles (CGEA), for the sale of 51% of the operations of Amnir Industries and Environmental Services Ltd. (Amnir Environment) in the field of solid waste management (waste disposal and management of transfer stations and landfills) for a purchase price of $7.8 million. CGEA is an international French company, which is part of the Veolia group and one of the world s leading companies in the field of environmental services. The agreement did not apply to Amnir s operations in collecting and recycling paper and plastic.

6. In March 2000, AIPM and CGEA, on the one hand, and Tamam Integrated Recycling Industries Ltd. (T.M.M) and its controlling shareholders, on the other hand, entered into an agreement pursuant to which AIPM and CGEA acquired through a joint company from T.M.M. s controlling shareholders 62.5% of the share capital of T.M.M., a leading Israeli company in the solid waste management field, for $15.85 million. Simultaneously therewith, 100% of Amnir Environment s shares were transferred to T.M.M. in return for an allocation of 35.3% of the shares of T.M.M to the shareholders of Amnir Environment. Following such transaction, AIPM and CGEA owned, together, 75.74% of the shares of T.M.M. In August and September 2000, T.M.M. acquired approximately

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3% of its own share capital. In December 2001 and in August 2003 AIPM and CGEA acquired additional shares of T.M.M. s share capital through a joint company (Barthelemi Holdings Ltd.), resulting in an increase in the ownership of shares of T.M.M. by AIPM and CGEA to 88% as of May 31, 2006. AIPM holds directly and indirectly 43.08% of TMM s shares and CGEA holds 44.92% of TMM s shares.

7. In June 2005, C.D. Packaging Systems Limited (C.D. , an associated company of AIPM, held jointly with Carmel), which is engaged, in the designing, manufacturing and marketing of consumers packages, acquired the business activity of Frenkel and sons Ltd., in exchange for allocation of shares in C.D., and was renamed to Frenkel- CD Ltd.. Both companies are engaged in the field of folding boxes. The goal of the new entity is to join the activities in the field and create a significant entity in the competitive market, while combining the advantages of the two companies and fulfilling the potential of saving costs, as a result of the synergy between the activities. The merger is effective as of January 01 2006.

Capital Expenditures and Divestitures

2005

The investments in fixed assets totaled about NIS 71.1 million (about $15.4 million). These investments included:

Investments of approximately NIS 4.6 million ($1.0 million) in environmental issues.
An investment of approximately NIS 1.8 million ($0.4 million) in a gas turbine.
Investments of approximately NIS 36.8 million ($8 million) in real estate in Hadera an Naharia.
Investments totaling NIS 27.9 million ($6 million) in buildings, equipment, transportation and information technology.

2004:

The investments in fixed assets of the Company totaled about NIS 31.0 million in 2004 (about $6.9 million). These investments included:

Investments of approximately NIS 2.2 million ($0.5 million) in environmental issues.
An investment of approximately NIS 2.2 million ($0.5 million) in a machine for the manufacturing of cores based on Cycle-Tec technology.
Investments totaling NIS 26.6 million ($5.9 million) in buildings, equipment, transportation and information technology.

2003:

The investments in fixed assets of the Company totaled about NIS 29.2 million in 2003 (about $6.7 million). These investments included:

Investments of approximately NIS 2.6 million ($0.6 million) in environmental issues, mainly in the process of purification of waste from water.
An investment of approximately NIS 2.6 million ($0.6 million) in the expansion of the output of the packaging paper machine.
Investments totaling NIS 24 million ($5.5 million) in buildings, equipment, transportation and information technology.

B. Business Overview

I. The Group s Operations and Principal Activities

The Company is engaged through its subsidiaries in the manufacture and sale of packaging paper, in the collection and recycling of paper and plastic waste and in the marketing of office supplies, mainly to the institutional and business sector. The Company also holds interests in associated companies that deal in the manufacture and marketing of printing and writing paper, household paper products, hygiene products, disposable diapers, complementary kitchen products, corrugated board containers and packaging for consumer goods and the handling of solid waste.

In order to serve the paper production activities, the Company, through a wholly owned subsidiary, is supplying engineering services, maintenance, steam and energy, water supply, sewage treatment etc. to the different paper machines located in the main site of the Company in Hadera in return for cost sharing.

The Company operates in its main production site in Hadera according to the following standards:

ISO 9001/2000 quality management

ISO 14001 environmental regulations

Israeli Standard 18001 - safety

The principal products produced and/or marketed by the Company, its subsidiaries and associated companies are as follows:

Grades of Paper and Board

Printing and writing paper, publication papers in reels, coated paper, carbonless paper, cut-size paper for copy laser and inkjet, copy-book paper, paper for continuous forms, paper for envelopes and direct mailing and various grades of packaging paper and board.

Packaging Products

Folding cartons, corrugated containers, consumer packages solid board containers and pallets.

Household Products

Bathroom tissue, kitchen towels, facial tissue, napkins, disposable tablecloths, sanitary towels, panty shields, tampons, disposable baby diapers, training pants, baby wipes, disposable adult diapers, incontinence pads.

Industrial, Hospital and Food Service Products

Toilet paper, towel rolls, C-fold towels, napkins, place mats, coasters, bed sheets, wadding, paper toilet seat covers, disposable bed-pans and urinals, sterilizing paper, bathroom tissue and paper towel dispensers, dispensers for liquid hand soaps and room deodorizing dispensers for washrooms and cleaners, detergents and cleaning complimentary products, cups and plates.

Other Products

Aluminum food wraps, cling-film wraps, garbage bags, oven baking and cooking trays, office supplies and computer products, recycled ground and palletized plastics used by the plastic products industry, compost for soil conditioning and fertilizers for agriculture and landscape planting.

Sales and Marketing

The Group s packaging products are sold mostly to four main customers in Israel, which operate in the corrugated board sector with whom the Group has a long business relations.

The Group s office supplies products are sold to thousands of customers in the Business to Business sector and to institutions such as governmental offices and banks. About 25% of the sales are made through tenders.

The Group s paper grades products are sold to publishers, big and medium size printers, converters, and wholesalers some of which are part of the Group, as well as other direct customers.

The Group s household products are marketed mainly through retail marketing chains, stores and the institutional market.

The Group s packaging products are sold to a wide range of customers in different sectors (e.g., industry, agriculture, food and beverage industry), including direct marketing to ultimate customers through subcontractors and agents.

The Group s waste disposal services are provided mostly to municipalities through tenders and directly to other customers. The Group also operates landfills and transfer stations for the handling of solid waste.

The Group s main marketing strategy has the following objectives:

(a) Maintaining its existing dominant share in the Israeli market of paper grades and household products produced by the Group and imported by it, through short delivery time and prompt service, while constantly improving the quality of its products.

(b) Meeting the growing and changing requirements of the market by adding new products and improving the quality of existing grades of paper in order to meet the technological changes required by new printing equipment and the needs of the customers.

(c) Exploring new business opportunities in Israel and abroad and increasing the range of its products and the production capacity.

The following table sets forth the consolidated sales in NIS millions(**) by categories of the consolidated segments of operations:

** AIPM made the transition to reporting in nominal New Israeli Shekels (NIS) in 2004, pursuant to the directives of Standard 12 of the Financial Accounting Standards Board in Israel. In the past, AIPM s reports were in NIS, adjusted to changes in the exchange rate of the US dollar against the NIS.

The comparison figures for the years 2003 2002 are the dollar figures, as reported in the past, multiplied by the exchange rate of the US dollar as at December 31, 2003, the day of the transition to NIS-based reporting pursuant to Standard 12 ($1 = NIS 4.379).

Packaging Paper Manufacturing and Recycling (1)			**Marketing Office Supplies (2)**			**Total**		
2005	**2004**	**2003**	**2005**	**2004**	**2003**	**2005**	**2004**	**2003**
368.9	367.4	332.1	113.6	115.5	133.0	482.5	482.9	465.1

The above mentioned segments include the following activities:

1. Packaging paper manufacturing and recycling manufacturing and marketing of packaging paper, including collecting and recycling of paper waste. The manufacturing of packaging paper relies mainly on paper waste as raw materials.

2. Marketing office supplies Marketing of office supplies and paper, mainly to institutions.

Raw Materials

The raw materials required for paper and board production are different wood pulps, secondary fibers (i.e., waste paper) and various chemicals and fillers. Pulp is imported primarily from major suppliers in Scandinavia, the United States, Portugal, Austria, Germany, Brazil and Spain on a regular basis. The bulk of the pulp tonnage purchased is secured by revolving long-term agreements renewed on a yearly basis. All of the pulp for the printing and writing paper manufactured by Mondi Hadera is purchased by Mondi Business Paper (the Austrian parent company), which purchases pulp for its subsidiaries around the world. This ensures fluent supply and better prices.

The pulp for the household products is being imported by H-K with the assistance of K-C.

About 65% of the fibers required in paper production of the Group (including printing and writing paper and household products) come from waste paper, which in some paper grades, is used in lieu of relatively more expensive pulp. The production of packaging and wrapping paper is based mostly on recycled fibers. Therefore, the main raw material used for the production of packaging and wrapping paper is paper waste most of which is collected from various sources by Amnir, a wholly owned subsidiary of the Company. Approximately 200,000 tons per year of waste paper are collected and handled by Amnir, most of which are used by the Group for the production of paper and some of which is sold to tissue paper manufacturers. Apart from the waste paper collected by Amnir there is a use of residue which is created during the production of packages and purchased from the manufacturers of corrugated board.

The main raw material required for the manufacture of corrugated board is board paper. Carmel purchases paper from two main suppliers which are also shareholders of Carmel.

Since 1996, the Company has been using precipitated calcium carbonate (PCC), a special pigment used for filling and coating paper in order to improve quality. The PCC is manufactured in a plant constructed and operated by Specialty Minerals Israel Ltd. (SMI), which is a wholly owned subsidiary of Minerals Technologies Inc., a U.S. company. In 2004 an agreement was signed between Mondi Hadera and Omya International AG for the supply of PCC for a period of fourteen years commencing in April 2006. Omya constructed and operates a PCC plant in Israel. The PCC purchased from Omya replaced the PCC purchased from SMI and is expected to be cost saving.

The cost of paper production is affected by fluctuating raw material prices and the cost of water, energy and fuel oil.

Competition

Most of the Group s products that are sold on the local market are exposed to competition with local and imported products. The imported products arrive in Israel exempt from import tariffs, especially from the EEC, EFTA and the USA. The tariffs on imports of fine paper from other countries are in the range of 0% -12%.

The main competitors of the Group in the different fields of operation are Israeli companies which sell mainly imported products, except for sales of baby diapers and hygienic products in which the Group s main competitor is Proctor & Gamble.

In the market for office supplies that are sold directly to institutions and businesses there are numerous local suppliers that compete with the company.

The Group collection and paper recycling operation is exposed to local competition by local companies which operate all over the country.

The competition has influence over the selling prices that the Group can charge. The Group competes with the imported products by emphasizing the advantages of having a local supplier by ensuring the customers uninterrupted supply and service on short notice and excellent quality of products.

C. Organizational Structure

As of May 29, 2006, Clal Industries and Investment Ltd. (Clal) beneficially owned 38.04% of the ordinary shares of the Company and Discount Investment Corporation Ltd. (DIC) beneficially owned 21.49% of the ordinary shares of the Company. Clal and DIC agreed to coordinate and pool their voting power in the Company. To our knowledge, IDB Development Corporation Ltd. owns 74.19% of DIC and 61.98% of Clal. See "Item 7 - Major Shareholders and Related Party Transactions."

Significant subsidiaries and associated companies

Name of the Company	Ownership and Voting	Country of Incorporation
Subsidiaries		
Amnir Recycling Industries Ltd.	100.00%	Israel
Graffiti Office Supplies & Paper Marketing Ltd.	100.00%	Israel
Attar Marketing Office Supplies Ltd.	100.00%	Israel
American Israeli Paper Mills Paper Industry (1995) Ltd.	100.00%	Israel
Associated Companies		
Hogla-Kimberly Ltd.	49.90%	Israel
Kimberly -Clark Tuketim Mallari Sanayi Ve Ticaret A.S. ("KCTR") (held through H-K)	49.90%	Turkey
Mondi Business Paper Hadera Ltd.	49.90%	Israel
Barthelemi Holdings Ltd.	35.98%	Israel
T.M.M. Integrated Recycling Industries Ltd. (direct and indirect)	43.08%	Israel
Carmel Containers Systems Ltd.	26.25%	Israel
Frenkel- CD Ltd. (formerly "C.D. Packaging Systems Limited") (direct and indirect through Carmel)	35.16*	Israel
Cycle-Tec Recycling Technology Ltd.	30.18%	Israel

D. Property, Plants and Equipment

The Group s principal executive offices and manufacturing and warehouse facilities are located on approximately 87.5 acres of land in Hadera, Israel, which is 31 miles south of Haifa, a major seaport, 28 miles north of Tel Aviv. The Company owns 69.5 acres, out of which 18.5 acres were purchased in 2005, for the amount of $4.4 million, and 18 acres are leased from the Israel Land Administration, an agency of the State of Israel, under several leases. The lease periods terminate during future years from 2007 until 2053. Some of this land is rented to associated companies, which operate in Hadera.

The Group s facilities in Hadera are housed in two-story plants and several adjoining buildings. Approximately 1,200,000 square feet are utilized for manufacturing, storage and sales and administrative offices. An additional plant owned by H-K is located in a 10-acre plot in Afula, a city in northern Israel. H-K is leasing from the Israel Land Administration in Nahariya, in northern Israel, approximately 6 acres, which are rented to an associated company. In September 2002, the Company signed an agreement with

* The holding in voting shares is 35.11%

the Tel Aviv Municipality for the extension of the lease period of a real estate lease for a plant in Tel Aviv, that was shut down at the end of 2002, until the year 2059, in return for the payment of $6.2 million by the Company. The Company is investigating several options for using the land. According to the lease Agreement, the Company is obliged to utilize its building permits until September 2009.

The Group also owns a warehouse containing 50,000 square feet situated on three acres in the Tel Aviv area rented to third party, and a two-acre parcel in the industrial zone of Bnei Brak, near Tel-Aviv, which is used for waste paper collection.

H-K s headquarters and logistic center, which are leased under a long term lease agreement, are located in a new modern site in Zrifin, near Tel-Aviv, covering an area of 430,550 square feet, with 188,370 square feet of buildings.

Associated companies rent plants and office facilities in Migdal Haemek and Caesarea and additional warehouses and waste paper collection sites throughout Israel.

The machinery, equipment and assets of the Company are free of any mortgage, lien, pledge or other charge or security interest.

The Group owns six paper machines that are used in the manufacture of various grades of paper and board. Most of the paper production facilities of the Company and its subsidiaries are located in Hadera where it operates five machines with a combined production capacity of over 320,000 tons per year. The Group owns another machine in Nahariya which produces tissue paper with production capacity of 20,000 tons per year.

The Group also operates converting lines for personal care and household paper products in Hadera and Nahariya.

The Group maintains facilities for collecting, sorting and baling waste paper and board in various locations in Israel and a plant for the recycling of urban waste in Afula. It also has a plant in Afula for the production of disposable baby diapers, incontinence absorbent products and feminine hygiene products, a plant in Migdal Haemek for the production of paperboard consumer packages and a plant in Hadera for recycling plastic waste. The Group also operates two other plants for handling and recycling urban waste in Petah Tikva and Rishon Le Zion, near Tel-Aviv, and several landfills.

The Company established in 2000 a new co-generation power plant, based on high-pressure steam available from steam drying employed in paper production, for a total investment of about $14 million. The operation of the power plant, situated in Hadera, and the Group now enjoys an independent power generation capacity of 18MW, with generation costs considerably lower than the cost of electricity purchased from the Israel Electricity Company. As part of this project, the infrastructure of the main electricity supply system was renovated and improved, utilizing modern technological innovations.

The Company is promoting a project for establishing a combined cycle co-generation plant based on natural gas at Hadera. In addition, the Company is preparing for the conversion of its energy-generation systems to natural gas, once the transportation infrastructure of natural gas to Hadera is completed. The conversion is planned for the end of 2006.This conversation is expected to enable savings in production costs, while further improving environmental compliance. The capacity of the new plant is expected to enable the Company to sell electricity to external users, including the Israel Electric Company.

In October 2004 a wholly owned subsidiary of the Company, American Israeli Paper Mills Paper Industry (1995) Ltd., was granted by the Minister of National Infrastructure a basic permit to generate electricity by means of power and heat systems (co-generation). In addition, in December 2004 the project was announced as a National Infrastructure Project .

Environmental Regulation Matters

The business license of the main production site of the Group in Hadera includes conditions regarding sewage treatment, effluent quality, air quality and the handling of waste and chemicals. In addition, the site has to operate according to the conditions of the Israeli water commission regarding effluent disposal. To the best knowledge of the Company, the site operates according to the requirements of the authorities, and in the events of deviations, the Company acts for the repairment of the deviations, jointly with the authorities.

Certain of the Group s manufacturing operations are subject to environmental and pollution control laws in Israel. In order to comply with these laws, the Group planned and acquired, during 2001, a new modern facility for the treatment of effluent using an anaerobic treatment process. This process was installed in the Group s site in Hadera as a pre-treatment phase in the existing system based on aerobic treatment, in order to improve the treated effluent quality in compliance with environmental regulations.

During the years 2000-2005 the Group invested approximately $7 million in projects intended to enable it to comply with the strict environmental regulations applicable to it out of which $1 million was invested during 2005. In addition, during 2005 the Group had installed and began operating a sand filter as tertiary treatment for its effluent in the site in Hadera. The investment in this project was approximately $400,000.

In 2006 the Group intends an investment of approximately $800,000, in a unit for the removal of phosphor and softening the effluent after the paper mill s wastewater treatment plant.

The Company is preparing for the conversion of its energy-generation systems to natural gas, in an investment of approximately $5 million, once the transportation infrastructure of natural gas to Hadera is completed. The conversion is planned for the end of 2006, subject to the completion of the transportation infrastructure of natural gas to Hadera. This project is expected to contribute and improve the environmental compliance since the Company will use natural gas instead of fuel oil.

In 2005 all plants at the main Hadera site successfully passed various environmental inspections.

ITEM 4A UNRESOLVED STAFF COMMENTS

None.

ITEM 5 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Critical Accounting Policies and Estimates

The Company s discussion and analysis of the financial condition and operations are based upon the Company s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in Israel (for information as to the reconciliation between U.S. and Israeli GAAP, see Item 17). The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

The Company identified the most critical accounting principles upon which its financial status depends. The Company determined the critical principles by considering accounting policies that involve subjective decisions or assessments.

The Company states its accounting policies in the notes to the consolidated financial statements and at relevant sections in this discussion and analysis.

This discussion and analysis should be read in conjunction with the Company s consolidated financial statements and related notes included elsewhere in this report.

The Company identified the following to be the most critical accounting policies:

Inventories

The inventory is valued at the lower of cost or market, where cost is determined on the moving average basis. The Company writes down its inventory for estimated obsolescence or unmarketable inventory based on analysis of inventory aging, assumptions about future demand and market conditions. If actual demand and/or market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Spare parts of the machinery and equipment that are not for current use, are presented under fixed assets.

Allowance for doubtful accounts

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company provides an allowance for doubtful accounts as a percentage of all specific debts doubtful of collection. The allowances are based on the likelihood of recoverability of accounts receivable considering the aging of the balances, the Company s historical write-off experience, net of recoveries, change in credit worthiness of the customers, and taking into account current collection trends that are expected to continue. These estimated allowances are periodically reviewed, analyzing the customers payment history. Actual customer collections could differ from the Company s estimates.

Contingencies and risks involving the business

The Company is subject, from time to time, to various claims arising in the ordinary course of operations. In determining whether liabilities should be recorded for pending litigation claims, the Company assesses, based on advice of its outside legal counsel, the allegations made and the likelihood that it will successfully defend itself.

When the Company believes that it is probable that it will not prevail in a particular matter, it then estimates the amount of the liability. The evaluation of the probability of success of such claims and the determination of whether there is a necessity to include provisions in respect thereof require judgment by the Company s legal counsel and management.

Deferred income taxes

Deferred taxes are determined utilizing the asset and liability method, based on the differences between the amounts presented in the financial statements and those taken into account for tax purposes, in accordance with the related tax laws. Valuation allowances are included in respect of deferred tax assets when it is more likely than not that such assets will not be realized. The Company has considered future taxable income and tax planning strategies in assessing the need for the valuation allowance. Management evaluates the realizability of the deferred tax assets on a current basis. If it were determined that the Company would be able to realize the deferred tax assets in excess of its net recorded amount, an adjustment to deferred tax assets would increase income.

Impairment in value of Long-Lived Assets (including fixed assets and investments in associated companies)

In February 2003, Accounting Standard No. 15 of the Israeli Accounting Standard Board (hereafter IASB) Impairment of Assets , became effective. According to this standard the company performs a periodic review to evaluate the need for a provision for impairment regarding its non-monetary assets - mainly fixed assets as well as investments in associated companies.

Accordingly, at each balance sheet date, the company assesses whether any events have occurred or changes in circumstances have taken place, which might indicate that there has been an impairment of one or more of the above assets. When such indicators of impairment are present, the Company evaluates whether the carrying value of the asset in the Company s accounts can be recovered from the cash flows anticipated from that asset.

The recoverable value of an asset is determined according to the higher of the net selling price of the asset or its value in use to the Company. The value in use is determined according to the present value of anticipated cash flows from the continued use of the asset, including those expected at the time of its future retirement and disposal. When it is not possible to assess whether an impairment provision is required for a particular asset on its own, the need for such a provision is assessed in relation to the recoverable value of the cash generating unit to which that asset belongs.

Through December 31, 2002, the Company applied the provisions for assessing and recording impairment of assets, prescribed by the U.S. standard, FAS 121.

Discontinuance of Adjusting Financial Statements for Inflation

In October 2001, the IASB issued Israel Accounting Standard No. 12 Discontinuance of Adjusting Financial Statements for Inflation (hereinafter Standard 12), which provided for the discontinuance of adjusting financial statements for the effects of inflation, as of January 1, 2003. In December 2002, Accounting Standard No. 17 was issued that postponed the date from which Accounting Standard No. 12 is to be applied until January 1, 2004.

The Company s financial statements were drawn up in NIS adjusted for the changes in the dollar (as allowed by section 29(b) of Opinion 36 of the Israeli Institute) until December 31, 2003. Based on Standard 12 and the provisions in paragraph 4 to Israeli Accounting Standard No. 13, with effect from January 1, 2004, the Company is no longer able to measure its operations in dollars, and its operations are measured in NIS. The inflation-adjusted NIS amounts as of December 31, 2003, are the base for the nominal-historical financial reporting following January 1, 2004.

See also note 1b to the financial statements.

As for information regarding the effects of new Israeli accounting standards see note 1q to the financial statements.

General

On March 7, 2006, T.M.M (an associated company) announced that the Israeli Securities Authority had addressed T.M.M with regard to an investigation the authority is conducting. At this stage, T.M.M is unable to estimate the impact of the investigation on the Company.

A. Operating Results

The following is a summary of the period-to-period changes in the principal items included in the Consolidated Statements of Income:

Amount and Percentage Increase (Decrease)

New Israeli Shekels (in thousands)[1]

	Year ended 12/31/05 v. year ended 12/31/04		Year ended 12/31/04 v. year ended 12/31/03	
	Changes	**%**	**Changes**	**%**
	NIS		**NIS**	
Net sales	(393)	(0.1)	17,762	3.8
Cost of sales	7,275	1.9	13,719	3.8
Gross profit	(7,668)	(7.2)	4,043	3.9
Selling, administrative and general expenses	(1,520)	(2.9)	(3,303)	(5.9)
Income from ordinary operations	(6,148)	(11.4)	7,346	15.8
Financial expenses - net	628	(4.8)	2,871	(18.0)
Other income			(1,609)	(100.0)
Income before taxes on income	(5,520)	(13.5)	8,608	26.7
Taxes on income	(2,839)	90.1	4,554	(59.1)
Income from operation of the Company and the consolidated subsidiaries	(8,359)	(22.2)	13,167	53.7
Share in profits of associated companies	(8,658)	(34.5)	(10,477)	(29.5)
Net income	(17,017)	(27.1)	2,685	4.5

The statements of income for the years ended December 31, 2005, 2004 and 2003 are presented in New Israeli Shekels as explained in Note 1 to the Consolidated Financial Statements (See footnote).

The number of New Israeli Shekels which were exchangeable for 1 U.S. dollar increased (decreased) over the prior year by (-7.6%), (-1.6%) and 6.8% in 2003 ,2004 and 2005 respectively. See Note 1 to the financial statements attached and Item 17 for anticipated effect of adoption of accounting pronouncements that have been issued but are not yet required to be adopted.

2005 Compared to 2004

I. Overview of Results of Operations

1. Consolidated Data

Sales amounted to NIS 482.5 million during 2005, as compared with NIS 482.9 million in 2004.

Operating profit in 2005 amounted to NIS 47.8 million, as compared with NIS 53.9 million in 2004.

[1] AIPM made the transition to reporting in nominal New Israeli Shekels (NIS) in 2004, pursuant to the directives of Standard 12 of the Financial Accounting Standards Board in Israel. In the past AIPM s reports were in NIS, adjusted to changes in the exchange rate of the US dollar against the NIS.

The comparison figures for the year 2003 are the dollar figures, as reported in the past, multiplied by the exchange rate of the US dollar as at December 31, 2003, the day of the transition to NIS-based reporting pursuant to Standard 12 ($1 = NIS 4.379).

Profit after taxes and before AIPM s share in the earnings of associated companies for 2005, amounted to NIS 29.3 million, as compared with NIS 37.7 million in 2004.

2. Net income

Net income amounted to NIS 45.7 million during 2005, as compared with NIS 62.7 million in 2004.

Net income during 2005 included a tax benefit of NIS 8 million (including the Company s share in the benefit of associated companies) on account of the impact of the tax law reforms that were passed by the Knesset (Israeli parliament) on July 25th 2005, that serve to gradually lower the corporate tax rate to a level of 25% by 2010.

The net income before non-recurring items mentioned above amounted to NIS 37.7 million in 2005, as compared with NIS 48.3 million in 2004.

Earnings per share in 2005 amounted to NIS 1,127 per NIS 1 par value ($2.45 per share), as compared with NIS 1,544 per NIS 1 par value ($3.58per share) in 2004. The return on shareholders equity amounted to 7.9% in 2005, as compared with10.2% in 2004.

II. The Business Environment

The year 2005 was characterized by economic growth in Israel (approximately 5%), increased demand on the part of the public sector and more moderate growth in private consumption.

The Group s results in 2005 were significantly affected by the unusual rise in energy prices, that began in 2004 and accelerated in 2005.

This price increase included fuel oil and diesel prices that rose by an extraordinary average of 38% in relation to 2004. Water and electricity prices also rose in 2005 as compared with 2004 (by an average of 10% and 13%, respectively).

The impact of these price increases on the Group s aggregate operating profit results amounts to approximately NIS 40 million.

In parallel, the prices of the principal raw materials used by the Group companies in their various activities also continued to rise. The impact is an additional NIS 60 million to the Group s costs in the aggregated operations profit, compared with 2004.

The downturn in the European paper industry, originating from surplus supply due to the recession, has resulted in competing imports into Israel, at low prices, that rendered it impossible to raise prices, as warranted from the said rise in input prices.

In view of the said market conditions and the fierce competition which the Group is facing, and with the intention of dealing with the said rise in input prices, the Group accelerated its efficiency programs at all the companies, operating intensively to cut costs across all expense areas in parallel to maintaining the quality of products and the market share figures.

As part of the said operations, the Company is initiating measures to achieve synergy between the Group companies, thereby allowing the Group to enjoy economies of scale, while bringing about greater efficiency and savings in various costs, including energy and raw material costs. The said plans include among others the anticipated savings from the expected transition to the use of natural gas at the Hadera plant, as described below.

Concurrently, the Group is implementing some cross-organization plans: The Talent Management plan for the development of the Group s managers and the creation of managerial reserve, the WOW Program for enhancing the perceived added value of the companies with the customers and improving loyalty premium and price based on differentiation of products and service, Kimberly Clark s global Centerlining program aimed at improving production lines (operating a methodology that creates a joint agenda for all elements impacting operations, including: engineering, maintenance, technology and operations, while constantly measuring the variation of selected parameters, thereby creating a process of constant improvement in quality and efficiency).

In addition, the Group raised the selling prices of its products, albeit only partially and not to the extent warranted by the increase in input prices due to the economic conditions outlined above, the more moderate demand and the escalating competition against both imports and local manufacturers.

The said efficiency measures, together with the partial rise in prices, rendered it possible to significantly reduce the heavy impact of the rising input prices on the results.

The Group is currently continuing its efforts to improve selling prices, on the one hand, while extending the efficiency measures on the other hand, in order to compensate for the said increased input prices.

It is impossible to estimate the impact of the above steps on the Group s profitability, at this stage.

A trend has been identified in early 2006 whereby the gap between supply and demand in the European paper market seems to be narrowing, given the economic growth in the EU. This trend is leading to announcements regarding increases paper prices in Europe and in the USA.

As part of the Company s endeavors to cut manufacturing costs and to achieve additional environmental improvements, the Company is continuing to promote the energy-generation plant project in Hadera, using natural gas.

The Company is initially preparing for the conversion of its energy-generation systems from the use of fuel oil to natural gas, once the transportation infrastructure of natural gas to Hadera is completed. The transition is planned for the second half of 2006, subject to the arrival of the gas to Hadera.

In this capacity, the Company signed an agreement in London on July 29, 2005, with the Thetis Sea Group, for the purchase of natural gas. The gas that will be purchased is intended to fulfill the Company s requirements in the coming years, for the operation of the existing energy co-generation plant at Hadera that will be converted for the use of natural gas, instead of the current use of fuel oil. The overall financial volume of the transaction totals $40 million over the term of the agreement (5 years from the initial supply of gas, but no later than July 1, 2011).

The transition from fuel oil to natural gas will allow for significant savings, due to the significant differences between the current price of fuel oil versus the gas price and will serve to improve the Group s competitiveness and profitability.

The exchange rate of the NIS compared to the USD was devaluated by 6.8% during 2005, as compared with a revaluation of 1.6% in 2004.

The inflation rate during 2005 amounted to 2.4%, as compared with an inflation rate of 1.2% in 2004.

III. Analysis of Operations and Profitability

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

1. **Sales**

The consolidated sales amounted to NIS 482.5 million in 2005, as compared with NIS 482.9 million in 2004.

The change in the turnover in 2005 originated from a certain growth in sales of packaging paper and paper waste, along with an insignificant decrease in the sales of office equipment sector due to the implementation of a reorganization process in this sector.

2. **Cost of Sales**

The cost of sales amounted to NIS 383.2 million in 2005, representing 79.4% of sales, as compared with NIS 375.9 million, or 77.9% of sales in 2004.

The gross margin amounted to 20.6% in 2005, as compared with 22.1% in 2004.

The decrease in the gross margin originated primarily from the erosion of the gross profit due to the increase in raw material prices (approximately 9% for paper waste), the unusual rise in energy prices (approximately 38% for fuel oil and approximately 13% for electricity) and water (approximately 10%). This was partially offset by a certain quantitative growth in sales of packaging and paper waste, a certain rise in selling prices (that failed to compensate for the said rise) and the continuing efficiency measures across all areas of operation.

3. **Labor Wages**

The labor wages in the cost of sales, in selling expenses and in General and Administrative expenses, amounted to NIS 149.7 million in 2005, as compared with NIS 143.5 million in 2004.

The increase in wages is attributed to a certain rise in manpower due to the quantitative growth, coupled with the preservation of a real level of wages, in CPI terms.

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

The selling, general and administrative expenses (including wages) amounted to NIS 51.5 million in 2005, 10.7% of sales, as compared with NIS 53.0 million, 11.0% of sales, in 2004.

The decrease in selling and General and administrative expenses originated from continuing efficiency and cost-cutting measures.

5. **Operating Profit**

The operating profit amounted to NIS 47.8 million in 2005, representing 9.9% of sales, as compared with NIS 53.9 million, or 11.2% of sales in 2004.

The decrease in the operating profit in the paper and recycling sector in 2005 as compared with 2004 originated primarily from the said erosion of margins, due to the sharp rise in input prices (primarily energy, electricity and water) on the one hand, along with the difficulty in raising prices as warranted by the said rise in input prices due to competing imports.

The substantial decrease in the office supplies sector loss in 2005 as compared with 2004 resulted from the reorganization process implemented in this sector, along with extensive efficiency measures and operations in order to increase sales.

6. **Financial Expenses**

The financial expenses amounted to NIS 12.5 million in 2005, as compared with NIS 13.1 million in 2004.

The total average of the company s net, interest-bearing liabilities grew by approximately NIS 58 million, as a comparison between 2005 and 2004. The growth originated primarily from the payment of NIS 100 million in dividends in September 2004 and NIS 50 million in September 2005, coupled with investments in fixed assets, net of dividend received from a consolidated subsidiary (NIS 21.8 million) and net of the positive cash flows from operating activities.

Moreover, the cost of the transaction for hedging the Series 2 notes against a rise in the CPI has risen to 1.3% per annum in 2005, as compared with 0.92% per annum in 2004 and resulted in an increase in costs related to the notes.

Nevertheless, since the Consumer Price Index (CPI) rose by an actual 2.4% in 2005, the hedging transaction of 1.3% resulted in savings of NIS 2.7 million on additional financing costs on account of the CPI-linked notes.

Despite the aforesaid, the devaluation in 2005, that served to increase the financial revenues from the Company s dollar-denominated assets, as compared with the revaluation that took place in 2004, resulted in net financial expenses that were lower in 2005 than in 2004.

7. **Taxes on Income**

Expenses for taxes on income from current operations totaled NIS 10.2 million in 2005, as compared with NIS 13.2 million in 2004.

The principal factors responsible for the decrease in tax expenses in 2005 as compared with 2004 include the decrease in pre-tax earnings this year and the lower tax rate this year, in relation to last year.

A tax benefit of NIS 4.2 million was recorded in 2005 on account of the impact of the tax reforms that were passed by the Knesset in July this year (gradually lowering the corporate tax rate to 25% by 2010) on the company s deferred taxes. The financial statements in 2004 included a tax benefit of NIS 5.8 million on account of the impact of the change in the corporate tax rate that was passed in 2004 on the company s deferred taxes, coupled with an additional tax benefit of NIS 4.2 million on account of the exercise of options by employees.

The tax expenses, including the said benefits, amounted to NIS 6.0 million in 2005, as compared with NIS 3.2 million in 2004.

8. **Company s Share in Earnings of Associated Companies**

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

The Company s share in the earnings of associated companies (before non-recurring items) amounted to NIS 12.6 million in 2005, as compared with NIS 20.7 million in 2004.

The following principal changes were recorded in the Company s share in the earnings of associated companies, (before non-recurring items):

The Company s share in the net earnings of Mondi Hadera (49.9%) decreased by NIS 10.1 million in 2005, as compared with 2004 (2004 gain, 2005 loss). Most of the change in profit in 2005 as compared with 2004 originates from the decrease in operating income between the years, as a result of the rebuild that was carried out on the paper machine this year. The massive rebuild, that was intended to improve the output of the machine and the quality of the paper, necessitated discontinuing the manufacturing process during the rebuild and was accompanied by a subsequent learning curve, as is normal during such a significant project. The unusual increase in raw material, energy and water prices also adversely affected the profitability of Mondi Hadera. The economic slowdown in Europe and the surplus of paper led to an erosion of imported paper prices and rendered it difficult for Mondi Hadera to raise prices, as warranted from the said price hikes both in local markets and especially in export markets. Mondi Hadera is nevertheless continuing with its efforts to raise prices (in parallel to announcing higher prices in Europe in late 2005) and is intensifying its efficiency and cost-cutting measures.

The Company s share in the net earnings of Hogla-Kimberly (49.9%) increased by NIS 2.9 million in 2005, as compared with 2004. The stronger marketing operations and the fortification of brands, in combination with the increase in prices and effective efficiency measures, served to compensate in 2005 for the sharp rise in input prices (raw materials and energy) and improved the operating income. Hogla-Kimberly continues to improve the quality of its products, while strengthening its brands, including Mollett Hearts toilet paper, Kotex hygiene products and Nikol (complementary kitchen products).

A net loss of NIS 3.5 million was recorded in the second quarter of 2005 on account of AIPM s share in a supplemental provision for doubtful debts, that was recorded by Hogla-Kimberly on account of the debts of Club Market, that is in a stay of proceedings and is currently subsequent to its acquisition by Supersol undergoing a settlement of debts. The settlement was approved by the court, but has yet to be finalized. The sum of the settlement is yet unknown.

The Company s share in the losses of Kimberly Clark Turkey, a wholly-owned Hogla-Kimberly subsidiary that is consolidated in its financial statements (hereinafter: KCTR , formerly Ovisan) (49.9%) has decreased by NIS 6.6 million in 2005, as compared with 2004. In 2005, KCTR has continued its preparation for the expansion of operations in the Turkish market and for the introduction of Kimberly Clark s international premium products into the Turkish market, as part of the multi-annual program (that is being formulated in conjunction with Kimberly Clark). In this capacity, the local management team was reinforced, to enable the realization of the said plan. KCTR has started the introduction of the Kotex® line of feminine hygiene products in late 2005 and is expected to introduce Huggies® diapers in 2006. KCTR recorded a significant loss in 2004, since the deployment of its distribution network on the one hand, and fierce competition in the Turkish market, on the other hand, resulted in the need to adjust the value of inventories to the prevailing market prices at the end of that year.

The Company s share in the net earnings of the Carmel Group (26.25%) decreased by NIS 2.8 million in 2005 as compared with 2004. The change in 2005 originated from a decrease in operating profit and a rise in financial expenses (due to devaluation differentials). The decrease in operating profit, despite the quantitative increase in sales, originated primarily from the sharp rise in raw material prices, that was only partially offset by the rise in selling prices (in view of the escalating competition in the corrugator market), leading to a consequent erosion in the gross margin. In 2005, Carmel began making investments as part of the strategic move to improve the corrugation base with the intention of rendering the manufacturing process more efficient. At the end of this process, the output capacity will reach 100 thousand tons. The investment will be completed in 2006.

The Company's share in the net earnings of TMM (43.08%) decreased by NIS 4.6 million in 2005 as compared with 2004 (2004 gain, 2005 loss). TMM recorded a sharp decrease in operating profit in 2005 as compared with 2004, due to the significant rise in transportation costs (originating from a significant average rise of 32% in diesel prices as compared with 2004 an impact of NIS 8 million). This unusual increase in diesel prices was not sufficiently compensated for in the selling prices, due to the fact that most of the agreements are linked to the Consumer Price Index (CPI), that rose by only 2.4% this year. TMM is intensively carrying out efficiency measures and is attempting to modify some of the agreements, so as to reflect the extraordinary increase in diesel prices. We note that some of the customers began responding to the price changes in late 2005.

The Company s share in the earnings of associated companies in 2005 includes its share in the tax benefits recorded by these companies, following the change in tax rates (in the amount of NIS 3.9 million) amounts to NIS 16.4 million, as compared with NIS 25.1 million in 2004 (including a tax benefit of NIS 4.4 million).

2004 Compared to 2003

I. Overview of Results of Operations

1. Consolidated Data

Sales amounted to NIS 482.9 million during 2004, as compared with NIS 465.1 million in 2003.

Operating profit in 2004 amounted to NIS 53.9 million, as compared with NIS 46.6 million in 2003.

Profit after taxes and before AIPM s share in the earnings of associated companies for 2004, amounted to NIS 37.7 million, as compared with NIS 24.5 million in 2003.

2. Net income

Net income amounted to NIS 62.7 million during 2004, as compared with NIS 60.0 million in 2003.

Net income during 2004 includes non-recurring earnings on account of a NIS 14.4 million tax benefit, originating from the influence of the decrease of the corporate tax rate on the reserve for deferred taxes at AIPM and at its associated companies (from 36% to 30% by 2007), along with a tax benefit on account of the exercise of options by employees.

Net income in 2003 included NIS 2.7 million in non-recurring capital gains and in a tax benefit on account of the exercise of options by employees.

Earnings per share in 2004 amounted to NIS 1,544 per NIS 1 par value ($3.58 per share), as compared with NIS 1,494 per NIS 1 par value ($3.41 per share) in 2003. The return on shareholders equity amounted to 10.2% in 2004, as compared with 9.2% in 2003.

II. The Business Environment

A turnaround took place in the Israeli economy since the beginning of 2004, as the economy rebounded, following a severe recession that lasted several years. The recovery was expressed by positive growth rates (approx. 4% in 2004, up from 1.3% in 2003), higher demand and a more optimistic outlook in the markets.

Israel has also experienced a certain calm in the security situation lately, which may positively

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affect the economy, although this calm is not yet reflected in the results in the financial statements presented herein.

AIPM is exposed to competition in all its areas of operation, both from locally-produced goods and from imports. The level of competition is constantly escalating.

Despite this competition, the Group is successfully preserving the profitability of its Israeli operations, while recording continued growth in the volume of operations.

AIPM is preparing for the conversion of its energy-generation system to natural gas, once the transportation infrastructure of natural gas to Hadera is completed. This conversion is expected to enable savings in production costs, while further improving environmental compliance.

The exchange rate of the NIS compared to the USD was revaluated by 1.6% during 2004, as compared with a 7.6% in 2003.

The inflation rate during 2004 amounted to 1.2%, as compared with a negative inflation rate of -1.9% in 2003.

III. Analysis of Operations and Profitability

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

1. Sales

Consolidated sales amounted to NIS 482.9 million during 2004, as compared with NIS 465.1 million in 2003. The growth in sales is attributed to a quantitative increase in packaging paper and in the sale of paper waste to external entities, coupled with an improvement in the prices of fluting and paper waste and a change in the sales mix. On the other hand, the decrease in Graffiti sales served to offset part of this growth.

2. Cost of Sales

Cost of sales amounted to NIS 375.9 million during 2004, as compared with NIS 362.2 million in 2003.

The gross margin as a percentage of sales reached 22.1% during 2004 and is similar to 2003.

AIPM managed to maintain a gross margin similar to 2003, despite the rise in raw material prices (paper waste by 13%), energy prices (4%), and water (5%). This was accomplished through growth in sales, higher sales prices and the continued efficiency process in all sectors of operation.

3. Labor Wages

Wages and salaries included in the cost of sales and in the selling, general and administrative expenses, amounted to NIS 142.4 million in 2004, as compared with NIS 137.0 million in 2003.

However, since the figures in 2003 were reported in accordance with the U.S. dollar and due to the influence of changes in the exchange rate of the U.S. dollar on the reporting of 2003 with the transition to reporting according to Standard 12, the adjusted cost of wages in 2003, as presented above, was NIS 3.7 million lower than the nominal cost at the time that amounted to NIS 140.7 million.

Most of the growth compared to 2003 originated from an increase in wages by an average of 3% that was mostly offset by a reduction in personnel and by differences in other payments primarily bonuses.

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

Selling, general and administrative expenses (including wages) amounted to NIS 53.0 million or 11.0% of sales in 2004, as compared with NIS 56.3 million or 12.1% of sales in 2003.

5. **Operating Profit**

Operating profit amounted to NIS 53.9 million or 11.2% of sales in 2004, as compared with NIS 46.6 million or 10.0% of sales in 2003.

6. **Financial Expenses**

Financial expenses amounted to NIS 13.1 million during 2004, as compared with NIS 16.0 million in 2003.

AIPM s linkage bases includes a surplus of dollar-linked monetary assets on the one hand, and a surplus of NIS-denominated monetary liabilities, on the other hand.

The financial expenses in 2003 were influenced by the sharp revaluation of the New Israeli Shekel against the dollar (7.6%), which caused a significant increase in the financial expenses during 2003 when financial reporting was adjusted to the dollar.

In 2004, with the transition to reporting in nominal shekels in accordance with Standard 12, AIPM s financial expenses grew slightly, as a result of the effects of the small revaluation this year (1.6%) on AIPM s surplus dollar assets.

The average increase of NIS 60 million in net financial liabilities compared to 2003 resulted in an increase in financial expenses during 2004. This growth was partially offset by the decrease in the average interest rate on short-term credit (5% in 2004 as compared with 7.9% in 2003).

7. **Taxes on Income**

Taxes on income amounted to NIS 3.2 million in 2004, as compared with NIS 7.7 million in 2003.

Taxes on income from current operations amounted to NIS 13.2 million in 2004, as compared with NIS 8.8 million in 2003.

The principal factors behind the growth in tax expenses in 2004 as compared with in 2003 include the growth in earnings before taxes in 2004, as opposed to the tax benefit that was recorded in 2003 on account of the sharp revaluation (erosion of the reserve), due to reporting adjusted to the changes in the exchange rate of the dollar.

In June 2004 a law was passed in Israel, effective retroactively from January 1, 2004, that serves to lower the corporate tax rate (36% prior to the amendment) to 35% in 2004 and gradually down to 30% by 2007.

The effect of this change on AIPM s deferred taxes during 2004 (in the consolidated report) amounted to NIS 5.8 million (primarily due to future tax liabilities which were deferred in respect of timing differences in depreciation, which were calculated at an accelerated pace in the tax reports).

Moreover, a tax benefit of NIS 4.2 million was recorded in 2004, on account of the exercise of options by employees.

In view of the above, the tax expenses during 2004, as reported in the financial statements, amounted to NIS 3.2 million.

8. **Profit After Taxes and Prior to AIPM s Share in the Earnings of Associated Companies**

Profit after taxes and before AIPM s share in the earnings of associated companies for 2004, amounted to NIS 37.7 million, as compared with NIS 24.5 million in 2003.

9. **AIPM s Share in Earnings of Associated Companies**

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

AIPM s share in the earnings of associated companies amounted to NIS 25.1 million in 2004 (including NIS 4.4 million as our share in a non-recurring benefit recorded in respect of the change in the corporate tax rate on the deferred earnings of the companies), as compared with NIS 35.5 million in 2003.

The following principal changes were recorded in AIPM s share in the earnings of associated companies (2004 not including the aforementioned tax benefit), compared to 2003:

AIPM s share in the net income of Mondi Hadera (49.9%) decreased by NIS 3.0 million. Most of the change in the earnings is associated with a decrease in operating profit between the years, that originated primarily from lower margins in exports to Europe, coupled with increased financial expenses in 2004 as a result of the repayment of shareholder loans over the past two years that led to an increase in Mondi Hadera s debt balance.

AIPM s share in the net earnings of Hogla-Kimberly Israel (49.9%) increased by approximately NIS 1.2 million, primarily due to the ongoing improvement in operating profit at Hogla-Kimberly Israel, as compared with 2003. This improvement was achieved primarily as a result of better prices and quantitative growth, coupled with the continuing efficiency measures, both in logistics and in production, and particularly as a result of the expanded production of Huggies® diapers in Afula. The said increase was offset by lower financial revenues in 2004 as compared with 2003, due to the transition to reporting according to Standard 12 and the effects of revaluation differentials on the NIS compared to the USD, on Hogla s linkage balance sheet.

AIPM s share in the net loss of Ovisan (Hogla s subsidiary in Turkey) (49.9%) amounted to NIS 15.4 million in 2004. Ovisan made considerable efforts to increase its volume of operations in the Turkish market during 2004, while tapping into Unilever s nationwide distribution network, which includes a wide logistic network that covers all of Turkey in a wide national spread, as a necessary condition for the preparations for the continued development of Ovisan and the creation of a platform for introducing the Kimberly-Clark Group s international brands. In this capacity, a significant quantitative increase was recorded in 2004 in the Ovisan sales both to the domestic

market and to exports (up about 40% quantitatively) accompanied by a significant increase in selling and advertising expenses. The Ovisan loss during 2004 was caused as a result of the said change in the Ovisan distribution and sales network, coupled with escalating competition in the Turkish market due to the arrival of additional competitors into the sector, which resulted in lower prices and a need to adjust the value of inventories to the market prices on the balance sheet date. The difficulties that were created in the assimilation of the new reporting system, which accompanied the change in the distribution system, resulted in delays in receiving the data and in difficulties in providing an immediate response to changing market conditions in reducing the losses, as mentioned above.

AIPM s share in the net profits of the Carmel Group (26.25%) increased by NIS 3.6 million, due to the continuing improvement in the operating profit. The improvement is attributed to the comprehensive efficiency measures being initiated by Carmel, coupled with the growth in the volume of operations.

AIPM s share in the TMM earnings (41.6%) increased by NIS 1.3 million. The improvement originates from a significant decrease in TMM s elevated financial expenses during 2004, compared to 2003. Among other factors, this is attributed to a decrease in the interest rate over the two years, coupled with financial revenues from local municipalities (with which an agreement was reached) due to considerable arrears in their payments. TMM managed to preserve its operating margin during 2004, despite the considerable increase in transportation costs, due to the significant increase in diesel prices (up by an average of 40% compared to 2003) which was not compensated by selling prices since most of the company s agreements are linked to the consumer price index which rose during 2004 by only 1.2% .

B. Liquidity and capital resources

1. Cash Flows

The cash flows from operating activities in 2005 (excluding dividends from an associated companies) amounted to NIS 66.8 million, as compared with NIS 47.1 million in 2004 (including the dividends received from an associated companies, the cash flows in 2005 amounted to NIS 88.6 million). The improvement in the cash flows from operating activities in 2005 originated primarily from a decrease in working capital.

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

2. Financial Liabilities

The Company believes that its existing credit lines and cash flow from operations are sufficient for financing its working capital needs. The Company uses its cash flow from operating activities to finance its investments and for repayment of loans and dividend distributions to its shareholders.

Based on the Company s balance sheet, the Company believes that it is unlikely that there will be any difficulties to obtain credit, whether short term debt or long-term debt, to finance anticipated investments.

On December 21, 2003, the Company issued notes through tender by private placement in the amount of NIS 200 million, to institutional investors. These notes carry an interest rate of 5.65% per annum (a margin of 1.45% above government notes with a comparable average maturity at the time). The principal will be repaid in seven equal annual installments between the years 2007-2013 (average maturity of 6 years), with both the principal and the interest being linked to the CPI. The notes are not convertible into the Company s ordinary shares and shall not be registered for trade on a public exchange.

The long-term liabilities (including current maturities) of the Companies amounted to NIS 267.4 million as at December 31, 2005 as compared with NIS 267.9 million as at December 31, 2004.

The Company uses loans from local financial institutions, mostly banks, to finance its activities. As of December 31, 2005, these loans consisted of the following:

1. Short-term credit from banks see Note 10d to the financial statements attached.

2. Notes see Note 4a to the financial statements attached.

3. Other liabilities see Note 4b to the financial statements attached.

For information regarding financial instruments used for hedging purposes and market risks see Item 11, Quantitative and Qualitative Disclosure about Market Risk .

The Group may incur additional tax liabilities in the event of inter-company dividend distributions, derived from approved enterprises profits. The said dividend distribution from investee companies is in the amount of up to approximately NIS 90 million (of which the Company s share of the additional tax is NIS 15 million, if this dividend is distributed). No account was taken of the additional tax, since AIPM has the ability and the intention that such earnings are to be reinvested and that no dividend would be declared which would involve additional tax liability to the Group in the foreseeable future.

C. Research and development, patents and licenses, etc.

There are no significant investments in research and development activities.

D. Trend information

For trend information see The Business Environment and the Influence of External Factors above.

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E. Off Balance sheet Arrangements

The Company does not have any material off balance sheet arrangements, as defined in Item 5E of the instructions to Form 20-F.

F. Contractual Obligations**

In NIS in million	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Long term debt obligations*	295.2	19.4	140.6	70.9	64.3

* Including interest

** Not including contractual obligations from the natural gas agreement with Thetis Sea Group (See page 45)

ITEM 6 DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

The following table sets forth certain information with respect to the directors and executive officers of the Company:

NAME Directors:	DIRECTOR SINCE	AGE	POSITION
Ronit Blum	2005	54	Director
Nochi Dankner	2003	52	Director
Avi Fischer	2004	50	Director
Oren Lieder	2003	58	Director (until May 11, 2006)
Ari Bronshtein	2006	37	Director (from May 11, 2006)
Zvi Livnat	2003	53	Chairman of the Board since April 02, 2006
Amir Makov	2005	72	Director
Isaac Manor	2003	65	Director
Amos Mar-Haim	1984	68	Director
Adi Rozenfeld	2004	52	Director
Avi Yehezkel	2003	48	Director
Yaacov Yerushalmi	1998	64	Chairman of the Board since January 1999 (until April 02, 2006), CEO of the Company from June 1990 until April 2003.

The business experience of each of the directors is as follows:

Ms. Ronit Blum is Director of Association of Friends, Tel Aviv Sourasky Medical Center.

Mr. Ari Bronshtein is Vice President of Discount Investments Corporation Ltd. Serves as director at various companies. Formerly served as Deputy CEO of Economics and Business Development of Bezeq, the Israeli Telecom Company Ltd.

Mr. Nochi Dankner is Chairman and Chief Executive Officer of IDB Holdings Corporation Ltd., Chairman of IDB Development Ltd., Discount Investments Ltd. and of Clal Industries and Investments Ltd. He serves or served as Chairman and Director in public and private companies of Ganden Group, *Mr. Avi Fischer* is Director and Co-CEO of Clal Industries and Investments Ltd. and Deputy Chairman of IDB Development Ltd, Deputy CEO of IDB Holdings Corporation Ltd., director of Discount Investment Ltd. and several public and private companies of Ganden Group and IDB Group. Senior partner of Fischer, Behar, Chen & Co. Law Office.

Mr. Zvi Livnat is Chairman of the Board of the Company since April 2006, Co-CEO of Clal Industries and Investments Ltd. , Deputy CEO of Commerce of Taavura Holding Group Ltd.,director and Deputy CEO of IDB Holdings Corporation, Deputy Chairman of IDB Development Ltd., director in Discount Investments Ltd., and other public and private companies.

Mr. Amir Makov is the Chairman of The Israel Institute of Petroleum & Energy and a director in the following companies: ICL Fertilizers (Dead Sea Works, Rotem Amfert Negev), ICL Industry Products (Dead Sea Bromine Company, Dead Sea Periclase), Granite Hacarmel Investments Ltd. and an external director in Wolfman Industries and Ludan Engineering Co. Ltd. Mr. Makov served as an external director of the Company between 1996-2001.

Mr. Isaac Manor is a director of various publicly-traded and privately-held companies within the IDB Group, IDB Holdings Ltd., IDB Development Ltd., Discount Investment Ltd. and Clal Industries and Investments Ltd ,Israel Union Bank Ltd. and others and Co-CEO and Chairman of companies in the David Lubinsky Group Ltd.

Mr. Amos Mar-Haim is a member of the Israel Accounting Standards Board and a director of various companies and formerly Vice Chairman of the Israeli Corporation Ltd.

Mr. Adi Rozenfeld is a businessman, consultant to companies and a representative of Activa Holdings BV in Israel. He is also the Honorary Consul of Slovenia in Israel and a director of various companies.

Mr. Avi Yehezkel is an external director at Bank Yahav. He served as a Knesset member between 1992-2003, during these years, alternately, he served as Deputy Minister of transportation, Chairman of the Economics Committee, Chairman of the Defense Budget Committee, Chairman of the Capital Market Sub-Committee, Chairman of the Banking Sub-Committee and member of the Finance Committee.

Mr. Yaacov Yerushalmi was Chairman of the Board of the Company since January 1999 until April 02, 2006, and Chief Executive Officer of the Company from June 1990 until April 2003. *Mr. Yerushalmi*, announced on 6 March 2006 his intention to retire after 37 years of work at AIPM

Senior Management (as of May 31, 2006)

Name	Age	Position
Avi Brener	53	Chief Executive Officer since January 1, 2005
Israel Eldar	61	Corporate Controller and responsible for risks and business interruption management. A director of subsidiaries and affiliated companies of the Company.
Ofra Gorni	53	Business Development Manager and a director of subsidiaries and affiliated companies of the Company.
Lea Katz	56	Legal counsel and Corporate Secretary .
Gabi Kenan	62	Senior Manager
Pinhas Rimon	66	General manager of Packaging Paper and Recycling Division. A director of subsidiaries and affiliated companies of the Company.
Gideon Liberman	56	General Manager of Development and Infrastructure Division

Senior Management in Subsidiaries and Affiliated Companies (as of May 31, 2006)

Name	Age	Position in the Company
Arik Schor	50	General Manager, Hogla-Kimberly Ltd.
Avner Solel	52	General Manager, Mondi Business Paper Hadera Ltd.
Moshe Riani	47	General Manager, Graffiti Office Supplies & Paper Marketing Ltd.
Rafi Alon	59	President, T.M.M. Integrated Recycling Industries Ltd.
Shalom Elkayam	57	General Manager, T.M.M. Integrated Recycling Industries Ltd.
Uzi Carmi	50	General Manager, Amnir Recycling Industries Ltd.
Doron Kempler	56	General Manager, Carmel Container Systems Ltd.

B. Compensation

The aggregate amount of remuneration paid to all directors and the above senior officers of the Company as a group for services provided by them to the Company during 2005 was approximately NIS 11,124,000 (approximately $2,416,740). The aggregate amount set aside for pension, retirement or similar benefits for directors and officers as a group for services provided by them to the Company during 2005 was approximately NIS 1,226,600 (approximately $266,480).

Out of the above mentioned remuneration, the remuneration paid by the Company in 2005 to Mr. Yerushalmi, the Company s Chairman of the Board, for services provided by him to the Company during 2005, was NIS 2,919,590 (approximately $634,270).

On May 7, 2001, the Company s Board of Directors adopted an incentive plan, which was subsequently approved by the Company s shareholders, to remunerate the Company s Chairman of the Board of Directors. According to the plan, such remuneration will be equal to the increase in the value of 50,000 ordinary shares of the Company in the period from May 7, 2001 (share price NIS 194.37 adjusted according to the plan) to May 7, 2008. The remuneration will be spread over the period commencing two years from the resolution of the Board of Directors, until the seventh anniversary of such resolution.

Remuneration of Directors

The remuneration of the directors (including the external directors) for 2005 was approved at the 2005 general meeting of shareholders. Pursuant to regulations under the Israeli Companies Law, each external director of the Company must receive the same annual compensation, which must be between NIS 29,038 and NIS 47,181, plus an additional fee for each meeting attended which must be between NIS 1,022 and NIS 1,815. The Board approved that the remuneration of each director for the year 2005, including the external directors, be fixed at NIS 40,000 plus an additional NIS 1,550 for each meeting attended.

C. Board practices

The directors of the Company, except for the external directors, retire from office at the Annual General Meeting of Shareholders and are eligible for re-appointment at such Annual General Meeting.

Notwithstanding the aforesaid, if no directors were appointed at any Annual General Meeting, the directors appointed at the previous Annual General Meeting shall continue in office. Directors, except for the external directors, may be removed from office earlier by a resolution at an Annual General Meeting of Shareholders.

The Articles of Association of the Company provide that any director may, by written notice, appoint any person who is approved by the directors to be an alternate director and to act in his place and to vote at any meeting at which he is not personally present. The alternate director is entitled to notice of Board meetings and he will be remunerated out of the remuneration of the director appointing him. The alternate director shall vacate his office if and when the director appointing him vacates his office as director, or removes him from office by written notice.

There are no services contracts which give the current directors of the Company any benefits upon termination of appointment, except for Mr. Yaacov Yerushalmi, whose terms of employment were submitted for approval at the Annual General Meeting of Shareholders according to Israeli law.

External Directors

Under the Israeli Companies Law, which became effective on February 1, 2000, the Company (as a public company) is required to have at least two external directors as members of its Board of Directors. An external director may not have any financial or other substantial connection with the Company and must be appointed at the Annual General Meeting of Shareholders. The external directors are elected for a three-year term of office that may be extended for another three years. Currently the external directors are Ms. Blum and Mr. Makov.

Audit Committee

Under the Israeli Companies Law, members of the Audit Committee are to be elected from members of the Board of the Company by the Board. The Audit Committee will be comprised of at least three directors, including all of the external directors, but excluding: (i) the chairman of the board of directors; (ii) any director employed by the Company or who provides services to the Company on a regular basis; or (iii) a controlling shareholder of the Company or his relative.

The role of the Audit Committee under the Israeli law is: (i) to examine flaws in the business management of the Company in consultation with its auditors and to suggest appropriate courses of action and (ii) to decide whether to approve actions or transactions which under the Israeli Companies Law require the approval of the Audit Committee (transaction with a related party, etc.) The Company does not have a Nominating Committee nor a Compensation Committee.

The role of the Audit Committee under the American law is: (i) to oversee on behalf of the Board- (a) the integrity of the financial statements; (b) the appointment, compensation, qualification and work of the Independent Auditors; (c) compliance with legal and regulatory requirements applicable to the internal controls and reporting of publicly traded companies; (d) performance of Internal Auditor and internal controls functions; and (ii) to evaluate potential or existing deficiencies in the administration, by consulting with the management, and make proposal to the Board; and (iii) to review matters referred to them under the Whistleblower process of the Company s Code of Conduct and Ethics.

The Company s Audit Committee members are: Amos Mar-Haim, Chairman, Ronit Blum, and Amir Makov. All members are independent directors, as that term is defined in the American Stock Exchange listing standards.

D. **Employees**

As of April 30, 2006, the Group had 3,453 employees in Israel. The Company and its subsidiaries had 753 employees in Israel of whom 151 were engaged in the office supplies activities, 584 in packaging paper and recycling division, and 18 were management and clerical personnel at the Company s headquarters in Hadera. The associated companies had 2,700 employees in Israel of whom 970 were engaged in the household paper activities, 301 in the printing and writing paper activities, 632 in the waste management and 797 in the corrugated board containers activities.

Some of the employees are subject to the terms of employment of collective bargaining agreements. The parties to such collective bargaining agreement are the Company and the employees, through the union.

E. **Share ownership**

In January 1998, the Company s Board of Directors approved a stock option plan, pursuant to which options for ordinary shares were allocated to senior officers of the Company and its subsidiaries, including 32,000 options to the CEO, in three annual installments. The plan was approved at the Company s Annual General Meeting of Shareholders in February 1998 and expired in 2003.

In April 2001, the Board of Directors of the Company adopted a new stock option plan under which options to purchase a total of 194,300 shares may be granted to senior officers of the Company and certain other companies in the Group. All of the options were granted by July 2001. Each option is exercisable to purchase one ordinary share of NIS 0.01 par value of the Company. The options vest in four yearly installments. The vesting period of the first installment is two years, commencing on the date of grant, and the next three installments vest on the third, fourth and fifth anniversary of the grant date. Each installment is exercisable for two years from the vesting date of such installment. For further information regarding the 2001 plan, see Note 6 of the Notes to the Consolidated Financial Statements.

In 2005, 13,877 options were exercised under the 2001 plan and 4,307 shares were issued following the exercise of options.

In August 2001, the Company s Board of Directors approved a stock option plan for employees of the Company and its subsidiaries. Under this plan, up to 125,000 options may be granted without consideration. Each option is exercisable to purchase one ordinary share of NIS 0.01 par value of the Company. In November 2001, 81,455 options were granted under the 2001 employee plan. The blocking period of the options is two years from the data of grant. Each option is exercisable within three years from the end of the blocking period. For further information regarding the 2001 employee plan, see Note 6 of the Notes to the Consolidated Financial Statements.

In 2005 2,405 options were exercised under the 2001 employee plan and 1,224 shares were issued following the exercise of options.

ITEM 7 MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major shareholders

The following table sets forth, as of May 29, 2006, the number of Ordinary Shares of the Company beneficially owned by (i) all those persons who, to the Company s knowledge, were the beneficial owners of more than 5% of such outstanding shares, and (ii) all officers and directors of the Company as a group:

Name and Address: Principal Shareholders:	Amount Beneficially Owned Directly or Indirectly*	Percent of Class Outstanding
Clal Industries Ltd. ("Clal") 3 Azrieli Center, the Triangle Tower, Tel Aviv, Israel	1,531,128[(1)]	38.04[(1)]
Discount Investments Corporation Ltd. ("DIC") 3 Azrieli Center, the Triangle Tower, Tel Aviv, Israel	865,014[(1)]	21.49[(1)]
Bank Leumi Le Israel Ltd. P.O.B 2, Tel Aviv, Israel (through trust and provident funds)	222,419	5.53
All officers and directors as a group	**	**

* Beneficial ownership is calculated in accordance with Rule 13d-3 under the Securities Exchange Act of 1934.

** The officers and directors of the Company own, in the aggregate, less than 1% of the Company s outstanding ordinary shares, except for Nochi Dankner, Isaac Manor and Zvi Livnat whose ownership is set forth in footnote (1) below.

1 IDB Holding Corporation Ltd. (IDBH) holds 71.81% of the equity of and 72.01% of the voting power in IDB Development Corporation Ltd. (IDBD), which, in turn, holds 74.19% of the equity of and voting power in DIC and 61.98% of the equity of and voting power in Clal. IDBH, IDBD, Clal and DIC are public companies traded on the Tel Aviv Stock Exchange.

Since May 19, 2003 approximately 51.7% of the outstanding share capital of IDBH, is held by a group comprised of: (i) Ganden Investments I.D.B. Ltd. (Ganden), a private Israeli company controlled by Nochi Dankner and his sister, Shelly Bergman, which holds 31.02% of the equity of and voting power in IDBH; (ii) Manor Investments-IDB Ltd. (Manor), a private Israeli company controlled by Isaac and Ruth Manor which holds approximately 10.34% of the equity of and voting power in IDBH; and (iii) Avraham Livnat Investments (2002) Ltd. (Livnat), a private Israeli company controlled by Avraham Livnat and Zvi Livnat which holds approximately 10.34% of the equity of and voting power in IDBH. Ganden, Manor and Livnat, owning in the aggregate approximately 51.7% of the equity of and voting power in IDBH, entered into a Shareholders Agreement relating, among other things, to their joint control of IDBH, the term of which is until May 19, 2023.

In addition: (a) Ganden Holdings Ltd., the parent company of Ganden, directly holds approximately 11.38% of the equity and voting power in IDBH and Ganden directly holds approximately 6.71% of the equity and voting power in IDBH ; (b) Manor Holdings B.A. Ltd., the parent company of Manor, directly holds approximately 0.03% of the equity and voting power in IDBH; (c) Avraham Livnat Ltd., the parent company of Livnat, directly holds approximately 0.04% of the equity and voting power in IDBH; and (d) Shelly Bergman owns, through a private company wholly owned by her, approximately 7.23% of the equity and voting power in IDBH (hereinafter jointly: additional holdings).It should be noted, that the additional holdings, are not included in the shareholders agreement between Ganden, Manor and Livnat, relating, among other things, to their joint control of IDBH. Nochi Dankner is Chairman and CEO of IDBH and chairman of IDBD, Clal and DIC., Isaac Manor (the husband of Ruth Manor), and Zvi Livnat (the son of Avraham Livnat) are directors of each of IDBH, IDBD, and DIC. Isaac Manor is also director of Clal.

In 1980 DIC and Clal agreed for a period of ten years (subject to renewal for additional ten year periods) to coordinate and pool their voting power in the Company in order to appoint an equal number of each party s nominees to the Board of Directors of the Company, and in order to elect their designees to the Board s Committees. They also agreed to vote en bloc in General Meetings of the Company on the subject of dividend distributions. This agreement has been extended to the year 2010.

The Company estimates that as of April 30, 2006, 9.84% of its outstanding ordinary shares were held in the United States by 932 record holders.

All ordinary shares of the Company have equal voting rights.

B. Related Party Transactions

The information is included in the Company s attached Consolidated Financial Statements: For loans to associated companies see Note 2 to the attached financial statements. For a capital note to an associated company, see Note 4b to the attached financial statements. For transactions and balances with related parties see Note 13 to the attached financial statements.

For further information see also Note 9f and 9g to the financial statements attached.

C. Interests of Experts and Counsel

Not applicable to annual reports.

ITEM 8 FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

See the financial statements included in Item 17.

B. Significant Changes

None.

ITEM 9 THE OFFER AND LISTING

A. Offer and Listing Details

The Company s ordinary shares are listed on the American Stock Exchange. The trading symbol for the ordinary shares is AIP. The ordinary shares are also listed on the Tel Aviv Stock Exchange.

The following table sets forth the high and low sale prices of the Company s ordinary shares on the American Stock Exchange and the Tel Aviv Stock Exchange for the periods indicated:

Last full five fiscal years

	American Stock Exchange			Tel Aviv Stock Exchange		
	High	Low	High	Low	High	Low
	$		NIS		$[1]	
Calendar Year						
2005	57.98	37.50	246.90	176.90	56.42	38.24
2004	60.73	48.75	267.10	217.60	60.33	48.72
2003	54.66	29.22	239.00	143.60	54.58	30.01
2002	40.50	25.18	178.00	116.10	40.10	24.90
2001	64.25	30.00	267.50	130.30	64.80	29.82

Quarters during last two full fiscal years and first quarter of 2006:

	American Stock Exchange			Tel Aviv Stock Exchange		
2006 Quarter Ended	High	Low	High	Low	High	Low
	$		NIS		$[1]	
June 30 (through June- 18)	52.12	41.52	237.00	194.00	53.01	43.17
March 31	49.23	42.00	227.00	197.50	49.60	42.34
2005 Quarter Ended	High	Low	High	Low	High	Low
	$		NIS		$[1]	
March 31	57.98	48.25	246.90	214.80	56.42	49.42
June 30	52.00	42.13	227.60	187.50	52.21	41.30
September 30	45.73	40.50	207.90	183.80	45.60	40.56
December 31	44.00	37.50	200.20	176.90	43.61	38.24

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1 Share prices have been translated from New Israeli Shekels (NIS) to U.S. Dollars at the representative rate of exchange, as reported by the Bank of Israel, on the dates when such high or low prices in NIS were recorded.

	American Stock Exchange			Tel Aviv Stock Exchange		
2004 Quarter Ended	High	Low	High	Low	High	Low
	$		NIS		$[1]	
March 31	60.73	53.01	267.10	234.90	60.33	52.10
June 30	57.25	51.30	257.30	235.70	56.65	51.26
September 30	56.40	48.75	255.20	224.70	56.95	49.49
December 31	59.00	49.20	256.90	217.60	59.21	48.72

2003 Quarter Ended	American Stock Exchange		Tel Aviv Stock Exchange			
	High	Low	High	Low	High	Low
	$		NIS		$[1]	
March 31	35.50	29.22	165.20	143.60	35.25	30.01
June 30	46.12	35.65	200.00	163.30	46.38	35.66
September 30	47.20	41.10	205.70	178.60	46.19	40.31
December 31	54.66	45.00	239.00	197.50	54.58	44.56

Last full six months prior to filing of this report:

	American Stock Exchange		Tel Aviv Stock Exchange			
	High	Low	High	Low	High	Low
	$		NIS		$[1]	
May 2006	52.12	46.41	237.00	208.00	53.01	46.09
April 2006	47.99	41.52	219.90	195.70	48.83	42.43
March 2006	45.15	42.00	209.50	197.50	44.55	42.34
February 2006	48.44	44.75	222.80	209.40	47.49	44.50
January 2006	49.23	47.30	227.00	200.20	49.60	43.49
December 2005	44.00	38.75	200.20	184.10	43.61	39.49

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1 Share prices have been translated from New Israeli Shekels (NIS) to U.S. Dollars at the representative rate of exchange, as reported by the Bank of Israel, on the dates when such high or low prices in NIS were recorded.

ITEM 10 ADDITIONAL INFORMATION

A. Share Capital

Not applicable to Annual Reports.

B. Memorandum and Articles of Association

The Company was registered under Israeli law on February 10, 1951 and its registration number with the Israeli registrar of companies is 52-001838-3.

The Memorandum of Association and Articles of Association are attached as exhibits 1.1, 1.2 to this Annual Report.Objects of the Company

As indicated in Article 5 of the Company s Articles, the Company may, at any time, engage in any branch or kind of business in which it is, expressly or by implication, authorized to engage in accordance with the Articles. The Company may also cease to engage in such businesses, whether or not it has commenced to engage in such branch or kind of business.

Director s Personal Interest

The Israeli Companies Law requires that a director and an officer of a company disclose to the company any personal interest that he may have and all related material information, in connection with any existing or proposed transaction by the company. The disclosure is required to be made promptly and in any event no later than the date of meeting of the board of directors in which the transaction is first discussed.

If the transaction is an extraordinary transaction, the procedure of approval is as described below. Under Israeli law, an extraordinary transaction is a transaction other than in the ordinary course of business, otherwise than on market terms or that is likely to have a material impact on the company s profitability, assets or liabilities.

Subject to the restrictions of the Israeli Companies Law, a director is entitled to participate in the deliberations and vote with regard to the approval of transactions in which he has a personal interest. A director is not entitled to participate and vote with regard to the approval of an extraordinary transaction in which he has a personal interest, the approval of indemnity, exemption or insurance of the directors or the approval of the directors compensation. If a majority of the directors have a personal interest in a certain decision, they may participate and vote but the issue must be approved also by the audit committee and by the shareholders. If the controlling shareholder has a personal interest in an extraordinary transaction, the issue must be approved also by the audit committee and the shareholders.

Any power of the Company which has not been conferred by law or by the Articles to any other body, may be exercised by the Board. The management of the Company is guided by the Board.

The Board shall formulate the policies of the Company and shall supervise the performance of the office and actions of the General Manager, including inter alia examination of the financial position of the Company and determination of the credit framework which the Company may receive. Without derogating from any power vested in the Board in accordance with the Articles, the Board may, from time to time, at its discretion, decide upon the issuance of a series of debentures, including capital notes or undertakings, including debentures, capital notes or undertakings which can be converted into shares, and also the terms thereof, and mortgage of the property of the Company, in whole or in part, at present or in future, by floating or fixed charge. Debentures, capital notes, undertakings or other securities, as aforesaid, may be issued either at a discount or at a premium or in any other manner, whether with deferred rights or special rights and/or preferred rights and/or other rights, all the aforesaid as the Board may, at its discretion, determine.

Except for special cases as detailed in the Articles and subject to the provisions of the Israeli Companies Law, the Board may delegate its powers to the General Manager, to an officer of the Company or to any other person or to the Board committees. Delegation of the powers of the Board may be with regard to a specific matter or for a particular period, at the discretion of the Board.

The directors need not be shareholders of the Company in order to qualify as directors.

The Shares   Rights and Restrictions

All of the Company   s shares are ordinary shares. Every ordinary share in the capital of the Company is of equal rights, for all intents and purposes, to every other ordinary share, including the right to dividends, to bonus shares and to participation in the surplus assets of the Company upon liquidation, proportionately to the par value of each share, without taking into consideration any premium paid in respect thereof, all the aforesaid subject to the provisions of the Articles.

Each of the ordinary shares entitles the holder thereof to participate at and to one vote at Annual General Meetings of the Company. As described in Item 6.C, all directors, except external directors, stand for election each year at the Annual General Meeting.

Subject to the provisions of the Israeli Companies Law, the Board may resolve upon the distribution of a dividend. When deciding on the distribution of a dividend, the Board may decide that the dividend shall be paid, in whole or in part, in cash or by way of the distribution of assets in specie, including securities or bonus shares, or in any other manner at the discretion of the Board.

Dividends on the Company   s ordinary shares may be paid only out of retained earnings, as defined in the Israeli Companies Law, as of the end of the most recent fiscal year or profits accrued over a period of two years, whichever is higher.

The Company may, by resolution adopted at an Annual General Meeting by an ordinary majority, decrease the capital of the Company and of any reserve fund from redemption of capital. For the execution of any resolution as aforesaid, the Board may, at its discretion, resolve any issues, which may arise in connection therewith.

In case of winding up of the Company, the liquidator may determine the proper value of the assets available for distribution and determine how the distribution among the shareholders will be carried out.

The liability of the shareholders is limited to the payment of par value of their ordinary shares.

Under the Israeli Companies Law, each and every shareholder has a duty to act in good faith in exercising his rights and fulfilling his obligations toward the Company and other shareholders and to refrain from abusing his power in the Company, such as in voting at the General Meeting of shareholders on the following matters: any amendment to the Articles; an increase of authorized share capital; a merger; or an approval of certain actions and transactions which require shareholder approval.

In addition, each and every shareholder has the general duty to refrain from depriving other shareholders of their rights.

Furthermore, any controlling shareholder, any shareholder who knows that it possesses the power to determine the outcome of a shareholder vote and any shareholder that, pursuant to the provisions of the Articles, has the power to appoint or to prevent the appointment of an officer in the Company or any other power toward the Company is under a duty to act in fairness toward the Company. The Israeli

Companies Law does not describe the substance of this duty of fairness. These various shareholder duties may restrict the ability of a shareholder to act in what the shareholder perceives to be its own best interests.

Modification of Rights of Shares

If the share capital is divided into different classes, the Company may by resolution adopted at a General Meeting by a special majority (except if the terms of the issuance of the shares of such class otherwise provide) annul, convert, expand, supplement, restrict, amend or otherwise modify the rights of a class of shares of the Company, provided that the consent, in writing, of all the shareholders of such class thereto shall be received or that the resolution shall have been approved by a General Meeting of the shareholders of such class by special majority, or in the event that it was otherwise provided in the terms of the issuance of a particular class of the shares of the Company, as may have been provided in the terms of issuance of such class, provided that the quorum at the class meeting shall be the presence, in person or by proxy, at the opening of the meeting of at least two shareholders who own at least twenty five percent (25%) of the number of the issued shares of such class.

The rights conferred upon the shareholders or owners of a class of shares, whether issued with ordinary rights or with preference rights or with other special rights, shall not be deemed to have been converted, restricted, prejudiced or altered in any other manner by the creation or issuance of additional shares of any class, whether of the same degree or in a degree different or preferable to them, nor shall they be deemed to have been converted, restricted, prejudiced or altered in any other manner by a change of the rights linked to any other class of shares, all the aforesaid unless otherwise expressly provided in the terms of the issuance of such shares.

Shareholders Meeting

The Company shall hold an Annual General Meeting each year not later than fifteen months after the previous Annual Meeting, at such time and place as may be determined by the Board. Any other General Meeting is referred to as a Special Meeting .

A notice of a General Meeting shall be published in at least two widely distributed daily newspapers published in Hebrew. The notice shall be published at least twenty-one days prior to the convocation of the meeting. In addition the Company provides a notice of the meeting and related proxy statement in English to the holders of its Ordinary Shares listed on the records of the Company s registrar and stock transfer agent in the United States.

Apart from the notices as to the General Meeting as above, according to its articles and the Israeli Companies Law the Company is not required to give any notice as to the General Meeting, either to the registered shareholders or to shareholders who are not registered, subject to provisions of the Companies Law and/or any other applicable law. The notice as to a General Meeting is required to detail the place, the day and the hour at which the meeting will be held and to include the agenda as well as a summary of the proposed resolutions and any other details required by law.

The board of directors of the Company shall convene a Special Meeting as may be decided by the Board, and shall also convene a special meeting at the demand of any two directors or one quarter of the directors in office or one or more shareholders who hold at least five percent of the issued capital and one percent of the voting rights, or one or more shareholders who hold at least five percent of the voting rights.

If the Board receives a demand for the convocation of a Special Meeting as aforesaid, the Board shall within twenty one days of receipt of the demand convene the meeting for a date fixed in the notice as to the Special Meeting, provided that the date for convocation shall not be later than thirty five days from the date of publication of the notice, all the aforesaid subject to the provisions of the Companies Law.

In the resolution of the Board to convene a meeting, the Board may, at its discretion and subject to the provisions of the law, fix the manner in which the items on the agenda will be determined and notice given to the shareholders entitled to participate at the meeting.

Each shareholder holding at least one percent (1%) of the voting rights is entitled to request the Board to include in the agenda any issue, provided that this issue is suitable to be discussed in a General Meeting.

No business shall be transacted at any General Meeting unless a quorum is present at the time the meeting proceeds to business. A quorum shall be constituted when two shareholders, holding collectively at least twenty five percent (25%) of the voting rights, are present in person or by proxy within half an hour from the time appointed for commencement of the meeting, unless otherwise determined in the Articles.

If a quorum is not present within half an hour, the meeting shall stand adjourned for seven days, to the same day of the week at the same time and place, without need for notification to the shareholders, or to such other day, time and place as the Board may by notice to the shareholders appoint.

If a quorum is not present as aforesaid at the adjourned meeting, the meeting shall be canceled.

Voting and Adopting Resolutions at General Meetings

A shareholder who wishes to vote at a General Meeting shall prove to the Company his ownership of his shares. The Board may issue directives and procedures relating to the proof of ownership of shares of the Company.

A shareholder is entitled to vote at a General Meeting or class meeting, in person, or by proxy or by proxy card. A voting proxy need not be a shareholder of the Company.

The above shall also apply to any person entitled to shares, provided that at least forty eight hours before the time for the meeting or the adjourned meeting, as the case may be, at which he proposes to vote, he shall satisfy the Board of his right to vote such shares unless the Company shall have previously recognized his right to vote the shares at such meeting.

The instrument appointing a proxy (hereinafter Proxy Appointment) shall be in writing signed by the principal, or if the principal is a corporation the proxy appointment shall be in writing and signed by authorized signatories of the corporation. The Board is entitled to demand that prior to the holding of the meeting, there shall be produced to the Company a confirmation in writing of the authority of signatories to bind the corporation to the satisfaction of the Board. The Board may also issue provisions and procedures relating to such matters.

The Proxy Appointment or an office copy to the satisfaction of the Board shall be deposited at the registered office or at such other place or places, in or outside of Israel, as may from time to time be determined by the Board, either generally or in respect of a specific meeting, at least forty eight hours prior to the commencement of the meeting or the adjourned meeting, as the case may be, at which the proxy proposes to vote on the strength of such Proxy Appointment.

A voting proxy is entitled to participate in the proceedings at the General Meeting and to be elected as chairman of the meeting in the same manner as the appointing shareholder, unless the Proxy Appointment otherwise provides. The Proxy Appointment shall be in form usual in Israel or any other form which may be approved by the Board.

According to an amendment in the Israeli Companies Law , a shareholder is also entitled, in certain issues, to vote by a proxy card.

Each ordinary share entitles the holder thereof to participate at a General Meeting of the Company and to one vote at a poll.

Right of Non-Israeli Shareholders to Vote

There is no limitation on the right of non-resident or foreign owners of any class of the Company s securities to hold or to vote according to the rights vested in such securities.

Change of Control

Under the Articles, the approval of merger as provided in the Israeli Companies Law is subject to a simple majority at the General Meeting or class meeting, as the case may be, all the aforesaid subject to the applicable provisions of any law. It is also subject to the approval of the boards of the merging companies.

For purposes of shareholders approval, unless a court rules otherwise, the merger will not be deemed approved if a majority of the shares held by shareholders voting at the general meeting, other than the shareholders who are also shareholders in the other merging company whose shares are held by the other merging company, or by any person who holds 25% or more of the shares or the right to appoint 25% or more of the directors in the other merging company, vote against the merger. Upon the request of a creditor of either party to the proposed merger, a court may delay or prevent the merger if it concludes that there exists a reasonable concern that as a result of the merger, the surviving company will be unable to satisfy the obligations of any of the parties to the merger. In addition, a merger may not be completed unless at least 30 days have passed from the data that the merger was approved at the general meeting of all the merging companies and at least 50 days have passed from the time that a proposal of the merger has been filed with the Israeli Registrar of Companies.

The Israeli Companies Law also provides that an acquisition of shares of a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 25% shareholder of the company and there is no existing 25% or more shareholder in the company. If there is no existing 45% or greater shareholder in the company, the Companies Law provides that an acquisition of shares of a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 45% shareholder of the company.

If following any acquisition of shares, the acquirer will hold 90% or more of the company s shares, the acquisition may not be made other than through a tender offer to acquire all of the shares of such class. If more than 95% of the outstanding shares are tendered in the tender offer, all the shares that the acquirer offered to purchase will be sold to it. However, the remaining minority shareholders may seek to alter the consideration by court order.

Under the Israeli Securities Act 1968, any major shareholder who is the beneficial owner of more then 5% of the Company s equity capital or voting securities is required to report this fact and any change in his holding to the Israeli Securities Authority.

C. Material Contracts

In the beginning of 2006, companies in the Group signed a three year agreement with Delek , for the purchase of fuel and oil for current use, in an aggregated amount of NIS 60 million per year for all the companies in the Group. This agreement will replace former agreements in similar amounts.

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On July 29, 2005 the Company signed an agreement in London, with the Thetis Sea Group, for the purchase of natural gas. The gas that will be purchased is intended to fulfill the Company s requirements in the coming years, for the operation of the existing energy co-generation plant at Hadera that will be converted for the use of natural gas, instead of the current use of fuel oil. The overall financial volume of the transaction totals $40 million over the term of the agreement (5 years from the initial supply of gas, but no later than July 1, 2011).

In 2004 the Company granted an undertaking of indemnification to officers and directors of the Company, pursuant to which the Company is undertaking to indemnify them according to the conditions specified in a Letter of Indemnification provided, that the amount of indemnification will not exceed a cumulative amount that is the equivalent of 25% of the Company s equity according to the last (consolidated) financial statements that will be published before the date of the de facto grant of indemnification.

D. Exchange Controls

Foreign Exchange Regulations

There are no Israeli governmental laws, decrees or regulations that restrict or that affect the export or import of capital, including but not limited to, foreign exchange controls on remittance of dividends on the ordinary shares or on the conduct of the Group s operations, except as otherwise set forth in the paragraph below regarding taxation.

E. Taxation

The following information is regarding the Israeli laws only.

Investors are advised to consult their tax advisors with respect to the tax consequences of their purchases, ownership and sales of Ordinary Shares, including the consequences under applicable state and local law and federal estate and gift tax law, and the application of foreign laws or the effect of nonresident status on United States taxation. This tax summary does not address all of the tax consequences to the investors of purchasing, owning or disposing of the Ordinary Shares.

On July 24, 2002, the Israeli Knesset enacted income tax reform legislation, commonly referred to as the 2003 Tax Reform . The 2003 Tax Reform has introduced fundamental and comprehensive changes into Israeli tax laws. Most of the legislative changes took effect on January 1, 2003. The 2003 Tax Reform has introduced a transition from a primarily territorial-based tax system to a personal-based system of taxation with respect to Israeli residents. The Tax 2003 Reform has also resulted in significant amendment of the international taxation provisions, and new provisions concerning the taxation of capital markets including the abolishment of currently exempt investment routes (e.g., capital gains generated by Israeli individuals from the sale of securities traded on the Tel-Aviv Stock Exchange).

Relatively short time after the 2003 Tax Reform, the Israeli Parliament approved on July 25, 2005 an additional income tax reform legislation (the 2006 Tax Reform) pursuant to the recommendations of a committee appointed by the Israeli Minister of Finance, which incorporated additional fundamental changes in Israeli tax law. Inter alia, The 2006 Tax Reform includes a gradual reduction of income tax rates for both individuals and corporations over the years through 2010, and outlined a path towards uniformity in the taxation of interest, dividend and capital gains derived from securities. Most of the amendments to the tax law are effective as of January 1, 2006, subject to certain exceptions. Transition rules apply in certain circumstances.

Various issues related to the 2003 Tax Reform and the 2006 Tax Reform remain unclear in view of the legislative language utilized and the lack of authoritative interpretations at this stage. The analysis below is therefore based on our current understanding of the new legislation.

Income Taxes on Dividends Distributed by the Company to Non-Israeli Residents

Subject to the provisions of applicable tax treaties, dividend distributions from regular profits (non-Approved Enterprise) by the Company to a non-resident shareholder are generally subject to withholding tax of 20%. The portion of dividends paid out of profits earned under an Approved Enterprise tax status of the Company is subject to withholding tax at the rate of 15% (in excess of the tax paid by the company when the dividend is paid of these profits 25% tax).

Generally, under the Tax Treaty Between the Government of the United States of America and the Government of the State of Israel with Respect to Taxes on Income (US Treaty) the maximum rate of withholding tax on dividends paid to a shareholder who is a resident of the United States (as defined in the US Treaty) will be 25%. Due to the fact that a tax rate of 25% is higher than the maximum Israeli tax rate on dividends pursuant to the 2006 Tax Reform, the maximum tax rate should be 20%. . However, when a U.S. tax resident corporation is the recipient of the dividend, the rate on a dividend out of regular (non-Approved Enterprise) profits may be reduced to 12.5% under the treaty, where the following conditions are met:

(a) the recipient corporation owns at least 10% of the outstanding voting rights of the Company for all of the period preceding the dividend during the Company s current and prior taxable year; and

(b) generally not more than 25% of the gross income of the paying corporation for its prior tax year consists of certain interest and dividend income.

Otherwise, the usual rates apply.

United States individual citizens and residents and U.S. corporations generally will be required to include in their gross income the full amount of dividends received from the Company with respect to the Ordinary Shares owned by them, including the amount withheld as Israeli income tax. Subject to the limitations and conditions provided in the Internal Revenue Code of 1986, as amended (the Code), such persons may be eligible to claim a credit for such withheld amounts against their United States federal income tax liability. As an alternative, the persons enumerated above (provided such persons, in the case of individual taxpayers, itemize their deductions) may elect to deduct such withheld tax from their gross income in determining taxable income (subject to applicable limitations on the deductions claimed by individuals). However, such a credit or deduction may be limited for U.S. alternative minimum tax purposes, depending on the taxpayer s specific circumstances.

Dividend payments on the Ordinary Shares will not be eligible for a dividends received deduction generally allowed to United States corporations under the Code.

Income Taxes on Dividends Distributed by the Company to Israeli Residents

The distribution of dividend income to Israeli residents will generally be subject to income tax at a rate of 20% for individuals and will be exempt from income tax for corporations. The portion of dividends paid out of profits earned under an Approved Enterprise tax status of the Company, to both individuals and corporations, is subject to withholding tax at the rate of 15% (in excess of the tax paid by the company when the dividend is paid of these profits 25% tax).

In addition, If an Individual Israeli shareholder is considered a principal shareholder at any time during the 12-month period preceding such sale, i.e., such shareholder holds directly or indirectly, including with others, at least 10% of any means of control in the company, the tax rate on the dividend (not source from Approved Enterprise income) will be 25%. The withholding tax by the Company on such dividend would remain 20%.

Tax on Capital Gains of Shareholders General

Israeli law imposes a capital gains tax on the sale of capital assets by an Israeli resident and on the sale of capital assets located in Israel or the sale of direct or indirect rights to assets located in Israel. The Israeli Tax Ordinance distinguishes between Real Gain and Inflationary Surplus . Real Gain is the excess of the total capital gain over Inflationary Surplus computed on the basis of the increase in the Israeli CPI between the date of purchase and the date of sale. The Real Gain accrued at the sale of an asset purchased on or after January 1, 2003 is generally taxed at a 20% rate for individuals and 25% for corporations. Inflationary Surplus, that accrued after December 31, 1993, is exempt from tax.

In July 2005 the Israeli Parliament approved a Reform in the Israeli taxation law, which among other decreases the corporate tax gradually from 31% in 2006 to 25% in 2010.

Pursuant to this amendment the Israeli Income Tax Ordinance that was enacted in July 2005, the corporate tax rate is to be gradually reduced from 31% to 25%, in the following manner: the tax rate for 2006 will be 31%, , in 2007 29% in 2008 27%, in 2009 26%, in 2010 and onwards 25%. The maximum tax rate for individuals is 49% and shall also be gradually reduced to 44% in 2010 and onwards. These rates are subject to the provisions of any applicable bilateral double taxation treaty. Israeli law generally imposes a capital gains tax on the sale of securities and any other capital assets.

Capital gains Israeli Individuals

The shareholder will generally be subject to tax at 20% rate on realized real capital gain accrued from January 1, 2003 and thereafter. To the extent that the shareholder claims a deduction of financing expenses, the gain will be subject to tax at a rate of 25% (until otherwise stipulated in bylaws that may be published in the future).

If such shareholder is considered a principal shareholder at any time during the 12-month period preceding such sale, i.e., such shareholder holds directly or indirectly, including with others, at least 10% of any means of control in the company, the tax rate will be 25%.

The tax basis of shares acquired prior to January 1, 2003 will be determined in accordance with the average closing share price in the three trading days preceding January 1, 2003. However, a taxpayer may elect the actual adjusted cost of the shares as the tax basis provided he can provide sufficient proof of such adjusted cost.

It should be noted hat different taxation rules may apply to shareholders who purchased their shares prior to the listing on the Tel Aviv Stock Exchange. They should consult with their tax advisors for the precise treatment upon sale.

Capital gains Israeli Corporations

It should be noted that different taxation rules may apply to shareholders who purchased their shares prior to the listing on the Tel Aviv Stock Exchange. They should consult with their tax advisors for the precise treatment upon sale.

Corporations which are subject to the Inflationary Adjustments Law

The shareholder will be subject to tax at the corporate tax rate on realized real capital gain (currently 31% in 2006).

Corporations which are not subject to the Inflationary Adjustments Law

Generally, the shareholder will be subject to tax at the corporate tax rate of 25% on realized real capital gains.

Capital gains non-Israeli residents (Individuals and Corporations)

Non-Israeli residents are generally exempt from capital gains tax on any gains derived from the sale of shares publicly traded on the Tel Aviv Stock Exchange provided, however, that such capital gains are not derived from a permanent establishment in Israel, that such shareholders are not subject to the Inflationary Adjustment Law and that such shareholders did not acquire their shares prior to an initial public offering. In addition, non-Israeli companies will not be entitled to such exemption if an Israeli resident (i) has a controlling interest of 25% or more in such non-Israeli company, or (ii) is the beneficiary or is entitled to 25% or more of the revenues or profits of such non-Israeli company, whether directly or indirectly.

It should be noted hat different taxation rules may apply to shareholders who purchased their shares prior to the listing on the Tel Aviv Stock Exchange. They should consult with their tax advisors for the precise treatment upon sale.

Notwithstanding the foregoing with respect to both Israeli and non-Israeli residents, dealers (both individuals and corporation) in securities in Israel are generally taxed at regular tax rates applicable to business income.

The U.S. Israeli Tax Treaty exempts U.S. residents who hold an interest of less than 10% an Israeli company, and who held an interest of less than 10% during the 12 months prior to a sale of their shares, from Israeli capital gains tax in connection with such sale. Certain other tax treaties to which Israel is a party also grant exemptions from Israeli capital gains taxes.

F. Dividends and Paying Agents

Not applicable to Annual Reports.

G. Statement by Expert

Not applicable to Annual Reports.

H. Documents on display

A copy of each document (or a translation thereof to the extent not in English) concerning the Company that is referred to in this Annual Report on Form 20-F, is available for public view at our principal executive offices at American Israeli Paper Mills Ltd., 1 Meizer Street Industrial Zone, Hadera 38100, Israel. Copies of this Annual Report and the exhibits hereto may be inspected and copied at the SEC s Public Reference Room at NW, Washington, D.C. 20549. The public may obtain information on the operation of the SEC s Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330.

ITEM 11 QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Due to its operations, the Company is exposed to market risks, consisting primarily of changes in interest rates on both short and long-term loans, changes in exchange rates and changes in raw material and energy prices. These changes possess an influence on the Company s results.

The Company s Board of Directors determines the policy according to which financial instruments are employed and defines the objectives to be attained, taking into account the Group s linkage balance sheet and the impact of changes in various currencies and in the Consumer Price Index on the Company s cash flows and on its financial statements.

AIPM conducts calculations of the its exposure every month and examines the compliance with the policy determined by the Board of Directors.

Furthermore, limited use is made of derivative financial instruments, which the Company employs for hedging the cash flows, originating from the existing assets and liabilities.

Such transactions are conducted primarily through currency options and forward transactions opposite Israeli banking institutions. The Company therefore believes that the inherent credit risk of these transactions is slight.

As of December 31, 2005 AIPM owns CPI-linked long-term loans (notes) in the total sum of about NIS 235 million. The interest on such loans is not higher than the market interest rate. In the event that the inflation rate shall rise significantly, a loss may be recorded in AIPM s financial statements, due to the surplus of CPI-linked liabilities.

In order to hedge this exposure, AIPM has entered into forward transactions, as at December 31, 2005 for hedging NIS 230 million against a rise in the CPI until December 2006. These transactions serve to replace hedging transactions of NIS 200 million that terminated in late 2005.

Credit Risks

The Company s and its subsidiaries cash and cash equivalents and the short-term deposits as of December 31, 2005 are deposited mainly with major Israeli banks. The Company and its subsidiaries consider the credit risks in respect of these balances to be remote.

Most of these companies sales are made in Israel, to a large number of customers. The exposure to credit risks relating to trade receivables is limited due to the relatively large number of customers. The Group performs ongoing credit evaluations of its customers to determine the required amount of allowance for doubtful accounts. The Company believes that an appropriate allowance for doubtful debts is included in the financial statements.

Fair Value of Financial Instruments

The fair value of the financial instruments included in working capital of the Group is usually identical or close to their carrying value. The fair value of loans and other liabilities also approximates the carrying value, since they bear interest at rates close to the prevailing market rates, except as described below.

The Company does not disclose the fair value of long-term loans and capital notes included under investments in associated companies as of December 31, 2005, aggregating NIS 72,331,000 (see note 2b) and of a capital note to an associated company in the amount of NIS 32,770,000 (see note 4b), since their value cannot be reliably determined so long as they have no repayment dates.

Quantitative Information Regarding Market Risk

The following are the balance-sheet components by linkage bases at December 31, 2005:

	Unlinked	CPI-linked	In foreign currency, or linked thereto (primarily US$)	Non-monetary items	Total
Assets					
Cash and cash equivalents	2.6		5.7		8.3
Short-term deposits and invest	11.4				11.4
Other accounts receivable	189.9	0.2	55.3	11.1	256.5
Inventories				64.0	64.0
Investments in associated companies	63.1		9.2	356.7	429.0
Deferred taxes on income				5.7	5.7
Fixed assets, net				379.9	379.9
Deferred expenses, net of accrued amortization				1.0	1.0
Total assets	267.0	0.2	70.2	818.4	1,155.8
Liabilities					
Short-term credit from banks and from others	93.2				93.2
Accounts payable	214.1	0.9	11.0		226.0
Deferred taxes on income				45.8	45.8
Notes (bonds) - including current maturities		234.6			234.6
Other liabilities - including current maturities	32.8				32.8
Shareholders' equity, funds and retained earnings				523.4	523.4
Total liabilities and equity	340.1	235.5	11.0	569.2	1,155.8
Surplus financial assets (liabilities) as at December 31, 2005	(73.1)	(235.3)	59.2	249.2	-

ITEM 12 DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable to Annual Reports

ITEM 13 DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14 MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15 CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company s periodic filings with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to the Company s management, including the Company s Chief Executive Officer (CEO the Company s senior executive officer) and Chief Financial Officer (CFO the Company s senior financial officer), as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Furthermore, management necessarily was required to use its judgment in evaluating the cost to benefit relationship of possible disclosure controls and procedures. As of the end of the period covered by of this report, the Company performed an evaluation of the effectiveness of the design and operation of the Company s disclosure controls and procedures. The evaluation was performed with the participation of senior management of each business segment and key corporate functions, and under the supervision of the CEO and CFO. Based on the evaluation, the Company s management, including the CEO and CFO, concluded that the Company s disclosure controls and procedures were effective. There have been no significant changes in the Company s internal controls or in other factors that could significantly affect internal controls after the date the Company completed the evaluation.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Amos Mar-Haim a member of the Registrant s Audit Committee, is Audit Committee Financial Experts under the applicable rules and regulations of the SEC. Amos Mar-Haim is independent , as that term is defined in the American Stock Exchange listing standards.

ITEM 16B. CODE OF ETHICS

The Company has adopted a code of ethics which is applicable to all directors, officers and employees of the Company, including its principal executive, financial and accounting officers and persons performing similar functions (the **Code of Ethics**). The Code of Ethics covers areas of professional and business conduct, and is intended to promote honest and ethical behavior, including fair dealing and the ethical handling of conflicts of interest; support full, fair, accurate, timely and understandable disclosure in reports and documents the Company files with, or submits to, the SEC and other governmental authorities, and in its other public communications; deter wrongdoing; encourage compliance with applicable laws and governmental rules and regulations; and ensure the protection of the Company s legitimate business interests. The Company encourages all of itsofficers and employees promptly to report any violations of the Code of Ethics, and has provided mechanisms by which they may do so. The Company will provide a copy of the Code of Ethics to any person, without charge, upon written request addressed to the Corporate Secretary of the Company at the Company s corporate headquarters in Hadera, Israel.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The Audit Committee maintains a policy of approving and recommending only those services to be performed by the Company s external auditors which are permitted under the Sarbanes-Oxley Act and the applicable rules of the SEC relating to auditor s independence, and which are otherwise consistent with and will encourage, and are remunerated at levels that accord with, the basic principles of auditor independence. The practice of the Audit Committee is to receive from the Company s management, a list of all services, including audit, audit-related, tax and other services, proposed to be provided during the current fiscal year to the Company and its subsidiaries by Kesselman & Kesselman, an affiliate of PricewaterhouseCoopers. After reviewing and considering the services proposed to be provided during the current fiscal year and, where appropriate in order better to understand their nature, discussing them with management, the Audit Committee pre-approves such of the proposed services, with a specific pre-approved budget, as it considers appropriate in accordance with the above principles. Additional services from Kesselman & Kesselman and any increase in budgeted amounts will similarly be pre-approved during the year by the Audit Committee on a case-by-case basis.

All audit-related and non-audit-related services performed by Kesselman & Kesselman during 2005 were reported to, and the services proposed to be provided by them during 2006 pre-approved by the Audit Committee, in accordance with the procedures outlined above.

The total fees paid by the Company to Kesselman & Kesselman for all services, described above, including audit services, amounted to $120 thousand in 2005, similar to 2004.

The Company s independent auditor provided additional services in 2005, related to consulting and guidance regarding the establishment of processes pursuant to Section 404 of the Sarbanes Oxley Act in the USA, in return for which a fee of $30 thousand was paid.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Neither the Company nor any affiliated purchaser purchased any of the Company s equity securities during 2005.

PART III

ITEM 17 FINANCIAL STATEMENTS

The Company prepares its financial statements in accordance with Israeli GAAP. The differences between Israeli GAAP and U.S. GAAP, as it relates to the Company, are described below:

a. **The functional currency of the Company**

Through December 31, 1993, the financial statements of the Company, presented in NIS values adjusted for the changes in the general purchasing power of the Israeli currency based on the changes in the exchange rate of the dollar were also used for the purposes of reporting in conformity with U.S. GAAP applicable to entities operating in hyper-inflationary economic environments, as prescribed by Statement No. 52 of the Financial Accounting Standards Board of the United States (FASB). Since the inflation rate in Israel has decreased considerably, the Company decided that, commencing in 1994, it would implement the rules relating to economies no longer considered hyper-inflationary, for reporting purposes, in accordance with U.S. GAAP.

Under those rules:

1) The functional currency of the Company (the currency in which most income is derived and most expenses are incurred) is the New Israeli Shekel (NIS);

2) The opening balances for 1994 are the balances presented in the Company s balance sheet at December 31, 1993;

3) Transactions performed from January 1, 1994 are presented on the basis of their original amounts in Israeli currency.

The term Re-measured NIS signifies the currency used for FASB 52 purposes, as described above.

As to the effect of application of these rules see (i) below.

As to the discontinuance of the adjustment of the financial statements under Israeli GAAP, to the exchange rate of the dollar as from January 2004, see not 1b to the financial statements.

b. **Deferred income taxes**

Under Israeli GAAP, no deferred taxes have been provided through December 31, 2004 in respect of certain long-lived (more than 20 years) assets, such as buildings and land. Under U.S. GAAP, in accordance with the provisions of FAS 109, income taxes are to be provided for any assets that have a different basis for financial reporting and income tax purposes. Following the adoption of Israeli Standard No. 19 in 2005, except for land that originated from business combinations consummated prior to January 1, 2005, these differences no longer exist.

In addition, for U.S. GAAP purposes deferred taxes are to be provided for with respect to un-remitted earnings of investee companies. Under Israeli GAAP due to the Company s policy to hold its investments in investee companies, and not to realize them, these temporary differences are considered differences permanent in duration for which deferred taxes are not provided for.

Through 1999, as long as the main investments of the Company were subsidiaries which were controlled by the Company, the Company did not provide for deferred taxes also for U.S. GAAP reporting purposes, since those differences were deemed to be not taxable due to the tax free inter-company dividend distribution law in Israel and tax planning on its behalf, accordingly.

As from 2000, due to changes in certain of the Company s investments from subsidiaries to associated companies, deferred taxes were provided for any portion that arose from investee companies sources other than pre-1993 undistributed earnings (taking into account the Company s tax strategy).

As to the effect of application of this treatment, see (i) below.

c. **Employee stock option plans**

Under Israeli GAAP, no compensation expenses are recorded in respect of employee stock options.

Under U.S. GAAP, the Company accounts for employee stock based compensation using the intrinsic value-based model of accounting prescribed by Accounting Principles Board Opinion No. 25 Accounting for Stock Issued to Employees (APB 25) and related interpretations. In accordance with FAS 123 Accounting for Stock-Based Compensation (FAS 123), the Company discloses pro forma data assuming the Company had accounted for employee stock option grants using the fair value-based method defined in FAS 123.

All of the Company s awards are considered to be variable awards; thus the difference between the price of the shares at each balance sheet date and the exercise price of such options is charged to income over the vesting period and is adjusted in subsequent periods up to the measurement date (exercise or expiration date). The amount of the difference is correspondingly presented as capital surplus.

As to new accounting pronouncement relating to share-based compensation see (L) bellow.

Pro-forma disclosure

Had compensation cost for the employee stock options plans, been determined based on the fair value at the grant date, consistent with the method of FAS 123, the Company s net income and earnings per share would have been changed to the pro forma amounts indicated below:

	Year ended December 31		
	2005	2004	2003
	NIS in thousands, except for per share data		
Net income, as reported under U.S. GAAP	41,861	58,720	38,469
Add (deduct): stock based employee compensation expense (reversal), included in reported net income, net of related tax effect	(1,838)	8,458	8,132
Deduct: stock based employee compensation expense determined under fair value method for all awards, net of related tax effects	(939)	(3,523)	(4,055)
Pro forma net income -under U.S. GAAP	39,084	63,655	42,546
Earnings per share - under U.S. GAAP:			
Basic - as reported	10.47	14.76	9.77
Basic - pro forma	9.77	16.00	10.80
Diluted - as reported	10.33	14.52	9.69
Diluted - pro forma	9.65	15.74	10.72

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The shares are traded on stock exchanges in Tel-Aviv and in the U.S. ("AMEX"). The quoted prices per share, as of December 31, 2005, are NIS 195.4 and $ 42.51 (NIS 195.67), respectively.

A summary of the status of the Company s plans as of December 31, 2005, 2004 and 2003, and changes during the years ended on those dates, is presented below:

	2005		2004		2003	
Options outstanding at	Number	Weighted average exercise Price NIS	Number	Weighted average exercise Price NIS	Number	Weighted average exercise Price NIS
beginning of year	152,103	132.74	216,243	159.15	333,916	147.27
Changes during the year:						
Exercised	(16,282)	143.38	(64,140)	153.82	(116,175)	116.37
Expired	(8,250)	178.25			(1,498)	98.62
Options outstanding at end of year	127,571	114.03	152,103	132.74	216,243	159.15
Options exercisable at year-end	*78,996	87.61	54,953	99.98	70,518	179.53

* Represents the number of options fully vested as of December 31, 2005. Based upon the Company s share market value as of December 31, 2005, this reflects potentially 43,583 shares regarding the options exercisable at year-end.

The fair value of the options granted was computed by the Black-Scholes formula using the following assumptions: dividend yield of 0%; expected volatility of 30.5%; risk-free interest rate (linked to the Israeli CPI) of 4.5% and expected average life 5-5.5 years.

The following table summarizes information about options outstanding at December 31, 2005.

Options outstanding			
Exercise Prices	Number outstanding at December 31, 2005	Average remaining contractual life Years	Number of options exercisable at December 31, 2005
NIS		Years	
45.57	18,948	0.5	18,948
91.16	12,473	0.8	12,473
103.43	47,575	1.5	47,575
180.37	48,575	2.5	
	127,571	1.7	78,996

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d. **Earnings per share (EPS)**

Israeli GAAP relating to computation of EPS is described in note 1P to the financial statements attached.

The EPS computation according to U.S. GAAP presented below is in accordance with FAS 128.

As applicable to the Company, the main difference between the two methods of EPS computation is that shares to be issued upon exercise of employee stock options (under SAR plans) are taken into account in the computation of basic EPS in Israel, whereas in the United States, in computing basic EPS, only the weighted average number of company shares actually outstanding in the reported period is taken into account, and shares to be issued upon exercise of options are included in the computation of diluted EPS. Another difference is the U.S. requirement for separate presentation in the income statements of basic and diluted EPS as long as they are not identical, while, in Israel, such separate presentation is only required if the difference between basic and diluted EPS is in excess of 5%.

As to the effect of application of U.S. GAAP, see (i) below.

Following are data relating to the weighted average number of shares for the purpose of computing basic and diluted earnings per share under U.S. GAAP:

	2005	2004	2003
Weighted average number of shares used in the computation of basic earnings per share	3,999,910	3,978,339	3,938,035
Net additional shares from the assumed exercise of employee stock options	51,700	65,375	31,673
Weighted average number of shares used in the computation of diluted earnings per share	4,051,610	4,043,714	3,969,708

e. **Investment in marketable equity securities accounted for by the equity method (associated company) Carmel Container Systems (Carmel) and T.M.M. Integrated Recycling Industries Ltd (TMM)**

Under Israeli GAAP, an investment in an associated company is tested for impairment under the provisions of Israeli Standard No. 15 of the Israeli Accountant Standard Board Impairment of Assets (see note 1h to the financial statements). Based on the provisions of this Standard, and as explained in note 2f to the financial statements, the Company determined that the recoverable value of the investment in Carmel exceeds its carrying value (based, among other, on its Discounted Cash Flows), and accordingly, the investment was not written down.

Under U.S. GAAP (APB 18 The Equity Method of Accounting for Investments in Common Stock) and SEC Staff Accounting Bulletin (SAB) No. 59 (Accounting for Noncurrent Marketable Equity Securities), a decline in value of investment in an associated company which is other than temporary was recognized as a realized loss in 2003, establishing a new carrying value for the investment. Factors considered in determining that a decline is other than temporary included, among other, the length of time and the extent to which the market value has been less than the carrying value of the investment. The relevant market value for determining the impairment loss is the market value at December 31, 2003.

Therefore, although according to the Israeli GAAP the recoverable value of this investment exceeds its carrying value (see above) under U.S. GAAP and SEC rules described above, the decline in the market value of Carmel shares was the significant factor in determining other than temporary decline. Accordingly, for U.S.GAAP reporting, since the decline in the market value of Carmel was long and extensive, the Company reduced the carrying value of this investment to its market value as of December 31, 2003 and recorded an impairment loss amounting NIS 16,986,000 (see also share in profits of associated companies under U.S. GAAP in Item 3 above).

Under US GAAP- Since there is no goodwill or non amortizable assets, the impairment is attributed only to Carmel s fixed assets; therefore the Company amortizes the impairment at the rates applicable to Carmel s fixed assets. The amortization of the impairment, as above, resulted in an increase in the share in profits of the associated company amounting to NIS 1,699 thousands in 2005.

Under Israeli GAAP, an investment in an associated company is tested for impairment under the provisions of Israeli Standard No. 15 of the Israeli Accountant Standard Board Impairment of Assets (see note 1h to the financial statements). Based on the provisions of this Standard, and as explained in note 2g to the financial statements, the Company determined that the recoverable value of the investment in TMM based on an outside appraiser exceeds its carrying value (based, among other, on its Discounted Cash Flows), and accordingly, the investment was not written down.

Under U.S. GAAP (APB 18 The Equity Method of Accounting for Investments in Common Stock) and SEC Staff Accounting Bulletin (SAB) No. 59 (Accounting for Noncurrent Marketable Equity Securities), a decline in value of investment in an associated company which is other than temporary was recognized as a realized loss in 2005, establishing a new carrying value for the investment. Factors considered in determining that a decline is other than temporary included, mainly, the length of time and the extent to which the market value has been less than the carrying value of the investment. The relevant market value for determining the impairment loss is the market value at December 31, 2005.

Therefore, although according to the Israeli GAAP the recoverable value of this investment exceeds its carrying value (see above) under U.S. GAAP and SEC rules described above, the decline in the market value of TMM shares was the significant factor in determining other than temporary decline. Accordingly, for U.S.GAAP reporting, since the decline in the market value of TMM was long and extensive, the Company reduced the carrying value of this investment to its market value as of December 31, 2005 and recorded an impairment loss amounting NIS 10,000,000 (see also share in profits of associated companies under U.S. GAAP in Item 3 above).

f. **Statements of income presentation**

Under Israeli GAAP, the Company included, in the statements of income for the year ended December 31, 2003, under other income gain from sale of apartments.

Under U.S. GAAP, income from sale of apartments should be classified as part of operating income.

These adjustments were included in the reconciliation to the U.S. GAAP (see operating income under U.S. GAAP in Item 3 above).

g. **Accounting for guarantees**

The Group s applies for U.S. GAAP purposes the provisions of FASB interpretation No. 45 Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45).

FIN 45 applies to guarantees either granted or amended after December 31, 2002. Applying FIN 45 has not had material effect on the Company.

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h. Other Information

1. Supplemental disclosure on employee rights upon retirement

The Company and its subsidiaries expects to contribute in 2006 NIS 8,813 thousands to the provident funds and to the insurance companies in respect of its severance pay obligations.

2. Reclassification

During 2005, the Company reclassified inventory of NIS 23,262 thousands (2004-NIS 20,833 thousands) to fixed assets on the basis that the spare parts for the machinery and equipment were not for current use and should be classified as non-current assets. The company has not changed the accounting for such inventory, other than to reclassify for all periods presented.

i. **The effect of applying U.S. GAAP on the consolidated financial statements is as follows:**

1) Consolidated statement of income figures:

	Year ended December 31		
	2005	**2004**	**2003**
	NIS in thousands (except per share data)		
Net income, as reported according to Israeli GAAP	45,715	62,732	60,047
Effect of treatment of the following items in accordance with U.S. GAAP:			
Functional currency	6,490	2,385	5,834
Deferred income taxes - net	(3,961)	(2,080)	(4,703)
Reconciliation resulting from our share in the adjustments of the associated companies	80	2,442	2,409
Other then temporary impairment of an investment in associated companies	(10,000)		(16,986)
Amortization of other then temporary impairment of an investment in an associated company	1,699	1,699	
Applying APB 25 in respect of employee stock options:			
Gross amount	3,093	(12,660)	(12,705)
Deferred taxes	(1,255)	4,202	4,573
Net income under U.S. GAAP	41,861	58,720	38,469
Earnings per share:			
Under Israeli GAAP - net income per NIS 1 of par value of shares - Primary*	1,127	1,544	1,494
Under U.S. GAAP - per share:			
Basic	10.47	14.76	9.77
Diluted	10.33	14.52	9.69

* Each NIS 1 par value is composed of 100 ordinary shares of NIS 0.01 par value.

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2) Shareholders equity:

	December 31	
	2005	**2004**
	In thousands	
Shareholders' equity according to Israeli GAAP	523,384	575,313
Effect of treatment of the following items in accordance with US GAAP:		
Functional currency	(45,840)	*(52,611)
Other then temporary impairment of an investment in an associated companies, net of amortization	(23,588)	(15,287)
Deferred income taxes	7,450	*13,067
Shareholders' equity under US GAAP	461,406	520,482

* Reclassified

3) Consolidated balance sheet figures:

	December 31			
	2005		**2004**	
	NIS	**Re-measured NIS**	**NIS**	**Re-measured NIS**
	In thousands			
	As Reported Under Israeli GAAP	**Under U.S. GAAP**	**As Reported Under Israeli GAAP**	**Under U.S. GAAP**
Assets				
Inventories	63,999	59,885	*62,387	*56,449
Investment in associated companies	428,957	407,971	*431,241	*418,276
Fixed assets - net	379,934	340,914	*345,239	*300,746
Liabilities and shareholders' equity				
Deferred taxes - net	33,022	31,077	40,693	33,132
Shareholders' equity	523,384	461,406	575,313	520,482

* Reclassified

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j. **Statement of cash flows**

The Company presents its cash flow information, under Israeli GAAP net of the effects of inflation.

The information to be included under US GAAP for the years ended December 31, 2003, 2004 and 2005 is presented below:

	2005	2004	2003
	NIS		
	In thousands		
Net cash provided by operating activities	94,143	*30,096	53,895
Net cash used in investing activities	(19,868)	(42,043)	(32,261)
Net cash provided by (used in) financing activities	(73,770)	(138,946)	125,517
Effect of inflation and exchange difference on cash and cash equivalent		*	5,649
Increase (decrease) in cash and cash Equivalents	505	(150,893)	152,800
Balance of cash and cash equivalents at beginning of year	7,813	158,706	5,906
Balance of cash and cash equivalents at end of year	8,318	7,813	158,706

* Reclassified

Under Israeli GAAP, cash flows relating to investments in, and proceeds from the sale of, marketable securities classified as a current investment are presented as investing activities in the statements of cash flows, while under U.S. GAAP, these securities should be classified as operating activities.

k. **Reporting comprehensive Income**

In addition to net income, comprehensive income includes translation of foreign currency financial statements of an investee company, as follows:

	Year Ended December 31	
	2005	2004
	Re-measured NIS in thousands	
Net income under U.S. GAAP	41,861	58,720
Differences from translation of foreign currency financial statements of an investee company	2,195	(1,288)
Comprehensive income	44,056	57,432

As of December 31, 2005 the accumulated other comprehensive income aggregates to 825 re-measured NIS, in thousands.

Under Israeli GAAP, translation differences are carried as a separate component in the balance sheet among shareholders equity , while under U.S. GAAP such differences are included in other comprehensive income under the provisions of FAS 130.

L. **Recently issued accounting pronouncements in the United States:**

1) FAS 123 (revised 2004)Share-based Payment

In December 2004, the Financial Accounting Standards Board (FASB) issued the revised Statement of Financial Accounting Standards (FAS) No. 123, Share-Based Payment (FAS 123R), which addresses the accounting for share-based payment transactions in which the Company obtains employee services in exchange for (a) equity instruments of the Company or (b) liabilities that are based on the fair value of the Company s equity instruments or that may be settled by the issuance of such equity instruments. In March 2005, the SEC issued staff Accounting Bulletin No. 107. (SAB 107) regarding the SEC s interpretation of FAS 123R.

This Statement eliminates the ability to account for employee share-based payment transactions using APB 25, and requires instead that such transactions be accounted for using the grant-date fair value based method. This Statement will be effective as of the beginning of the first annual reporting period that begins after June 15, 2005. Early adoption of FAS 123R is encouraged. The company decided to adopt this statement on January 1, 2006. This Statement applies to all awards granted or modified after the Statement s effective date. In addition, compensation cost for the unvested portion of previously granted awards that remain outstanding on the Statement s effective date shall be recognized on or after the effective date, as the related services are rendered, based on the awards grant-date fair value as previously calculated for the pro-forma disclosure under FAS 123 (see also c. above).

The Company expects that upon the adoption of FAS 123R, it will apply the modified prospective application transition method, as permitted by the statement. Under such transition method, upon the adoption of FAS 123R, the new standard will be implemented as from the first quarter of 2006, with no restatement of prior periods. Taking into account the transition method adopted by the Company, the Company expects that the effect of applying this statement on the Company s results of operations in 2006 as it relates to existing option plans would not be materially different from the FAS 123 pro forma effect previously reported. The balance of unamortized compensation before taxation and any adjustment for forfeitures of options at December 31, 2005 amounted to approximately 300 thousands NIS. The cumulative effect upon adoption is not expected to be material to the Company s financial statements and results from operations.

2) FAS 151 Inventory Costs an amendment of ARB 43, Chapter 4

In November 2004, the FASB issued FAS No. 151, Inventory Costs an amendment of ARB 43, Chapter 4 (FAS 151). This Statement amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. This Statement requires that those items be recognized as current-period charges. In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This Statement will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005 (January 1, 2006 for the Company). Earlier application of FAS 151 is permitted. The provisions of this Statement shall be applied prospectively. The Company does not expect this Statement to have a material effect on the Company s financial statements or its results of operations.

3) FAS 154 Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3

In June 2005, the Financial Accounting Standards Board issued FAS No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3". This Statement generally requires retrospective application to prior periods financial statements of changes in accounting principle. Previously, Opinion No. 20 required that most voluntary changes in accounting principle were recognized by including the cumulative effect of changing to the new accounting principle in net income of the period of the change. FAS 154 applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. This Statement shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 (January 1, 2006 for the company). The Company does not expect the adoption of this statement will have a material impact on the Company s financial statements or its results of operations.

4) FAS 155 Accounting for certain Hybrid Financial Instruments, an amendment of FASB statements No.133 and 140

In February 2006, the FASB issued FAS 155, accounting for certain Hybrid Financial Instruments, an amendment of FASB statements No.133 and 140. This statement permits fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. This statement is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity s fiscal year, provided that no interim period financial statements have been issued for the financial year. The Company is currently evaluating the impact of this statement if any, on the Company s financial statements or its results of operations.

5) FAS 156 Accounting for servicing of Financial Assets an amendment of FASB Statement No. 140

In March 2006 the Financial Accounting Standards Board (the FASB) issued Statement of Financial Reporting No. 156 (SFAS 156). This Statement amends FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities, and is effective for financial periods beginning after September 15, 2006. The Company does not currently engage in transfers of financial fixed assets and accordingly does not anticipate that the adoption of this statement will have a material impact on its financial statements.

6) EITF 04-13 Accounting for Purchases and Sales of Inventory with the Same Counterparty

In September 2005, the EITF issued EITF Issue No. 04-13, Accounting for Purchases and Sales of Inventory with the Same Counterparty. EITF 04-13 provides guidance as to when purchases and sales of inventory with the same counterparty should be accounted for as a single exchange transaction. EITF 04-13 also provides guidance as to when a non monetary exchange of inventory should be accounted for at fair value. EITF 04-13 will be applied to new arrangements entered into, and modifications or renewals of existing arrangements occurring as of the beginning of the first interim or annual reporting period after March 15, 2006. The application of EITF 04-13 is not expected to have a significant impact on the Company s financial statements.

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Schedule Valuation and Qualifying Accounts

Three Years Ended December 31, 2005

(NIS in thousands)

Column A	**Column B**	**Column C**	**Column D**	**Column E**
	Balance at beginning of period	Additions (reductions) charged to expenses	Deductions	Balance at end of period
Allowance for doubtful accounts:				
Year ended December 31, 2005	16,148	840	(74)	16,914
Year ended December 31, 2004	13,696	3,102	(650)	16,148
Year ended December 31, 2003	12,752	944	--	13,696

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ITEM 19 EXHIBITS

(a) The following financial statements and supporting documents are filed with this report:

(i) Consolidated Audited Financial Statements of the Company for the year ended December 31, 2005 (including Reports of Independent Registered Public Accounting Firms).

(ii) Financial statements of Mondi Business Paper Hadera Ltd. for the year ended December 31, 2005.

(iii) Financial statements of Hogla-Kimberly Ltd. for the year ended December 31, 2005.

(iv) Report of Independent Registered Public Accounting Firms on Schedule on Valuation and Qualifying Accounts and Schedule.

(v) Report of Independent Registered Public Accounting Firms on reconciliation to U.S. GAAP.

(b) Exhibits:

1.1* Memorandum of Association

1.2** Articles of Association

3.1*** Voting Agreement dated February 5, 1980 by and among Clal Industries Ltd., PEC Israel Economic Corporation and Discount Bank Investment Corporation Ltd.

31.1 Certification of Chief Executive Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant toss.302 of the Sarbanes-Oxley Act.

31.2 Certification of Chief Financial Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant toss.302 of the Sarbanes-Oxley Act.

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C.ss.1350, as adopted pursuant toss.906 of the Sarbanes-Oxley Act.

32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C.ss.1350, as adopted pursuant toss.906 of the Sarbanes-Oxley Act.

*	Previously filed as an exhibit to the Company s Annual Report on Form 20-F for the year ended December 31, 1987, file No. 1-4212, and incorporated by reference herein.
**	Filed herewith.
***	Incorporated by reference to the exhibit number 3.1 in the Company s form 20-F for the year ended December 31, 1987.

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SIGNATURES

Pursuant to the requirement of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMERICAN ISRAELI PAPER MILLS LIMITED

By: /s/ Lea Katz
Name: Lea Katz
Title: Corporate Secretary

Dated: June 28, 2006

EXHIBIT INDEX

1.1*	Memorandum of Association
1.2**	Articles of Association
3.1***	Voting Agreement dated February 5, 1980 by and among Clal Industries Ltd., PEC Israel Economic Corporation and Discount Bank Investment Corporation Ltd.
31.1	Certification of Chief Executive Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant toss.302 of the Sarbanes-Oxley Act.
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32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C.ss.1350, as adopted pursuant toss.906 of the Sarbanes-Oxley Act.

* Previously filed as an exhibit to the Company s Annual Report on Form 20-F for the year ended December 31, 1987, file No. 1-4212, and incorporated by reference herein.

** Filed herewith.

** Incorporated by reference to the exhibit number 3.1 in the Company's form 20-F for the year ended

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Exhibit 19(a)(i)

AMERICAN ISRAELI PAPER MILLS LIMITED

2005 CONSOLIDATED FINANCIAL STATEMENTS

AMERICAN ISRAELI PAPER MILLS LIMITED

2005 CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

To the shareholders of
AMERICAN ISRAELI PAPER MILLS LIMITED

We have audited the consolidated balance sheets of American Israeli Paper Mills Limited (hereafter the Company) and its subsidiaries as of December 31, 2005 and 2004 and the consolidated statements of income, changes in shareholders equity and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company s board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain associated companies, the Company s interest in which as reflected in the balance sheets as of December 31, 2005 and 2004 is NIS 352.7 million and NIS 353.1 million, respectively, and the Company s share in excess of profits over losses of which is a net amount of NIS 19.2 million, NIS 25 million and NIS 28.2 million for the years ended December 31, 2005, 2004 and 2003, respectively. The financial statements of those companies were audited by other Independent registered Public Accounting Firm whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2005 and 2004 and the consolidated results of operations, changes in shareholders equity and cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted (GAAP) in Israel. Furthermore, in our opinion, the financial statements referred to above have been prepared in accordance with the Israeli Securities (Preparation of Annual Financial Statements) Regulations, 1993 (see also note 1).

As explained in note 1b, the financial statements, as of dates and for reporting periods subsequent to December 31, 2003, are presented in new Israeli shekels, in conformity with accounting standards issued by the Israel Accounting Standards Board. The financial statements as of dates and for reporting periods ended prior to, or on, the above date are presented in values that have been adjusted for the changes in the exchange rate of the U.S. dollar through that date, in accordance with pronouncements of the Institute of Certified Public Accountants in Israel.

/s/ Kesselman & Kesselman

Tel-Aviv, Israel
March 16, 2006

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AMERICAN ISRAELI PAPER MILLS LIMITED

CONSOLIDATED BALANCE SHEETS

	NOTE	DECEMBER 31 2005	DECEMBER 31 2004
		NIS IN THOUSANDS (SEE NOTE 1B.)	
ASSETS			
CURRENT ASSETS:	8		
Cash and cash equivalents	1o	8,318	7,813
Short-term investments	10a;1f	11,416	62,464
Accounts receivable:	10b		
Trade		150,409	143,275
Other		106,124	101,840
Inventories	10c	63,999	*62,387
Total current assets		340,266	377,779
INVESTMENTS AND LONG-TERM RECEIVABLES:			
Investments in associated companies	2;8	428,957	*431,241
Deferred income taxes	7f	5,655	6,511
		434,612	437,752
FIXED ASSETS:	3		
Cost		1,057,911	*995,295
Less - accumulated depreciation		677,977	650,056
		379,934	345,239
DEFERRED CHARGES, net of accumulated amortization	1i	946	1,106
Total assets		1,155,758	1,161,876

*Reclassified

/s/ Yaki Yerushalmi)

YAKI YERUSHALMI) CHAIRMAN OF THE BOARD OF DIRECTORS

/s/ Avi Brener)

AVI BRENER) CHIEF EXECUTIVE OFFICER

/s/ Israel Eldar)

ISRAEL ELDAR) CONTROLLER

Date of approval of the financial statements: March 16, 2006

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	NOTE	DECEMBER 31 2005	2004
		NIS IN THOUSANDS (SEE NOTE 1B.)	
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:	8		
Credit from banks	10d	93,171	112,684
Current maturities of long-term notes	4a	6,827	6,648
Accounts payable and accruals:	10e		
Trade		90,512	87,556
Dividend payable		50,093	
Other		85,407	*65,844
Total current liabilities		326,010	272,732
LONG-TERM LIABILITIES:			
Deferred income taxes	7f	45,783	52,562
Loans and other liability (net of current maturities):	4;8		
Notes		227,811	228,499
Other liability		32,770	32,770
Total long-term liability		306,364	313,831
COMMITMENTS AND CONTINGENT LIABILITIES	9		
Total liabilities		632,374	586,563
SHAREHOLDERS' EQUITY:	6		
Share capital (ordinary shares of NIS 0.01 par value: authorized - 20,000,000 shares; issued and paid: December 31, 2005 and 2004 - 4,002,205 and 3,996,674 shares, respectively)		125,257	125,257
Capital surplus		90,060	90,060
Capital surplus resulting from tax benefit on exercise of employee options		401	
Differences from translation of foreign currency financial statements of associated companies		(813)	(2,807)
Retained earnings		308,479	362,803
		523,384	575,313
Total liabilities and shareholders' equity		1,155,758	1,161,876

*Reclassified

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

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AMERICAN ISRAELI PAPER MILLS LIMITED

CONSOLIDATED STATEMENTS OF INCOME

	NOTE	2005	2004	2003
		NIS IN THOUSANDS (SEE NOTE 1B.)		
SALES - net	10f;14	482,461	482,854	465,092
COST OF SALES	10g	383,179	375,904	362,185
GROSS PROFIT		99,282	106,950	102,907
SELLING, MARKETING, ADMINISTRATIVE AND GENERAL EXPENSES:	10h			
Selling and marketing		30,482	30,595	31,324
Administrative and general		21,018	22,425	24,999
		51,500	53,020	56,323
INCOME FROM ORDINARY OPERATIONS		47,782	53,930	46,584
FINANCIAL EXPENSES - net	10i	12,490	13,118	15,989
OTHER INCOME	10j			1,609
INCOME BEFORE TAXES ON INCOME		35,292	40,812	32,204
TAXES ON INCOME	7	5,991	3,152	7,706
INCOME FROM OPERATIONS OF THE COMPANY AND ITS SUBSIDIARIES		29,301	37,660	24,498
SHARE IN PROFITS OF ASSOCIATED COMPANIES - net	2	16,414	25,072	35,549
NET INCOME FOR THE YEAR		45,715	62,732	60,047
		NIS		
NET INCOME PER NIS 1 OF PAR VALUE OF SHARES	1p;11	1,127	1,544	1,494

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

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AMERICAN ISRAELI PAPER MILLS LIMITED
STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

	SHARE CAPITAL	CAPITAL SURPLUSES	CAPITAL SURPLUS RESULTING FROM TAX BENEFIT ON EXERCISE OF EMPLOYEE OPTIONS	DIFFERENCES FROM TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENTS OF ASSOCIATED COMPANIES	RETAINED EARNINGS	TOTAL
	NIS IN THOUSANDS (SEE NOTE 1B.)					
BALANCE AT JANUARY 1, 2003	125,256	90,060		(3,482)	439,116	650,950
CHANGES IN 2003:						
Net income					60,047	60,047
Dividend paid					(99,128)	(99,128)
Exercise of employee options into shares	1					1
Differences from currency translation resulting from translation of financial statements of associated companies				2,360		2,360
BALANCE AT DECEMBER 31, 2003	125,257	90,060		(1,122)	400,035	614,230
CHANGES IN 2004:						
Net income					62,732	62,732
Dividend paid					(99,964)	(99,964)
Exercise of employee options into shares	*					*
Differences from currency translation resulting from translation of financial statements of associated companies				(1,685)		(1,685)
BALANCE AT DECEMBER 31, 2004	125,257	90,060		(2,807)	362,803	575,313
CHANGES IN 2005:						
Net income					45,715	45,715
Dividend **					(100,039)	(100,039)
Exercise of employee options into shares	*		401			401
Differences from currency translation resulting from translation of financial statements of associated companies				1,994		1,994
BALANCE AT DECEMBER 31, 2005	125,257	90,060	401	(813)	308,479	523,384

* Represents an amount less than NIS 1,000.

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

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

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(Continued) 1

AMERICAN ISRAELI PAPER MILLS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS

	2005	2004	2003
	NIS IN THOUSANDS (SEE NOTE 1B.)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income for the year	45,715	62,732	60,047
Adjustments to reconcile net income to net cash provided by operating activities (A)	42,845	(15,637)	(7,396)
Net cash provided by operating activities	88,560	47,095	52,651
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets	(71,080)	(30,952)	(29,247)
Short-term investments	51,003	(42,000)	(20,000)
Associated companies:			
Granting of loans	(2,744)	(779)	(8,241)
Collection of loans		13,688	21,895
Proceeds from sale of subsidiary consolidated in the past (B)	2,004		
Proceeds from sale of fixed assets	6,532	1,001	3,332
Net cash used in investing activities	(14,285)	(59,042)	(32,261)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Notes issuance, net of issuance expenses of NIS 800,000			198,909
Consideration in respect of the exercise of options by employees			1
Receipt of long-term loans from others	1,746		
Repayment of long-term loans from banks and others	(277)	(383)	(762)
Redemption of notes	(6,680)	(6,666)	(6,770)
Dividend paid	(49,946)	(99,964)	(99,128)
Short-term credit from banks - net	(18,613)	(31,933)	40,606
Net cash provided by (used in) financing activities	(73,770)	(138,946)	132,856
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	505	(150,893)	153,246
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7,813	158,706	5,460
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR	8,318	7,813	158,706

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(Continued) 2

AMERICAN ISRAELI PAPER MILLS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS

	2005	2004	2003
	NIS IN THOUSANDS (SEE NOTE 1B.)		
(A) ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Income and expenses not involving cash flows:			
Share in profits of associated companies - net	(16,414)	(25,072)	(35,549)
Dividend received from associated company	21,761		16,391
Depreciation and amortization	31,604	28,633	28,247
Deferred income taxes - net	(7,671)	(10,096)	3,471
Capital losses (gains) on:			
Sale of fixed assets	(3,570)	508	(2,054)
Sale of subsidiary consolidated in the past (B)	(874)		
Losses (gains) on short-term deposits and investments	45	(464)	
Linkage and exchange differences (erosion) on principal of long-term loans from banks and others - net	(111)	(26)	79
Linkage differences on principal of notes	6,171	2,184	3,110
Linkage differences on principal of long-term loans granted to associated companies	(975)	(721)	(1,101)
Appreciation of a long-term capital note granted to an associated company			2,477
	29,966	(5,054)	15,071
Changes in operating asset and liability items:			
Increase in trade receivables	(7,162)	(2,279)	(9,260)
Increase in other receivables (excluding deferred income taxes)	(1,587)	(12,037)	(8,935)
Decrease (increase) in inventories	(1,612)	7,434	(159)
Increase (decrease) in trade payables	3,018	2,954	(14,653)
Increase (decrease) in other payables and accruals	20,222	(6,655)	10,540
	12,879	(10,583)	(22,467)
	42,845	(15,637)	(7,396)
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION:			
Income taxes paid	1,559	3,242	11,553
Interest paid	15,828	20,697	11,335

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(Concluded) 3

AMERICAN ISRAELI PAPER MILLS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS

	2005
	NIS IN THOUSANDS (SEE NOTE 1B.)
(B) PROCEEDS FROM SALE OF SUBSIDIARY CONSOLIDATED IN THE PAST - see also note 10h:	
Assets and liabilities of the subsidiary consolidated in the past at the date of its sale:	
Working capital (excluding cash and cash equivalents)	509
Fixed assets	1,979
Long-term liabilities	(1,358)
Capital gain from the sale	874
	2,004

(C) INFORMATION ON ACTIVITIES NOT INVOLVING CASH FLOWS:

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

2) Dividend declared by an associated company in December 2005 was not paid yet. The Company s share in this dividend amounts to NIS 2,650,000.

3) In 2004, equipment, which the Company had found to be unsuitable for its use, was retired. The retirement was made against the cancellation of the loan made available by the supplier in respect of said equipment. The retirement amounted to NIS 1,079,000.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

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AMERICAN ISRAELI PAPER MILLS LIMITEDNOTES
TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

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

The significant accounting policies, which, except for the changes required by the transition to nominal financial reporting in 2004 (see b below), and the implementation for the first time of Clarification No. 7 in 2005 (see j(7) below), were applied on a consistent basis, are as follows:

A. GENERAL:

1) Activities of the Group

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

2) Use of estimates in the preparation of financial statements

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

3) Definitions:

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

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

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

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued):

B. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

The Company draws up and presents its financial statements in Israeli currency (hereafter shekels or NIS).

1) Transition to nominal financial reporting in 2004

With effect from January 1, 2004, the Company has adopted the provisions of Israel Accounting Standard No. 12 - Discontinuance of Adjusting Financial Statements for Inflation of the Israel Accounting Standards Board (hereafter -the IASB) and, pursuant thereto, the Company has discontinued, from the aforesaid date, the adjustment of its financial statements for the changes in the exchange rate of the U.S. dollar (hereafter the dollar) against the shekel.

The amounts adjusted for the changes in the exchange rate of the dollar against the shekel (see (2) below), presented in the financial statements as of December 31, 2003 (hereafter the transition date), were used as the opening balances for the nominal financial reporting as of January 1, 2004. Additions made after the transition date have been included in the financial statements at their nominal values.

Accordingly, the amounts reported for 2003, as well as reported amounts for subsequent periods, that relate to non-monetary assets (including the depreciation and amortization thereon), investments in associated companies and equity items, which originate from the period that preceded the transition date, are based on the data adjusted for the changes in the exchange rate of the dollar, on the basis of the exchange rate at December 31, 2003, as previously reported. All the amounts originating from the period after the transition date are included in the financial statements at their nominal values.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued):

Through December 31, 2003, the Company prepared its financial statements on the basis of historical cost adjusted for the changes in the exchange rate of the dollar, (see also note 8b) as permitted under Opinion 36 of the Institute of Certified Public Accountants in Israel (hereafter the Israeli Institute).

Through 2003, the components of the income statements were, for the most part, adjusted as follows: the components relating to transactions carried out during the reported period sales, purchases, labor costs, etc. were adjusted on the basis of the date on which the transaction was carried out, while those relating to non-monetary balance sheet items (mainly changes in inventories and depreciation) were adjusted on the same basis as the related balance sheet item. The financing component represents financial income and expenses in real terms and the erosion of balances of monetary items during the year.

The investment in some of the associated companies (whose operations constitute an integral part of the Company s operations) and the Company s share in their operating results are recorded on the basis of the adjusted financial statements (in accordance with the provisions of Standard No. 12, as described above) of these companies. As to associated companies whose financial statements were adjusted until December 31, 2003 on the basis of the changes in the Israeli CPI, see (3) below.

2) The amounts of non-monetary assets do not necessarily represent realization value or current economic value, but only the reported amounts of such assets, as described in (1) above. In these financial statements, the term cost signifies cost in reported amounts.

3) Associated companies whose financial statements are adjusted on the basis of the changes in the Israeli CPI

For purposes of inclusion on the equity basis, until December 31, 2003, the amounts included in the financial statements of the above associated companies operating independently, were treated as follows:

Balance sheet items at the end of the year and the results of operations for the year reflect the amounts presented in the financial statements of such companies. Balance sheet items at the beginning of the year and changes in shareholders equity items during the year were adjusted on the basis of the changes in the exchange rate of the dollar at the beginning of the year or at the date of each change, respectively, through the end of the year. Any differences resulting from the treatment described above were carried to the adjusted shareholders equity under a separate item (differences from translation of foreign currency financial statements of associated companies).

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued):

As from January 1, 2004, no additional differences have been included in respect of said companies, in view of their transition to reporting under Standard 12, as also applied by the Company.

C. PRINCIPLES OF CONSOLIDATION:

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

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

D. INVENTORIES

Raw materials and supplies, finished goods, purchased products and maintenance and sundry materials (including spare parts) are valued at the lower of cost or market (net of processing costs and after deduction of a provision for obsolescence, where appropriate); cost is determined on the moving average basis.

Spare parts of the machinery and equipment that are not for current use, are presented under fixed assets.

E. INVESTMENTS IN ASSOCIATED COMPANIES:

1) The investments in these companies are accounted for by the equity method.

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

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

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

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

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued):

F. MARKETABLE SECURITIES

These securities are stated at market prices.

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

G. FIXED ASSETS:

1) Fixed assets are stated at cost, net of related investment grants.

2) Fixed assets of own manufacture are stated at cost, based on the direct costs with the addition of an appropriate portion of indirect production costs.

3) Borrowing costs in respect of credit applied to finance the construction of fixed assets during the period until construction is completed are charged to the cost of such assets.

4) The assets are depreciated by the straight-line method on the basis of their estimated useful life, as follows:

	YEARS
Buildings	10-50 (mainly 33)
Machinery and equipment	7-20 (mainly 10 and 20)
Vehicles	5-7 (mainly 7)
Office furniture and equipment (including computers)	3-17 (mainly 4)

H. IMPAIRMENT OF ASSETS

The Company assesses at each balance sheet date whether any events have occurred or changes in circumstances have taken place, which might indicate that there has been an impairment of non-monetary assets, mainly fixed assets and investments in associated companies. When such indicators of impairment are present, the Company evaluates whether the carrying value of the asset is recoverable from the cash flows expected from that asset. See note 2g.

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

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

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued):

I. DEFERRED CHARGES

The item represents notes issuance costs, which are amortized over the period of the notes (see note 4a).

As to the change from January 1, 2006 in the method of presenting and amortizing these charges see q(1) below.

J. DEFERRED INCOME TAXES:

1) Commencing January 1, 2005, the Company applies the IASB s Accounting Standard No. 19 Taxes on Income that prescribes the accounting treatment (recognition criteria, measurement, presentation and disclosure) required for taxes on income.

For the most part, the provisions of this standard are the same as the accounting principles that the Company applied prior to implementing the new standard.

2) In accordance with the standard and with prior years policy, the Company recognizes deferred taxes in respect of temporary differences between the amounts of assets and liabilities as reported in the consolidated financial statements and those taken into account for tax purposes; the standard requires that full recognition be given to deferred taxes in respect of all taxable temporary differences, except for the temporary difference resulting from the initial recognition of goodwill and the temporary difference resulting from the initial recognition of an asset or a liability that has no effect on the profit or loss, whether for accounting or tax purposes, at that time (unless the temporary difference results from the initial recognition of a business combination).

Deferred tax assets are recognized for all temporary differences that are tax deductible, up to the amount of the differences that are expected to be utilized in the future, against taxable income. As to the main types of differences, in respect of which deferred taxes have been included see note 7f.

3) Deferred tax balances are computed at the tax rates expected to be in effect at the time the deferred tax asset is utilized or the deferred tax liability is settled, based on the tax rates and the tax laws enacted, or substantively enacted, by the balance sheet date.

4) The current taxes, as well as the changes in the deferred tax balances, are included in the tax expenses or income in the reporting period, except for taxes derived from the initial recognition of business combinations and except for the tax in respect of transactions that are recognized directly in shareholders equity (in such instances, the applicable tax is taken directly to shareholders equity).

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

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued):

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

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

K. REVENUE RECOGNITION

Revenue from sale of products on the local market and for export, net of discounts granted, is recognized upon the transfer of ownership to the buyer (in accordance with the sale conditions).

L. SHIPPING AND HANDLING COSTS

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

M. ALLOWANCE FOR DOUBTFUL ACCOUNTS

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

N. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued):

O. CASH EQUIVALENTS

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

P. NET INCOME PER NIS 1 OF PAR VALUE OF SHARES

Net income per NIS 1 of par value of shares is computed in accordance with Opinion 55 of the Israeli Institute; as to the data used in the per share computation see note 11.

Q. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS IN ISRAEL

1) In August 2005, the IASB issued Israel Accounting Standard No. 22 Financial Instruments: Disclosure and Presentation , which is based on International Accounting Standard No. 32. This standard prescribes the rules for the presentation of financial instruments and the proper disclosure required therefor. The standard prescribes the rules pursuant to which financial instruments are to be classified and are to be presented as a liability (while broadening the definition of a financial liability) or as an equity instrument (presented within shareholders equity). The standard also prescribes rules for bifurcating and classifying compound financial instruments (that include both an equity component and a liability component), the circumstances under which the offsetting of financial assets and financial liabilities is permitted, and the treatment of the costs of issuing financial instruments. The standard also prescribes that interest, dividends, losses and gains relating to financial instruments shall be recorded as income or expense in the income statements when the instrument is classified as a financial liability, or an as an equity movement when the instrument is classified as an equity instrument, respectively.

This accounting standard is to be applied to financial statements for periods commencing on or after January 1, 2006, and is to be applied prospectively. Upon initial implementation of the standard, all the financial instruments existing at the transition date will be classified and presented in accordance with the classification and presentation rules prescribed by the standard; compound financial instruments will be bifurcated into their components, prior to said classification, in accordance with the transitional provisions prescribed by the standard. Comparative data will not be restated.

When the standard takes effect, the Israeli Institute s Opinion 48 Accounting Treatment of Option Warrants , and Opinion 53 Accounting Treatment of Convertible Liabilities will be revoked.

The balance of deferred issuance costs relating to the notes, which at December 31, 2005 amounted to NIS 946,000 will be reclassified at the time of the standard taking effect and will be presented as a deduction from the amount of the liability to which such expenses relate.

These costs will be amortized, in future reporting periods, according to the interest method. The change in the amortization method will not have a material effect on operating results in future reporting periods.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued):

2) In September 2005, the IASB issued Accounting Standard Israel No. 24 Share-based Payment . This standard prescribes the recognition and measurement principles, as well as the disclosure requirements, relating to share-based payment transactions. Prior to the issuance of said standard, no mandatory directives were in place in Israel for the measurement and recognition of share-based payment transactions, with the exception of certain disclosure requirements. Accordingly, in the past, equity instrument grants to Company employees did not have recognition or measurement implications on the Company s financial statements.

The new standard is applicable to transactions whereunder a company acquires goods or receives services in consideration for equity instruments of the company (hereafter equity grant), or cash (or other assets) consideration, where the amount of the consideration is based on the price or value of equity instruments of the company (hereafter liability grant). The standard requires the recognition of such transactions at fair value. The standard is applicable to share-based payment transactions with employees and non-employees.

With respect to equity grants to employees, the standard stipulates that the value of the labor services received from them in return is to be measured on the day of the grant, based on the fair value of the equity instruments that were granted to the employees. The value of the transactions, measured in the above manner, is to be expensed over the period that the employee s right to exercise or receive the underlying equity instruments vests; commensurate with the recognition of the expense, a corresponding increase is to be recorded as a capital surplus under the company s shareholders equity.

According to the provisions of the standard, the initial measurement of the fair value of liability grants is to be made on the date of the grant and recognized as a liability in the company s balance sheet; thereafter, the liability is to be remeasured at each balance sheet date until said liability is settled. The changes in the amount of the liability are carried to the income statement on a current basis. The standard also sets out guidelines for the allocation of income taxes in respect of share-based payments.

Accounting Standard No. 24 is to be applied to financial statements covering periods commencing on, or after, January 1, 2006.

The transitional provisions of the standard make a distinction between equity grants and liability grants:

a) For equity grants, the standard prescribes that its provisions are to be applied to all grants that are made subsequent to March 15, 2005, which had not yet vested at the effective date of the standard. As a result, upon the standard taking effect, the financial statements for 2005 will need to be restated in order to reflect such grants.

b) The provisions of the standard shall be retroactively applicable to liabilities relating to liability grants existing at the effective date. As a result, upon the standard taking effect, the financial statements for all prior periods will need to be restated in order to reflect these grants.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued):

The transitional provisions of the standard further stipulate that any modifications to the terms of existing grants executed subsequent to March 15, 2005 shall be subject to the provisions of the standard, even if the grants themselves are not. As a result, upon the standard taking effect, the financial statements for 2005 will need to be restated in order to reflect such modifications.

The Company intends to implement the provisions of the standard starting from 2006. The Company has a liability in respect of a liability grant, regarding which the effect of the retroactive implementation of the provisions of the standard, for each of the relevant years and cumulatively, is immaterial.

In addition, new grants of options or shares to employees or service providers of the Company, would result, in the following reporting periods, in the recording of payroll expenses or expenses relating to the cost of the services, at their fair value.

3) In February 2006, the IASB issued Israel Accounting Standard No. 21 Earnings per Share , which is based on International Accounting Standard No. 33. Accounting Standard No. 21 provides rules for the computation of earnings per share data and their presentation in the financial statements, and is to supersede, starting from its effective date, the existing rules relating to the computation and presentation of such data, which are based on Opinion 55 of the Israeli Institute; the standard is to be applied in financial statements for periods commencing on or after January 1, 2006.

According to the standard, the computation of basic earnings per share is generally based on the earnings available for distribution to holders of ordinary shares, which is divided by the weighted average number of ordinary shares outstanding during the period. This computation no longer takes into account the effect relating to potential shares that may derive from the expected conversion of convertible financial instruments, or the performance of contracts that confer rights to shares upon their holders.

In computing the diluted earnings or loss per share, the weighted average number of shares to be issued is to be added to the average number of ordinary shares used in the computation of the basic earnings per share data, assuming that all dilutive potential shares will be converted into shares. The potential shares are taken into account, as above, only when their effect is dilutive (reducing the earnings or increasing the loss per share from continuing activities); for the purpose of the computation of the weighted average, dilutive potential ordinary shares shall be deemed to have been converted into ordinary shares at the beginning of the period or, if later, the date of the issue of the potential ordinary shares. The standard also revises the treatment of the effect on the earnings resulting from the expected conversion of potential shares, and makes certain adjustments to the Company s share in the operating results of associated companies and consolidated subsidiaries for the purpose of their inclusion in earnings used for the computation.

Upon the initial adoption of the standard, and in accordance with the transitional provisions stipulated therein, the comparative earnings per share data are to be restated in the financial statements, in order to reflect, with retroactive effect, the computation of the earnings per share under the new directives.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued):

In the opinion of the Company, the implementation of this standard is not expected to have a material effect on the earnings per share data included in these financial statements.

4) In February 2006, the IASB issued Israel Accounting Standard No. 25 Revenue , which is based on International Accounting Standard No. 18. This standard prescribes recognition, measurement, presentation and disclosure criteria for

revenues originating from the sale of goods purchased or manufactured by the company, the provision of services, as well as revenues deriving from the use of the company s assets by others (interest income, royalties or dividends).

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

Revenue from the provision of services shall be recognized by reference to the stage of completion of the transaction at the balance sheet date, subject to the satisfaction of conditions (c) through (e) above, and only when the stage of completion of the transaction at the balance sheet date can be measured reliably.

A clarification of said standard was issued by the IASB in February 2006: Clarification No. 8 Reporting of Revenue on a Gross or Net Basis . According to the clarification, a company acting as an agent or an intermediary, without bearing the risks and rewards resulting from the transaction, will present its revenue on a net basis (as profit or commission). However, a company that acts as a principal supplier and bears the risks and rewards resulting from the transaction will present its revenue on a gross basis, distinguishing the turnover from the related expenses.

Standard 25 shall be applicable to financial statements for periods commencing on or after January 1, 2006. The standard is to be applied prospectively; nevertheless, in accordance with the transitional provisions of the standard, the classification and presentation of revenue on a gross or net basis, as above, shall be applied with retroactive effect, including the restatement of revenues and expenses appearing in the comparative figures in the financial statements for periods commencing on the effective date of the standard.

Until the publication of said standard and the related clarification, there were no accounting pronouncements, and the accounting treatment of this issue was mostly based on generally accepted accounting practices and foreign accounting pronouncements. The company is currently examining the effect of the implementation of this standard on its financial statements in future periods.

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

NOTE 2 INVESTMENTS IN ASSOCIATED COMPANIES:

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

B. COMPOSED AS FOLLOWS:

	DECEMBER 31	
	2005	**2004**
	NIS IN THOUSANDS	
Shares:		
Cost	54,241	54,241
Excess of cost of investment - net	2,086	2,086
Less - accumulated amortization	(2,180)	(2,624)
Gain on issuance of shares of an associated company to a third party	40,241	40,241
Adjustments resulting from translation of foreign currency		

	DECEMBER 31	
financial statements	(813)	(2,807)
Share in profits (after deduction of losses) accumulated since acquisition	263,051	271,492
	356,626	362,629
Long-term loans and capital notes *	72,331	**68,612
	428,957	431,241

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

	WEIGHTED AVERAGE INTEREST RATE AT DECEMBER 31, 2005	DECEMBER 31 2005	DECEMBER 31 2004
	%	NIS IN THOUSANDS	
In dollars		9,206	8,616
Linked to the Israeli CPI***			**10,709
Unlinked loans and capital notes	2.2%	63,125	49,287
		72,331	68,612

** Reclassified.

*** In 2005, the terms of the loans linked to the Israeli CPI were changed and these loans became unlinked loans.

As of December 31, 2005, the repayment dates of the balance of the loans and capital notes have not yet been determined.

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

NOTE 2 INVESTMENTS IN ASSOCIATED COMPANIES (continued):

C. THE CHANGES IN THE INVESTMENTS DURING 2005 ARE AS FOLLOWS:

	NIS IN THOUSANDS
Balance at beginning of year	431,241
Changes during the year:	
Share in profits of associated companies - net	16,414
Dividend from associated companies	(24,411)
Adjustments resulting from translation of foreign currency financial statements	1,994
Increase in balance of long-term loans and capital notes - net	3,719
Balance at end of year	428,957

D. MONDY BUSINESS PAPER HADERA LTD. (hereafter Mondy Hadera; formerly Neusiedler Hadera Paper Ltd. NHP):

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

E. HOGLA-KIMBERLY LTD. (hereafter Hogla-Kimberly)

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

F. INVESTMENT IN CARMEL CONTAINER SYSTEMS LIMITED (HEREAFTER CARMEL)

The investment in Carmel s shares, as of December 31, 2005 and 2004, amounts to NIS 32,897,000 and NIS 32,300,000, respectively, which represents a holding of 26.25%. Carmel s shares are traded in the United States on the AMEX Stock Exchange.

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

NOTE 2 INVESTMENTS IN ASSOCIATED COMPANIES (continued):

In November 2004, Carmel s board of directors decided to take measures to withdraw Carmel s shares from trade on the AMEX Stock Exchange in the United States and also to deregister with the SEC. Accordingly, trade in Carmel s shares on the AMEX was suspended from November 30, 2004 and in July 2005 the process of deregistering the shares from being traded and with the SEC was finalized.

The financial statements of Carmel are drawn up in accordance with the provisions of Accounting Standard No. 12 of the IASB. Until December 31, 2003, the financial statements were drawn up on the basis of cost, adjusted for the changes in the general purchasing power of Israeli currency measured on the basis of the Israeli CPI. For purposes of inclusion in the consolidated financial statements up to said date, Carmel s financial statements were adjusted on the basis of the changes in the exchange rate of the dollar.

G. INVESTMENT IN T.M.M INTEGRATED RECYCLING INDUSTRIES LTD. (HEREAFTER T.M.M.)

As of December 31, 2005, the Company s share in T.M.M. (directly and through another associated company) is 43.08%

The excess of equity in net assets of T.M.M. shares, over the cost of the investment therein, which amounts to NIS 1,581,000, is amortized over a period of ten years.

As of December 31, 2005 and 2004, the direct investment in the shares of T.M.M is NIS 13,703,000 and NIS 15,726,000, respectively. The market value of these shares as of December 31, 2005 and 2004 is NIS 10,436,000 and NIS 11,338,000, respectively.

The Company s management examined the value of its investment in T.M.M. for impairment, which is not temporary in nature. The Company used the services of an outside appraiser in determining the value in use to the Company. Based on this, the Company s management believes that the investment does not need to be written down.

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

NOTE 3 FIXED ASSETS:

A. COMPOSITION OF ASSETS AND THE ACCUMULATED DEPRECIATION THEREON, GROUPED BY MAJOR CLASSIFICATIONS, AND CHANGES THEREIN DURING 2005, ARE AS FOLLOWS:

	COST			
	BALANCE AT BEGINNING OF YEAR	ADDITIONS DURING THE YEAR	RETIREMENTS DURING THE YEAR	BALANCE AT END OF YEAR
	NIS IN THOUSANDS			
Land and buildings thereon	189,227	40,369	774	228,822
Machinery and equipment	673,753	16,681	1,036	689,398
Vehicles	29,954	5,362	4,220	31,096
Office furniture and equipment (including computers)	68,362	2,073	269	70,166
Payments on account of machinery and equipment	13,166	4,166	2,165	15,167
Spare parts - not current	20,833*	2,429		23,262
	995,295	71,080	8,464	1,057,911

	ACCUMULATED DEPRECIATION				DEPRECIATED BALANCE	
					DECEMBER 31	
	BALANCE AT BEGINNING OF YEAR	ADDITIONS DURING THE YEAR	RETIREMENTS DURING THE YEAR	BALANCE AT END OF YEAR	2005	2004
	NIS IN THOUSANDS				NIS IN THOUSANDS	
Land and buildings thereon	107,585	3,496	277	110,804	118,018	81,642
Machinery and equipment	467,827	22,031	902	488,956	200,442	205,926
Vehicles	19,884	3,307	2,276	20,915	10,181	10,070
Office furniture and equipment (including computers)	54,760	2,610	68	57,302	12,864	13,602
Payments on account of machinery and equipment					15,167	13,166
Spare parts - not current					23,262	20,833*
	650,056	31,444	3,523	677,977	379,934	345,239

*Reclassified.

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

NOTE 3 FIXED ASSETS (continued):

B. The item is net of investment grants in respect of investments in approved enterprises (see notes 7a and 9a).

C. The Company s real estate is partly owned and partly leased to the extent of NIS 44.5 million, in respect of which lease fees of approximately NIS 25.8 million have been capitalized. The leasehold rights are for 49 year periods ending in the years 2008 to 2059, with options to extend for an additional 49 years.

D. As of December 31, 2005 and 2004, the cost of fixed assets includes borrowing costs of NIS 1,007,000 capitalized to the cost of machinery and equipment.

E. Depreciation expenses amounted to NIS 31,444,000 NIS 28,472,000 and NIS 28,165,000, for the years ended December 31, 2005, 2004 and 2003, respectively.

F. As to pledges on assets see note 9a.

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

NOTE 4 NOTES AND OTHER LONG-TERM LIABILITIES:

A. NOTES

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

	DECEMBER 31			
	2005		2004	
	NIS IN THOUSANDS			
	SERIES II	SERIES I	SERIES II	SERIES I
Balance	207,229	27,409	201,807	33,340
Less - current maturities		6,827		6,648
	207,229	20,582	201,807	26,692

1) Series I May 1992

The balance of the notes as of December 31, 2005 is redeemable in four installments, due in June of each of the years 2006-2009, each installment amounting to 6.66% of the original par value of the notes, which is NIS 102,501,000, in December 2005 terms; the unpaid balance of the notes bears annual interest of 3.8%, payable annually each June. The notes principal and interest are linked to the Israeli CPI of February 1992.

2) Series II December 2003

The balance of the notes as of December 31, 2005 is redeemable in 7 equal, annual installments due in December of each of the years 2007-2013; the unpaid balance of the notes bears annual interest of 5.65%, payable annually each December. The notes principal and interest are linked to the Israeli CPI of November 2003.

As to the change from January 2006 in the presentation of deferred issuance costs see note 1q (1) above.

B. OTHER LIABILITY:

The capital note to an associated company is unlinked and interest free. No repayment date has been fixed, but the associated company does not intend to demand the repayment of the capital note before January 1, 2007.

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

NOTE 5 EMPLOYEE RIGHTS UPON RETIREMENT:

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

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

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

B. The expenses relating to employee rights upon retirement, which reflect the amounts that were deposited during the reported years with provident funds, pension funds and various insurance policies, are NIS 8,710,000 NIS 8,368,000,and NIS 8,515,000 in 2005, 2004, and 2003, respectively.

NOTE 6 SHAREHOLDERS EQUITY:

A. SHARE CAPITAL

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

		DECEMBER 31	
		2005	2004
	AUTHORIZED	ISSUED AND PAID	
Number of shares	20,000,000	4,002,205	3,996,674
Amount in NIS	200,000	40,022	39,967

The shares are traded on stock exchanges in Tel-Aviv and in the U.S. (AMEX). The quoted prices per share, as of December 31, 2005 are NIS 195.4 and $ 42.51 (NIS 195.67), respectively.

B. EMPLOYEE STOCK OPTION PLANS:

1) The 1998 plan for senior officers in the Group

On January 11, 1998, the board of directors approved a stock option plan for senior officers in the Group (the 1998 plan for senior officers).

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

NOTE 6 SHAREHOLDERS EQUITY (continued):

In 1998-2000, 155,498 options were granted under the 1998 plan for senior officers.

The number of shares resulting from the exercise of the options and the actual exercise price were determined as follows: Upon receipt of an exercise request from an option holder, a computation was made of the difference between the quoted price of the Company s shares at the beginning of that trading day and the exercise price; that difference was then multiplied by the number of exercisable options (hereafter the benefit). The number of shares that the Company actually issued to the option holder was the number of shares the market value of which was equal to the amount of the benefit computed as above. In consideration for the shares, the option holder paid their par value only.

In 2000-2003, 154,000 options were exercised under the 1998 plan for senior officers. 92,832 shares of NIS 0.01 were issued following the exercise. The unexercised balance of 1,498 options granted expired in 2003.

Immediately upon issuance, the ordinary shares issued upon exercise of the options have all the same rights as other ordinary shares of the Company.

2) The 2001 plan for senior officers in the Group

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

The exercise price of the options granted as above was set at NIS 217.00, linked to the CPI, on the basis of the known CPI on April 2, 2001. The exercise price for each batch is determined as the lesser of the aforementioned exercise price or the average price of the Company s shares as quoted on the Tel-Aviv Stock Exchange (hereafter the Stock Exchange) during the thirty trading days preceding to the effective date of each batch, less 10%. As stipulated by the 2001 plan for senior officers, the exercise price of unexercised options is to be adjusted, in the event of cash dividend distributions. Accordingly, the exercise price as of December 31, 2005 is NIS 45.5 for the second batch, NIS 103.43 for the third batch and NIS 157.02 for the fourth batch. In May 2005, the remaining options from the first batch expired.

The quoted price of the Company s shares on the Tel Aviv Stock Exchange, immediately prior to the date of the board of directors resolution to grant the options, was NIS 204.00. Immediately prior to the granting of the options, the price was NIS 185.8.

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

NOTE 6 SHAREHOLDERS EQUITY (continued):

The fair value of each option computed on the basis of the Black-Scholes option-pricing model as prescribed by the regulations of the Tel-Aviv Stock Exchange was approximately NIS 56.69 on the date of grant.

Notwithstanding the above, the number of shares resulting from the exercise of the options and the actual exercise price will be determined as follows: Upon receipt of an exercise request from an option holder, a computation will be made of the difference between the quoted price of the Company s shares at the beginning of that trading day and the exercise price; that difference is to be multiplied by the number of exercisable options (hereafter the benefit). The number of shares that the Company will actually issue to the option holder will be the number of shares the market value of which is equal to the amount of the benefit computed as above. In consideration for the shares, the option holder will pay their par value only.

Immediately upon issuance, the ordinary shares issued upon exercise of the options will have all the same rights as other ordinary shares of the Company.

In 2005, 2004 and 2003, 13,877, 55,525 and 1,550 options, respectively, were exercised under the 2001 plan for senior officers, and 4,307, 24,295 and 227 shares of NIS 0.01, respectively, were issued following the exercise of the options, as above. 8,250 options expired in 2005 (from the first batch). As of December 31, 2005, the unexercised balance of the options granted is 115,098.

This plan is designed to be governed by the terms stipulated by Section 102 of the Israeli Income Tax Ordinance. Inter alia, these terms provide that the Company is allowed to claim, as an expense for tax purposes, the amounts credited to the employees as a benefit in respect of shares or options granted under the plan.

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

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

3) The 2001 employee plan

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

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

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

NOTE 6 SHAREHOLDERS EQUITY (continued):

The exercise price of all the options granted as above was set at NIS 160.99, linked to the CPI, on the basis of the known CPI on August 29, 2001. This price represents the average price of the Company s shares as quoted on the Tel-Aviv Stock Exchange during the thirty trading days prior to the date of the board of directors approval, less 10%. As stipulated by the 2001 employee plan, the exercise price has been adjusted, as a result of dividend distributions, and it is NIS 91.16 as of December 31, 2005.

The quoted price of the Company s shares on the Tel Aviv Stock Exchange, immediately prior to the date of the board of directors resolution to grant the options, was NIS 171.20. Immediately prior to the granting of the options, the price was NIS 138.80.

The fair value of each option computed on the basis of the Black-Scholes option-pricing model as prescribed by the regulations of the Tel-Aviv Stock Exchange was approximately NIS 64.11 on the date of grant.

Notwithstanding the above, the number of shares resulting from the exercise of the options and the actual exercise price will be determined as follows: Upon receipt of an exercise request from an option holder, a computation will be made of the difference between the quoted price of the Company s shares at the beginning of that trading day and the exercise price; that difference is to be multiplied by the number of options to be exercised (hereafter the benefit). The number of shares the that Company will actually issue to the option holder will be the number of shares the market value of which is equal to the amount of the benefit computed as above. In consideration for the shares, the option holder will pay their par value only.

Immediately upon issuance, the ordinary shares issued upon exercise of the options will have all the same rights as other ordinary shares of the Company.

In 2005, 2004 and 2003, 2,405, 8,615 and 57,962 options, respectively, were exercised under the 2001 employee plan, and 1,224, 4,084 and 20,665 shares of NIS 0.01, respectively, were issued following the exercise of options, as above. As of December 31, 2005, the unexercised balance of the options granted is 12,473.

This plan is designed to be governed by the terms stipulated by Section 102 of the Israeli Income Tax Ordinance. Inter alia, these terms provide that the Company is allowed to claim, as an expense for tax purposes, the amounts credited to the employees as a benefit in respect of shares or options granted under the plan.

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

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

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

NOTE 7 TAXES ON INCOME:

A. TAX BENEFITS UNDER THE LAW FOR THE ENCOURAGEMENT OF CAPITAL INVESTMENTS, 1959 (hereafter the law)

Under the law, by virtue of the approved enterprise status granted to certain of their production facilities, certain subsidiaries were entitled to various tax benefits (mainly reduced tax rates) until 2003.

During the period of benefits mainly 7 years commencing in the first year in which the companies earn taxable income from the approved enterprises, provided the maximum period to which it is restricted by law has not elapsed reduced tax rates or exemption from tax apply, as follows:

1) Corporate tax rate of 25%, instead of the regular tax rate (see d. below).

2) Tax exemption on income from certain approved enterprises in respect of which the companies have elected the alternative benefits (involving waiver of government guaranteed loans instead of the tax exemption); the length of the exemption period is 4 years, after which the income from these enterprises is taxable at the rate of 25% for 3 years.

The part of the taxable income, which is entitled to the tax benefits, is determined on the basis of the ratio of the turnover attributed to the approved enterprise to the total turnover of these companies, taking into account the ratio of the approved enterprise assets to total assets of these companies. The turnover that is attributed to the approved enterprise is generally computed on the basis of the ratio of the increase in turnover to the basic turnover stipulated in the instrument of approval.

The period of benefits in respect of the approved enterprises of these companies expired at the end of 2003.

The entitlement to the above benefits is conditional upon the companies fulfilling the conditions stipulated by the law, regulations published thereunder and the instruments of approval for the specific investments in approved enterprises . In the event of failure to comply with these conditions, the benefits may be cancelled and the companies may be required to refund the amount of the benefits, in whole or in part, with the addition of CPI linkage differences and interest.

B. MEASUREMENT OF RESULTS FOR TAX PURPOSES UNDER THE INCOME TAX (INFLATIONARY ADJUSTMENTS) LAW, 1985 (hereafter the inflationary adjustments law)

Under the inflationary adjustments law, results for tax purposes are measured in real terms, having regard to the changes in the Israeli CPI. The Company and its subsidiaries are taxed under this law.

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

NOTE 7 TAXES ON INCOME (continued):

C. THE LAW FOR THE ENCOURAGEMENT OF INDUSTRY (TAXATION), 1969

The Company and certain consolidated subsidiaries are industrial companies as defined by this law. These companies claimed depreciation at accelerated rates on equipment used in industrial activity as stipulated by regulations published under the inflationary adjustments law.

The Company also files consolidated tax returns with certain consolidated subsidiaries as permitted under this law.

D. TAX RATES APPLICABLE TO INCOME NOT DERIVED FROM APPROVED ENTERPRISES

The income of the Company and its Israeli subsidiaries (other than income from approved enterprises , see a. above) is taxed at the regular rate. Through to December 31, 2003, the corporate tax was 36%. In July 2004, an amendment No. 140, to the Income Tax Ordinance was published fixing, among others that corporate tax rate is gradually reduced from 36% to 30%. In August 2005, an additional amendment (No. 147) to the Income Tax Ordinance was published which makes a further revision to the corporate tax rates prescribed by Amendment No. 140. As a result of the aforementioned amendments, the tax rates for 2004 and thereafter are as follows: 2004 35%, 2005 34%, 2006 31%, 2007 29%, 2008 27%, 2009 26% and 2010 and thereafter 25%.

As a result of the said changes in the tax rates, the Company adjusted in each of the years 2004 and 2005 at the time the aforementioned amendments were made, its deferred tax balances, in accordance with the tax rates expected to be in effect in the coming years; the effect of the change has been carried to income in these years.

Capital gains (except for the real capital gain from the sale of marketable securities to which the regular tax rates will apply) are taxed at a reduced tax rate of 25% on capital gains that arose after January 1, 2003, and at the regular corporate tax rate on income that arose until that date.

E. CARRYFORWARD TAX LOSSES

Carryforward tax losses in subsidiary companies are NIS 22,470,000 and NIS 20,239,000 as of December 31, 2005 and 2004, respectively.

The Company examines on each balance sheet date the possibility of recording deferred taxes in respect of carryforward tax losses based on an assessment of all evidence, both positive and negative, regarding the likelihood of their being taxable income in the foreseeable future.

Under the inflationary adjustments law, carryforward losses are linked to the Israeli CPI, and may be utilized indefinitely.

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

NOTE 7 TAXES ON INCOME (continued):

F. DEFERRED INCOME TAXES

The composition of the deferred taxes at balance sheet dates, and the changes therein during the years 2005 and 2004 , are as follows:

	In respect of balance sheet items		Provisions for employee rights				
	Depreciable fixed assets	Inventories	Severance pay	Vacation and recreation pay	Doubtful Accounts	In respect of carryforward tax losses (see above)	Total
	NIS in thousands						
Balance at January 1, 2004	61,802	3,386	688	(4,297)	(5,749)	(5,041)	50,789
Changes in 2004:							
Amounts carried to income	(9,240)	652	(87)	210	(161)	(1,470)	(10,096)
Balance at December 31, 2004	52,562	4,038	601	(4,087)	(5,910)	(6,511)	40,693
Changes in 2005:							
Amounts carried to income	(6,779)	(1,487)	(75)	8	(52)	714	(7,671)
Balance at December 31, 2005	45,783	2,551	526	(4,079)	(5,962)	(5,797)	33,022

The deferred taxes are computed at the rate of 25%-31%.

Deferred taxes are presented in the balance sheets as follows:

	DECEMBER 31	
	2005	2004
	NIS IN THOUSANDS	
Among current assets	(7,106)	(5,358)
Among long-term asset balances	(5,655)	(6,511)
Among long-term liabilities	45,783	52,562
Balance - liability (asset) - net	33,022	40,693

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

NOTE 7 TAXES ON INCOME (continued):

G. TAXES ON INCOME INCLUDED IN THE INCOME STATEMENTS:

1) As follows: <PRE>

	2005	**2004**	**2003**
	NIS IN THOUSANDS		
For the reported year:			
Current	13,662	13,248	4,235
Deferred, see f. above:			
In respect of changes to tax rates, see d. above	(4,166)	(5,824)	
In respect of the reporting period	(3,505)	(4,272)	3,471
	5,991	3,152	7,706

Current taxes in 2005 were computed at an average tax rate of 34%, 2004 35% and 2003 34.5%, see (2) below.

2) Following is a reconciliation of the theoretical tax expense, assuming all income is taxed at the regular rate applicable to companies in Israel, as stated in d. above, and the actual tax expense:

	2005		**2004**		**2003**	
	%	**NIS IN THOUSANDS**	**%**	**NIS IN THOUSANDS**	**%**	**NIS IN THOUSANDS**
Income before taxes on income, as reported in the statements of income	100.0	35,292	100.0	40,812	100.0	32,204
Theoretical tax on the above amount	34.0	11,999	35.0	14,284	36.0	11,593
Tax benefits arising from reduced tax rate for approved enterprises					(1.5)	(487)
	34.0	11,999	35.0	14,284	34.5	11,106
Decrease in taxes resulting from computation of deferred taxes at a rate which is different from the theoretical rate	(0.9)	(324)	(4.3)	(1,762)		
Decrease in taxes resulting from adjustment to deferred tax balances due to changes in tax rates, see d. above	(11.8)	(4,166)	(14.3)	(5,824)		
Tax deduction in respect of options exercised by employees according to Section 102 of the Israeli Income Tax Ordinance (2005 - see note 1j(7))			(10.3)	(4,221)	(5.0)	(1,607)
Other - net	(4.3)	(1,518)	1.6	675	(5.6)	(1,793)
Taxes on income for the reported year	17.0	5,991	7.7	3,152	23.9	7,706

	2005	2004	2003

H. TAX ASSESSMENTS

The Company and most of its subsidiaries have received final tax assessments through the year ended December 31, 2000.

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

NOTE 8 LINKAGE TERMS OF MONETARY BALANCES:

A. AS FOLLOWS:

	DECEMBER 31, 2005			DECEMBER 31, 2004		
	IN, OR LINKED TO, FOREIGN CURRENCY (MAINLY DOLLAR)	LINKED TO THE ISRAELI CPI	UNLINKED	IN, OR LINKED TO, FOREIGN CURRENCY (MAINLY DOLLAR)	LINKED TO THE ISRAELI CPI	UNLINKED
	NIS IN THOUSANDS			NIS IN THOUSANDS		
Assets:						
Current assets:						
Cash and cash equivalents	5,740		2,578	4,531		3,282
Short-term investments			11,416		45,539	16,925
Receivables	55,307	167	189,912	43,600	1,799	192,071
Investments in associated companies - long-term loans and capital notes	9,206		63,125	8,616	10,709	49,287
	70,253	167	267,031	56,747	58,047	261,565
Liabilities:						
Current liabilities:						
Short-term credit from banks			93,171	2,238		110,446
Accounts payables and accruals	11,062	868	214,082	10,100	1,013	142,287
Long-term liabilities (including current maturities):						
Notes		234,638			235,147	
Other liability			32,770			32,770
	11,062	235,506	340,023	12,338	236,160	285,503

As to exposures relating to fluctuations in foreign currency exchange rates and the use of derivatives for hedging purposes see note 12a.

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

NOTE 8 LINKAGE TERMS OF MONETARY BALANCES (continued):

B. DATA REGARDING THE EXCHANGE RATE AND THE ISRAELI CPI:

	CHANGE RATE OF ONE DOLLAR	CPI*
	NIS	POINTS
AT END OF YEAR:		
2005	4.603	185.0
2004	4.308	180.7
2003	4.379	178.6
CHANGE IN THE YEAR:		
2005	6.8%	2.4%
2004	(1.6%)	1.2%
2003	(7.6%)	(1.9%)

* Based on the index for the month ending on each balance sheet date, on the basis of 1993 average = 100.

NOTE 9 - COMMITMENTS, CONTINGENT LIABILITIES AND LIABILITIES SECURED BY PLEDGES:

A. IN RESPECT OF INVESTMENT GRANTS

Under the Law for the Encouragement of Capital Investments, 1959, certain subsidiaries and an associated company have received investment grants from the State of Israel. In the event of failure to comply with the terms attached to the receipt of the grants, the companies may be required to refund the amount of the grants, in whole or in part, with linkage differences and interest from the date of receipt thereof.

The abovementioned subsidiaries have registered floating charges on all their assets in favor of the State of Israel in order to secure compliance with the terms of the investment grants received. In respect of the grant received by the associated company, the Company has provided a guarantee, with another associated company, for the repayment of the grant. As of December 31, 2005, the grant was repaid in full, as agreed with the Investment Center.

B. In 1996, an associated company received a grant amounting to NIS 2,067,000 from the Fund for Preparation for Exposure of the Ministry of Industry and Trade. With respect to this grant, the Company has provided a bank guarantee of NIS 2,091,000 in favor of the State of Israel.

C. The Company has provided guarantees of NIS 2,301,000 in favor of an associated company, in connection with the latter s participation in a tender. If the associated company does not win the tender, the guarantee will become null and void.

D. Subsidiaries provided guarantees to various entities, in connection with tenders, in the aggregate amount of approximately NIS 2,232,000.

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

NOTE 9 COMMITMENTS, CONTINGENT LIABILITIES AND LIABILITIES SECURED BY PLEDGES (continued):

E. On May 7, 2001, the Company s board of directors resolved to carry out a plan, which was approved by the shareholders meeting, to remunerate the Company s chairman of the board of directors. According to the plan, remuneration will be granted, equal to the increase in the value of 50,000 shares of the Company in the period from May 7, 2001 (share price NIS 194.37, linked to the terms of the plan) to May 7, 2008. The remuneration will be spread over the period commencing two years from the resolution of the board of directors, until the end of seven years from said resolution. Up to December 31 2005, one quarter of the remuneration was exercised. An additional quarter was exercised in January 2006, after the balance sheet date. A liability was included in the financial statements in respect of the above plan, under current liabilities.

F. In accordance with the Companies Law, 1999, the Company issued new letters of indemnity to its officers in 2004, pursuant to which the Company undertakes to indemnify the officers for any liability or expense, for which indemnification may be paid under the law, that may be incurred by the officers in connection with actions performed by them as part of their duties as officers in the Company, which are directly or indirectly related to the events specified in the addendum to the letters of indemnity, provided that the total amount of indemnification payable to the officers, shall not exceed 25% of the Company s shareholders equity as per its latest financial statements published prior to the actual indemnification. The liability of officers in connection with the performance of their duties, as above, is partly covered by an insurance policy.

G. The Company is preparing for the conversion of its energy-generation plant to using natural gas, instead of fuel oil. The transition is planned for the second half of 2006, subject to the arrival of the gas in Hadera.

In this capacity, the Company signed an agreement in London on July 29, 2005, with the Thetis Sea Group, for the purchase of natural gas. The gas that will be purchased is intended to fulfill the Company s requirements in the coming years, for the operation of the existing energy generation plants using cogeneration at the Hadera plant, when it will be converted for the use of natural gas, instead of the current use of fuel oil. The overall financial scope of the transaction totals $ 40 million over the term of the agreement (5 years from the initial supply of gas, but no later than July 1, 2011).

In this capacity the Company also contracted with Alstom Power Boiler Service gmbh, a manufacturer of equipment in the energy industry, in an agreement worth approximately (euro) 1.74 million, for the purchase of the systems needed for the conversion and assistance with their installation at the plant in Hadera.

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

NOTE 10 SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION:

BALANCE SHEETS:

	WEIGHTED AVERAGE INTEREST RATE AT DECEMBER 31, 2005	DECEMBER 31 2005	DECEMBER 31 2004
		NIS IN THOUSANDS	
A. SHORT-TERM INVESTMENTS:			
Short term deposit - linked to the CPI			45,539
Marketable securities		11,416	16,925
		11,416	62,464
B. RECEIVABLES:			
1) Trade:			
Open accounts		136,792	128,699
Checks collectible		13,617	14,576
		150,409	143,275
The item is:			
Net of allowance for doubtful accounts		16,914	16,148
Includes associated companies		31,504	26,089
2) Other:			
Employees and employee institutions		3,155	4,072
Associated companies - current debt		84,096	78,616
Prepaid expenses		4,041	2,287
Advances to suppliers		3,235	4,200
Deferred income taxes, see note 7f		7,106	5,358
Income tax authority			1,733
Interest receivable			1,579
Sundry		4,491	3,995
		106,124	101,840
C. INVENTORIES:			
For industrial activities:			
Finished goods		16,578	11,684
Raw materials and supplies		9,356	8,725
		25,934	20,409
For commercial activities - purchased products		15,683	16,972
		41,617	37,381

	WEIGHTED AVERAGE	DECEMBER 31	
Maintenance and spare parts **		22,382	*25,006
		63,999	62,387
D. CREDIT FROM BANKS:			
Unlinked	5.3%	93,171	110,446
Swiss francs			2,238
		93,171	112,684

* Reclassified.

** Including inventories for the use of associated companies.

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

NOTE 10 SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

E. ACCOUNTS PAYABLE AND ACCRUALS OTHER:

	DECEMBER 31	
	2005	**2004**
	NIS IN THOUSANDS	
1) Trade:		
Open accounts	84,727	76,311
Checks payable	5,785	11,245
	90,512	87,556
2) Other:		
Payroll and related expenses	44,587	34,904
Institutions in respect of employees	11,855	10,551
Income tax authority	15,655	
Customs and value added tax authorities	142	3,850
Accrued interest	1,209	1,544
Accrued expenses	9,201	7,903
Sundry	2,758	7,092
	85,407	*65,844

STATEMENTS OF INCOME:

	2005	**2004**	**2003**
	NIS IN THOUSANDS		
F. SALES - net (1):			
Industrial operations (2)	364,539	363,489	326,825
Commercial operations	117,922	119,365	138,267
	482,461	482,854	465,092
(1) Including sales to associated companies	115,262	121,987	115,505
(2) Including sales to export	43,356	42,232	44,175
G. COST OF SALES:			
Industrial operations:			
Materials consumed	80,740	83,533	72,292
Payroll and related expenses	96,370	*92,566	85,419
Depreciation	27,396	24,537	22,739
Other manufacturing costs	94,517	*81,893	80,709
Decrease (increase) in inventory of finished goods	(4,894)	3,135	(1,651)

	2005	2004	2003
	294,129	285,664	259,508
Commercial operations - cost of products sold	89,050	90,240	102,677
	383,179	375,904	362,185
Including purchases from associated companies	37,747	26,646	30,654

* Reclassified.

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

NOTE 10 SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

	2005	2004	2003
	NIS IN THOUSANDS		
H. SELLING, MARKETING, ADMINISTRATIVE AND GENERAL EXPENSES:			
Selling and marketing:			
Payroll and related expenses	13,641	14,311	15,225
Packaging, transport and shipping	7,866	6,458	5,719
Commissions	2,699	2,467	2,733
Depreciation	1,145	1,159	1,595
Other	5,131	6,200	6,052
	30,482	30,595	31,324
Administrative and general:			
Payroll and related expenses	39,727	36,649	36,360
Office supplies, rent and maintenance	1,241	1,521	1,938
Professional fees	991	1,029	1,663
Depreciation	2,903	2,776	2,814
Doubtful accounts and bad debts	840	3,102	944
Capital loss (gain) from sale of fixed assets	(3,570)	*508	*(445)
Other**	3,327	*1,227	*5,126
	45,459	46,812	48,400
Less - rent and participation from associated companies			