AMERICAN ISRAELI PAPER MILLS LTD
Form 6-K
May 15, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

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

For the Month of May 2007

Commission File Number 000-28998

AMERICAN ISRAELI PAPER MILLS LTD.

(Translation of Registrant s Name into English)

P.O. Box 142, Hadera, Israel

(Address of Principal Corporate Offices)

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

Form 20-F Form 40-F

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

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

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

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

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

Yes No

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

Attached hereto as Exhibit 1 and incorporated herein by reference is the Registrant s press release dated May 14, 2007 with respect to the Registrant s results of operations for the quarter ended March 31, 2007.

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

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

Attached hereto as Exhibit 4 and incorporated herein by reference are the unaudited condensed interim consolidated financial statements of Mondi Business Paper Hadera Ltd. and subsidiaries with respect to the quarter ended March 31, 2007.

Attached hereto as Exhibit 5 and incorporated herein by reference are the unaudited condensed interim consolidated financial statements of Hogla-Kimberly Ltd. and subsidiaries with respect to the quarter ended March 31, 2007.

SIGNATURE

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

AMERICAN ISRAELI PAPER MILLS LTD.
(Registrant)

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

Dated: May 14, 2007

EXHIBIT INDEX

Exhibit No.	Description
1.	Press release dated May 14, 2007.
2.	Registrant's management discussion.
3.	Registrant's unaudited condensed consolidated financial statements.
4.	Unaudited condensed interim consolidated financial statements of Mondi Business Paper Hadera Ltd. and subsidiaries.
5.	Unaudited condensed interim consolidated financial statements of Hogla-Kimberly Ltd. and subsidiaries.

Exhibit 1

NEWS

Client: AMERICAN ISRAELI PAPER MILLS LTD.

Agency Contact: PHILIP Y. SARDOFF

For Release: IMMEDIATE

American Israeli Paper Mills Ltd.
Reports Financial Results For First Quarter
Announces Summoning of a Yearly General Meeting
Approves Employment Agreement of the CEO

Hadera, Israel, May 14, 2007 American Israeli Paper Mills Ltd. (AMEX:AIP) (the Company or AIPM) today reported its financial results for the first quarter ended March 31, 2007. The Company, its subsidiaries and associated companies is referred to hereinafter as the Group .

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

Aggregate sales totaled NIS 752.7 million during the reported period, compared with NIS 719.9 million (net of TMM Integrated Recycling Industries Ltd (TMM) that was sold in early 2007) in the corresponding period last year and NIS 699.9 million (net of TMM) in the fourth quarter of 2006.

Aggregate operating profit, totaled NIS 30.4 million during the reported period, compared with NIS 37.4 million (net of TMM) in the corresponding period last year and NIS 15.5 million (net of TMM) in the fourth quarter of 2006.

Aggregate sales from activity in Israel totaled NIS 708.2 million during the reported period, compared with NIS 659.1 million (net of TMM) in the corresponding period last year and NIS 657.3 million (net of TMM) in the fourth quarter of 2006.

The aggregate operating profit in Israel totaled NIS 57.3 million during the reported period, compared with NIS 46.5 million in the corresponding period last year (net of TMM) and NIS 40.8 million (net of TMM) in the fourth quarter of 2006.

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

Consolidated sales totaled NIS 136.6 million during the reported period, compared with NIS 131.5 million in the corresponding period last year and NIS 134.5 million in the fourth quarter of 2006.

Operating profit totaled NIS 16.9 million during the reported period, compared with NIS 13.3 million in the corresponding period last year and NIS 8.8 million in the fourth quarter of 2006.

Net loss amounted to NIS -3.5 million during the reported period, compared with net profit of NIS 7.7 million in the corresponding period last year and net profit of NIS 14.8 million in the fourth quarter of 2006.

Net loss in the first quarter of 2007 was affected by the growth in the Company s share in the losses of the operations in Turkey (KCTR), amounting to NIS 19.1 million, as compared with the corresponding quarter last year.

Net profit in the fourth quarter of 2006 included capital gains of NIS 28.3 million from the sale of real estate.

Basic loss per share totaled NIS (0.87) in the reported period, compared with basic earnings of NIS 1.92 per share in the corresponding period last year.

The inflation rate during the reported period amounted to a negative rate of -0.2%, as compared with an inflation rate of 0.6% in the corresponding period last year.

The exchange rate between the NIS and the US dollar was revaluated by 1.7% during the reported period (January-March 2007), as compared with a devaluation of 1.3% in the corresponding period last year.

Mr. Avi Brener, Chief Executive Officer of the Company, said that the accelerated growth rate (5%) of the Israeli market continued in the first quarter of the year as well, following the trend of high growth that was recorded last year. The growth is expressed by greater demand, primarily in private consumption, along with lower unemployment rates, the continuing bullish behavior of the capital markets and a stronger local currency (NIS), especially vis-à-vis the US dollar.

Following two consecutive years of rising energy prices, fuel prices began to drop at the end of 2006. This decrease resulted in savings of NIS 5 million in the Group s energy costs. This trend was reversed in April this year as fuel prices began increasing again.

Raw material prices continued to rise in the first quarter of the year, although due to the rise of the NIS against the dollar during those periods, the impact of this NIS rise in raw material prices on the financial results was moderated, and affected the aggregate operating profit in the first quarter of the year, as compared with the corresponding period last year by NIS 6 million.

The recent economic recovery in the paper industry in Europe is expressed by a better balance between the supply and the demand for paper and resulted in higher paper prices and in a reduction of the imports into Israel. Consequently, the

Group raised the selling prices of paper especially packaging paper and partially also those of fine and printing paper.

The anticipated continuation of this trend over the next several quarters will render it possible to continue to raise prices and compensate for the erosion in profitability over the past several years, due to the rising energy and raw material prices.

The Company is continuing to examine and promote the project for the establishment of a co-generation plant in Hadera, using natural gas. The conversion of the Company s energy generation facilities from the use of fuel oil to natural gas will be completed with the completion of the installation of the natural gas pipeline to Hadera, postpones due to delays that lie outside the control of the Company, planned for the third quarter of 2007, and will enable significant savings in fuel costs, estimated at $8.5 million per annum, due to the significant differences between the current prices of fuel oil and gas, and will enhance the Group s competitiveness and profitability.

In the first quarter of 2007, Kimberly Clark Turkey (KCTR) a H-K subsidiary continued to implement its Global Business Plan (GBP), which was formulated together with the international partner, Kimberly Clark. The plan is designed to introduce Kimberly Clark s international brands into the Turkish market, on the basis of local manufacturing. If the plan will be fully implemented, KCTR would grow into a dominant and profitable company by 2015, with annual sales of approximately $300 million. The Company is continuing to implement the strategic business plan and is expected to continue to grow and gradually reduce the losses incurred by the investment in penetrating into this market which holds great potential for the Company.

The financial expenses totaled NIS 6.2 million during the reported period, compared with NIS 4.2 million in the corresponding period last year and NIS 9.6 million in the fourth quarter of 2006, mainly due to the increase in the interest-bearing liabilities of the Company and the revaluation that was recorded in the NIS-U.S. dollar exchange rate.

The Company s share in the earnings (losses) of associated companies totaled NIS (10.8) million during the reported period, as compared with NIS 1.3 million in the corresponding period last year and as compared with NIS (10.9) million in the fourth quarter of 2006.

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

> The Company s share in the net profit of Mondi Hadera (49.9%) increased by NIS 1.5 million, mostly resulting from the company s improved profitability, from an operating loss of NIS 0.8 million in the corresponding period last year to an operating profit of NIS 1.7 million in the first quarter this year as a result of the improved gross margin. The improvement was rendered possible as a result of the recovery in the European paper industry, the decrease in energy prices and the quantitative growth in sales on the domestic market. Moreover, a decrease was recorded in financial expenses on account of the erosion of dollar-denominated liabilities due to the revaluation of the NIS by 1.7% in the first quarter of the year, as compared with a devaluation of 1.3% in the corresponding quarter last year.

The Company s share in the net earnings of H-K in Israel (49.9%) increased by NIS 4.9 million. The operating profit of H-K from its activities in Israel grew from NIS 29.0 million to NIS 36.1 million this year as a result of the growth in sales. Record sales were recorded this quarter, resulting, among others, from the timing of the Passover holiday in early April, improvement in selling prices, increased share of premium products out of the total basket of products, and streamlining. On the other hand, the higher raw material prices served to slightly offset the improved profitability. Net profit of H-K in Israel, was affected in the corresponding period last year from the non-recurring tax expenses amounting to NIS 4.5 million (our share was approximately NIS 2.2 million).

The Company s share in the losses of KCTR Turkey (formerly Ovisan) (49.9%) grew by NIS 19.1 million, primarily on account of the sharp increase in the operating loss (NIS 18 million in relation to the corresponding quarter last year), originating primarily from expenses associated with the continuance of the launch of premium KC products in the Turkish market (Kotex® and Huggies®) in the second quarter last year. Advertising costs, sales promotion and registration fees to the retail chains, are allocated to profit and loss, on a current bases. During the first quarter this year, a part of the tax asset that was recorded in Turkey in the last few years was reduced, in the amount of NIS 12.3 million ($2.9 million) due to the limitation on transfer losses, expired at the end of five years. Our share in the reduction is approximately NIS 6.1 million.

The Company s share in the net profit of Carmel Group (26.25%) decreased by NIS 1.3 million, primarily attributed to the decrease in the operating profit, despite the quantitative growth in sales. The erosion is primarily associated with the sharp rise in raw material prices, which was not fully compensated for by the raising of selling prices. Moreover, the net profit last year included capital gains of NIS 3.9 million from the sale of a real-estate asset in Netanya. Net of the Company s share in the capital gains, the Company s share decreased by NIS 0.3 million.

In the corresponding quarter last year, the Company s share in the earnings of associated companies included the Company s share in the losses of TMM, in the sum of NIS -1.9 million (including NIS 0.5 million as cumulative effect at the beginning of the period). As mentioned above, the Company sold its holdings in TMM in February 2007 and this item is therefore not included in the Company s share in the earnings of associated companies this year.

A total of 4,434 shares were issued during the reported period (0.1% dilution), on account of the exercise of 11,950 options warrants as part of the Company s senior employee option plan.

On April 15, 2007, the General Meeting of the shareholders approved the appointment of Brightman Almagor & Co as external auditors of the Company for the year 2007. Brightman Almagor & Co will replace Keselman & Keselman & Co that served as external auditors of the Company since 1954.

The Board of Directors decided that the Annual General Meeting of Shareholders will be held at the registered office of the Company on June 17, 2007. If the meeting is postponed, it will be held on June 24, 2007.

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On May 13, 2007, The Board of Directors approved the Employment Agreement and remuneration of Mr. Avi Brener, the CEO of the Company. The main principals of the Agreement are: monthly salary of NIS 95,000 (approximately $22,864) linked to the Israeli Consumer Price Index and a yearly bonus in the amount of between 6-9 salaries, subject to the discretion of the Board. In addition, upon the termination of employment of the CEO he will receive, in addition to the provisions for severance payments, a retirement grant payment in an aggregate amount equal to one-month s salary for each year in which he was employed by the Group (from August 1988).

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

AMERICAN ISRAELI PAPER MILLS LTD.
SUMMARY OF RESULTS
(AUDITED)
NIS IN THOUSANDS

Three months ended March 31,
except per share amounts

	2007	2006
Net sales	136,638	131,488
Net earnings	(3,527)	7,700*
Basic Earnings (losses) per share	(0.87)	1.92*
Fully diluted earnings (losses) per share	(0.87)	1.91*

* Including accumulated effect resulting from initial application of new accounting standards of NIS 461 thousand at net earnings and NIS 0.11 at earnings per share.

The representative exchange rate at March 31, 2007 was NIS 4.155=$1.00

Exhibit 2

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Translation from Hebrew

May 13, 2007

MANAGEMENT DISCUSSION

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

A. Description of the Corporation s Business

1. **Company Description**

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

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

2. **The Business Environment**

The accelerated growth rate (5%) of the Israeli market continued in the first quarter of the year as well, following the trend of high growth that was recorded last year. The growth is expressed by greater demand, primarily in private consumption, along with lower unemployment rates, the continuing bullish behavior of the capital markets and a stronger local currency (NIS), especially vis-à-vis the US dollar.

Following two consecutive years of rising energy prices (aggregate 70% rise in diesel prices over the years 2005-2006), fuel prices began to drop at the end of 2006. The prices of the fuel oil that is used by the Group, were approximately 22% lower in the first quarter of 2007 as compared with the prices in the corresponding quarter last year. This decrease resulted in savings of NIS 5 million in the Group s energy costs. This trend was reversed in April this year as fuel prices began increasing again, with current fuel oil prices being 20% higher than those in the first quarter of the year.

Raw material prices continued to rise in the first quarter of the year primarily those of pulp and packaging paper. Pulp prices rose by an average of 17% in dollar terms as compared with the corresponding quarter last year, although due to the rise of the NIS against the dollar (by an average of 10%) during those periods, the impact of this NIS rise in raw material prices on the financial results was moderated.

The impact of the higher raw material prices on the aggregate operating profit, defined as follows in the first quarter of the year, as compared with the corresponding period last year amounted to NIS 6 million.

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The recent economic recovery in the paper industry in Europe is expressed by a better balance between the supply and the demand for paper and resulted in higher paper prices and in a reduction of the imports into Israel. Consequently, the Group raised the selling prices of paper especially packaging paper and partially also those of fine and printing paper.

The anticipated continuation of this trend over the next several quarters will render it possible to continue to raise prices and compensate for the erosion in profitability over the past several years, due to the rising energy and raw material prices.

3. **General**

Activity in Israel

The Group is continuing to implement various measures that are intended to improve profitability, both by raising the selling prices derived from the improved trading and competition conditions as well as by continuing to implement significant efficiency measures.

As part of the said operations, the Company is initiating measures to improve the synergy between the Group companies, so as to allow for efficiency and cost-cutting, including energy and raw material costs. This has led to the reorganization of the organizational structure of the purchasing division and to a higher professional level of the purchasing managers, with the intention of maximizing efficiencies and savings, while further enhancing synergy within the Group. The said measures also include the anticipated savings from the completion of the planned transition to the use of natural gas at the Hadera plant, as described below.

At the same time, the Group is continuing to implement organization-wide processes that include, among other processes, the Talent Management program intended to allow for the development of managers at the Group and to create a management reserve. The operations to improve the marketing approach at B2B companies is progressing gradually, with the intention of creating advantages for the subsidiaries each in its own area of operations versus the competition. This will be implemented through a customer-centric approach, understanding customer needs and measuring their value for the company, as a central asset in creating loyalty while improving the premium.
The Kimberley-Clark s global Centerlining Program is continuing, aimed at improving production- line efficiency (applying a methodology that creates a common basis for all the factors that influence machine operations, such as engineering, maintenance, technology and operations while continuously measuring variance of the selected parameters, in order to create a process of continuous improvement in quality and costs). These programs have already borne the first fruits in 2006 and the Company is continuing to implement the plans at all Group companies in order to exploit their full potential in the coming years.

The measures mentioned above, that were initiated by the Group during the reported period, enabled a significant reduction of the influence of decrease in raw material prices, on the financial outcomes.

As part of the Company s efforts to cut production costs and achieve further improvements in environmental quality, the Company is continuing to promote the project for the establishment of a co-generation plant in Hadera, using natural gas. Initially, the company has taken steps to convert its energy generation facilities from the use of fuel oil to natural gas. This process will be completed with the completion of the installation of the natural gas pipeline to Hadera , postpones due to delays that lie outside the control of the Company, planned for the third quarter of 2007. Considerable progress has been made in the laying of the pipeline that will reach the plant s premises.
In this capacity, the Company signed an agreement in London on July 29, 2005, with the Tethys 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 plants using cogeneration at the Hadera plant, 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 $35 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 gas will enable significant savings in fuel costs, estimated at $8.5 million per annum, due to the significant differences between the current prices of fuel oil and gas, and will enhance the Group s competitiveness and profitability.

The Strategic Investment in Turkey

In the first quarter of 2007, Kimberly Clark Turkey (KCTR) a Hogla Kimberly subsidiary continued to implement its Global Business Plan (GBP), which was formulated together with the international partner, Kimberly Clark. The plan is designed to introduce Kimberly Clark s international brands into the Turkish market, on the basis of local manufacturing. If the plan will be fully implemented, KCTR would grow into a dominant and profitable company by 2015, with annual sales of approximately $300 million.

The production lines in the local plant were upgraded in the past two years, to support the manufacture of advanced Huggies® diapers of high quality and at a low cost in relation to the other Kimberly Clark plants around the world.

Approximately a year ago, KCTR launched Kimberly Clark s international brands Huggies®and Kotex® in Turkey and it is continuing its advertising and sales promotion efforts in order to empower the process and increase the volume of trials and sales. The market share of Huggies® diapers is constantly growing and the most recent consumer studies indicate that the brand is clearly growing stronger in terms of both customer awareness and perceived quality.

As part of the strategic plan, KCTR intends to continue its marketing and sales promotion efforts throughout the year, while launching a new generation of products that will support the establishment of the brands and the creation of customer loyalty.

A strategic cooperation agreement was signed in the first quarter of the year between the Company KCTR and Unilever in Turkey. Pursuant to this agreement, Unilever will conduct the sales, distribution and collection on behalf of KCTR in the entire Turkish market, except for nationwide supermarket chains

that represent 30% of the market potential, wherein KCTR intends to continue to operate directly.
The agreement will provide significant leverage for promoting the plan s objectives, for expanding distribution, creating more trials and continuing the introduction and penetration of the Kimberly Clark international brands into Turkey.
This will all be accomplished while realizing significant savings in KCTR s current selling and distribution expenses.
The change in the pace of sales and scope of distribution in the Turkish market is expected to occur in the next few months.

In parallel, KCTR is continuing its penetration efforts, while incurring significant advertising costs and initiating aggressive price campaigns against the fierce competition. All the advertising costs, sales promotion and registration fees to the retail chains, are allocated to profit and loss, on a current bases.

In view of the above, KCTR s operating loss in the first quarter of the year amounted to NIS 27 million ($6.4 million). The loss included a non-recurring expenditure of NIS 6 million ($1.5 million) on account of the closing of commercial agreements with the previous distributors, following the implementation of the agreement with Unilever, and also on account of the upgrading of brands on the Turkish market. See also the chapter regarding Company s Share in Earnings of associated companies .
To conclude, the Company is continuing to implement the strategic business plan and is expected to continue to grow and gradually reduce the losses incurred by the investment in penetrating into this market which holds great potential for the Company.

General

During the reported period (January-March 2007), the exchange rate of the NIS in relation to the US dollar was revaluated by approximately 1.7%, as compared with a devaluation of 1.3% in the corresponding period last year (January-March 2006).

The inflation rate during the reported period amounted to a negative rate of -0.2%, as compared with an inflation rate of 0.6% in the corresponding period last year.

B. Results of Operations

1. Aggregate Data

Since the Company s share in the earnings of associated companies constitutes a material component in the company s statement of income (primarily on account of its share in the earnings of Mondi Business Hadera Paper Ltd. [Mondi Hadera] and Hogla-Kimberly Ltd.), before the presentation of the consolidated data below, the aggregate data which include the results of all the companies in the AIPM Group (including the associated companies whose results appear in the financial statements under earnings from associated companies), is being presented without considering the rate of holding therein and net of mutual sales. **Regarding the consolidated data, see Section (2) below.**

a) <u>Aggregate Data from activity in Israel</u>

The aggregate sales from activity in Israel amounted to NIS 708.2 million during the reported period, as compared with NIS 659.1 million (net of TMM Integrated Recycling Industries Ltd (TMM)) in the corresponding period last year (7.4% growth) and as compared with NIS 657.3 million (net of TMM) in the fourth quarter of 2006.

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

The aggregate operating profit in Israel amounted to NIS 57.3 million during the reported period, as compared with NIS 46.5 million in the corresponding period last year (net of TMM that was sold in early 2007) representing growth of 23.2% and as compared with NIS 40.8 million (net of TMM) in the fourth quarter of 2006.

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

b) <u>Aggregate Data (including Turkey)</u>

The aggregate sales amounted to NIS 752.7 million during the reported period, as compared with NIS 719.9 million (net of TMM) in the corresponding period last year and NIS 699.9 million (net of TMM) in the fourth quarter of 2006.

The aggregate operating profit amounted to NIS 30.4 million during the reported period, as compared with NIS 37.4 million (net of TMM) in the corresponding period last year and NIS 15.5 million (net of TMM) in the fourth quarter of 2006. For the operations in Turkey see Section C7 below Company s share in the earnings of associated companies.

2. **<u>Consolidated Data</u>**

Excluding the results of operation of the associated companies: Mondi Hadera, Hogla-Kimberly and Carmel.

The sales amounted to NIS 136.6 million during the reported period, as compared with NIS 131.5 million in the corresponding period last year and NIS 134.5 million in the fourth quarter of 2006.

The operating profit amounted to NIS 16.9 million during the reported period, as compared with NIS 13.3 million in the corresponding period last year and NIS 8.8 million in the fourth quarter of 2006.

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

The loss amounted to NIS -3.5 million during the reported period, as compared with net profit of NIS 7.7 million in the corresponding period last year and net profit of NIS 14.8 million in the fourth quarter of 2006.

The loss in the first quarter of the year was affected by the growth in the Company s share in the losses of the operations in Turkey (KCTR), amounting to NIS 19.1 million, as compared with the corresponding quarter last year (see above The Strategic Investment in Turkey and chapter C7, below).

The net profit in the fourth quarter of 2006 included capital gains of NIS 28.3 million from the sale of real estate.

Basic loss per share amounted to NIS (0.87) per share (($0.21) per share) in the reported period, as compared with basic earnings of NIS 1.92 per share ($0.41 per share) in the corresponding period last year.
Diluted loss per share amounted to NIS (0.87) per share (($0.21) per share) in the reported period, as compared with diluted earnings of NIS 1.91 per share ($0.41 per share) in the corresponding period last year.

C. Analysis of Operations and Profitability

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

1. **Sales**

The consolidated sales amounted to NIS 136.6 million during the reported period, as compared with NIS 131.5 million in the corresponding period last year and NIS 134.5 million in the fourth quarter of 2006.
Sales in the packaging paper and recycling activity amounted to NIS 107.2 million in the first quarter of the year, as compared with NIS 100.2 million in the corresponding quarter last year.
The growth in the packaging paper and recycling turnover originated primarily from the raising of the selling prices of various products.
Sales in the marketing of office supplies activity amounted to NIS 29.4 million in the first quarter of the year, as compared with NIS 31.2 million last year. Most of the decrease in sales attributed to not winning the General Accountant tender, in early 2007.

2. **Cost of Sales**

The cost of sales amounted to NIS 104.1 million, representing 76.2% of sales, during the reported period, as compared with NIS 103.8 million, representing 79.0% of sales, in the corresponding period last year and as compared with NIS 106.7 million, representing 79.4% of sales, in the fourth quarter of 2006.

The gross margin as a percentage of sales grew to reach 23.8% during the reported period, as compared with 21.0% in the corresponding period last year and 20.6% in the fourth quarter of 2006.

The increase in the gross margin is primarily attributed to the improvement in selling prices, the quantitative growth in the local market and the decrease in energy prices (decrease of 22% in fuel oil prices), as compared with the corresponding quarter last year.

Labor Wages

Wages in the cost of sales and in the selling, general and administrative expenses amounted to NIS 43.3 million in the reported period, as compared with NIS 40.4 million in the corresponding period last year.

The change in payroll costs in relation to the corresponding period last year reflects a certain increase in personnel, along with a nominal increase of 3% in the wages.

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

The selling, general and administrative expenses (including wages) amounted to NIS 15.7 million in the reported period (11.5% of sales), as compared with NIS 14.3 million (10.9% of sales), in the corresponding period last year as compared with NIS 19.2 million in the fourth quarter of 2006 (14.2% of sales).
The increase in selling and general and administrative expenses is partially attributed to a certain increase in labor expenses as mentioned above.

4. **Operating Profit**

The operating profit amounted to NIS 16.9 million in the reported period (12.3% of sales), as compared with NIS 13.3 million (10.1% of sales) in the corresponding quarter last year, representing 13.1% growth in relation to the corresponding quarter last year, and as compared with NIS 8.6 million (6.4% of sales) in the fourth quarter of 2006.

The operating profit of the paper and recycling activity totaled NIS 17.4 million during the reported period, as compared with NIS 13.8 million in the corresponding period last year, representing 26% growth.
The operating loss of the office supplies sector amounted to NIS -0.5 million and is similar to last year.

5. **Financial Expenses**

The financial expenses amounted to NIS 6.2 million during the reported period, as compared with NIS 4.2 million in the corresponding period last year and NIS 9.6 million in the fourth quarter of 2006.

The total average of the Company s net, interest-bearing liabilities grew approximately by NIS 100 million, as a comparison between the periods 2006 and 2007. The increase originated primarily from investments in fixed assets and dividends distribution, net of dividends received from associated companies and the positive cash flows from operating activities.

The said increase in the obligo, net of the lower interest, resulted in NIS 1.3 million increase in financial expenses in the first quarter of the year, as compared with last year.

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Moreover, the cost of the transaction for hedging the CPI-linked notes against a rise in the CPI fell from 1.8% per annum in 2006 to 1.3% per annum in 2007 and resulted in a decrease in costs related to the notes.

The 1.7% revaluation that was recorded in the NIS- U.S. dollar exchange rate, as compared with a 1.3% devaluation in the corresponding period last year, served to increase the financial expenses this year, as compared with the preceding year, by NIS 1 million, on account of the erosion in the balance of dollar-denominated assets.

6. **Taxes on Income**

Taxes on income amounted to NIS 3.4 million in the reported period, as compared with NIS 2.7 million in the corresponding period last year.

The increase in the taxation expenses as compared with the corresponding quarter last year is mostly attributed to the increase of profit before tax.

7. **Company s Share in Earnings of associated companies**

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

The Company s share in the earnings (losses) of associated companies totaled NIS (10.8) million during the reported period, as compared with NIS 1.3 million in the corresponding period last year and as compared with NIS (10.9) million in the fourth quarter of 2006.

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

The Company s share in the net profit of Mondi Hadera (49.9%) increased by NIS 1.5 million. Most of the change in profit originated from the company s improved profitability, from an operating loss of NIS 0.8 million in the corresponding period last year to an operating profit of NIS 1.7 million in the first quarter this year as a result of the improved gross margin. The improvement was rendered possible as a result of the said recovery in the European paper industry, the decrease in energy prices and the quantitative growth in sales in the domestic market. Moreover, a decrease was recorded in financial expenses on account of the erosion of dollar-denominated liabilities due to the revaluation of the NIS by 1.7% in the first quarter of the year, as compared with a devaluation of 1.3% in the corresponding quarter last year.

The Company s share in the net earnings of Hogla-Kimberly in Israel (49.9%) increased by NIS 4.9 million. The operating profit of Hogla grew from NIS 29.0 million to NIS 36.1 million this year as a result of the growth in sales. Record sales were recorded this quarter, resulting, among others, from the timing of the Passover holiday in early April, which led to pre-holiday sales that were all recorded in the first quarter of the year, as compared with last year, when these pre-Passover holiday sales were split between the first and second quarters. An additional contributing factor was the improvement in selling prices and the increased share of premium products out of the total

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basket of products, and from streamlining. On the other hand, the higher raw material prices served to slightly offset the improved profitability. Net profit of Hogla-Kimberly Israel, was affected in the corresponding period last year from the non-recurring tax expenses amounting to NIS 4.5 million (our share was approximately NIS 2.2 million).

The Company s share in the losses of KCTR Turkey (formerly Ovisan) (49.9%) grew by NIS 19.1 million, primarily on account of the sharp increase in the operating loss (NIS 18 million in relation to the corresponding quarter last year), originating primarily from expenses associated with the continuance of the launch of premium KC products in the Turkish market (Kotex® and Huggies®) in the second quarter last year, as mentioned before, advertising costs, sales promotion and registration fees to the retail chains, are allocated to profit and loss, on a current bases. During the first quarter this year, a part of the tax asset that was recorded in Turkey in the last few years was reduced, in the amount of NIS 12.3

million ($2.9 million) due to the limitation on transfer losses, expired at the end of five years. Our share in the reduction is approximately NIS 6.1 million(see above chapter A3 The Strategic Investment in Turkey).

The Company s share in the net profit of Carmel Group (26.25%) decreased by NIS 1.3 million. This decrease is primarily attributed to the decrease in the operating profit, despite the quantitative growth in sales. The erosion is primarily associated with the sharp rise in raw material prices, which was not fully compensated for by the raising of selling prices. Moreover, the net profit last year included capital gains of NIS 3.9 million from the sale of a real-estate asset in Netanya. Net of the Company s share in the capital gains, the Company s share decreased by NIS 0.3 million.

In the corresponding quarter last year, the Company s share in the earnings of associated companies included the Company s share in the losses of TMM, in the sum of NIS -1.9 million (including NIS 0.5 million as cumulative effect at the beginning of the period). As mentioned above, the Company sold its holdings in TMM in early 2007 and this item is therefore not included in the Company s share in the earnings of associated companies this year.

D. **Analysis of the Company s Financial Situation**

The cash and cash equivalents item rose from NIS 4.1 million on March 31, 2006 to NIS 58.0 million on March 31, 2007. This increase is primarily attributed to a sum of NIS 30 million that was received as proceeds from the sale of real estate and from the realization of approximately NIS 27 million investment in TMM.

The short-term investments, that amounted to NIS 11.5 million as at March 31, 2006 and included short-term deposits, were realized in the course of 2006, primarily due to the lower interest rates.

The accounts receivable item recorded an increase from NIS 155.3 million as at March 31, 2006 to NIS 177.6 million as at March 31, 2007. This growth originates primarily from the growth in the volume of operations.

The other receivables item decreased from NIS 119.3 million on March 31, 2006 to NIS 107.1 million on March 31, 2007.

Inventories increased from NIS 62.4 million as at March 31, 2006 to NIS 65.8 million as at March 31, 2007 and as compared with NIS 62.1 million as at December 31, 2006. This growth is attributed mostly to the growth in paper waste inventory in the frame of preparations at Amnir in relation to Machine 8.

Investments in associated companies decreased from NIS 431.1 million on March 31, 2006 to NIS 336.9 million on March 31, 2007. The principal components of the said decrease included the Company s net share in the losses of associated companies during the reported period, coupled with the realization of an investment in TMM in return for its book value of approximately NIS 27 .3 million.

Short-term credit rose from NIS 135.9 million on March, 31 2006 to NIS 202.2 million on March 31, 2007. The increase in this item originated primarily from investments in fixed assets, dividends distributed net of dividends received from an associated company and the net cash flows from operating activities.

The other payables item decreased from NIS 107.5 million on March 31, 2006 to NIS 93.7 million on March 31, 2007.

The Company s shareholders equity decreased from NIS 532.9 million on March 31, 2006 to NIS 426.9 million on March 31, 2007. The change is primarily attributed to the net profit over the periods, NIS 2.1 million, net of dividend payments (approximately. NIS 100 million), coupled with the debitory capital reserve from translation differences at an associated company.

E. Liquidity and Investments

1. Cash Flows

The cash flows from operating activities totaled NIS -0.2 million during the reported period, as compared with NIS 16.9 million in the corresponding period last year. The change in the cash flows from operating activities during the reported period originated from the growth in shareholders equity, that was primarily generated by the growth in inventories as part of Amnir s preparations for the accumulation of paper waste in anticipation of the operation of Machine 8, coupled with the increase in accounts receivable as a result of the growth in the sales volume.
The cash flows from operating activities in 2006 amounted to NIS 53.1 million.

2. Investments in Fixed Assets

The investments in fixed assets totaled NIS 11.2 million in the reported period, as compared with NIS 13.9 million in the corresponding period last year. The investments this year included payments for the acquisition of a reserve steam tank and for the conversion of the energy system to natural gas, along with environmental investments (sewage treatment). The Company also made current investments in equipment renewal, means of transportation and in the maintenance of buildings at the Hadera site.

3. Financial Liabilities

The long-term liabilities (including current maturities) amounted to NIS 295.6 million as at March 31, 2007, as compared with NIS 266.7 million as at March 31, 2006. The long-term liabilities grew primarily on account of assuming a long-term bank loan of NIS 40 million in 2006, net of current maturities of debentures and loans. The long-term liabilities totaled NIS 297.9 million on December 31, 2006.

The long-term liabilities include two series of debentures and the following long-term bank loans:
Series 1 NIS 20.4 million, for repayment until 2009.
Series 2 NIS 205.7 million, for repayment between 2007 and 2013.
Long-term loans NIS 37.4 million.

The outstanding short-term credit totaled NIS 202.2 million as at March 31, 2007, as compared with NIS 135.9 million as at March 31, 2006 and NIS 203.0 million as at December 31, 2006.

The balance of short-term credit (together with long-term loans) grew in relation to the corresponding period last year, due to the need to finance the net cash flows balance between the periods, that was generated mostly by investments in fixed assets (NIS 50.4 million), dividend payments (approximately NIS 100 million) and net of the positive cash flows for the period (approximately NIS 36.1 million).
The sources of finance for the said NIS 100 million growth in financial liabilities between the reported periods were from the banking system, as follows: NIS 67 million from short-term credit and NIS 38 million from long-term loans.

F. Exposure and Management of Market Risks

1. General

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

2. Market Risks to which the Company is Exposed

Description of Market Risks

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

Exchange Rate Risks

Approximately half of the Company s sales are denominated in US dollars, whereas a significant share of its expenses and liabilities are in NIS. The Company is therefore exposed to exchange rate fluctuations of the NIS vis-à-vis the US dollar. This exposure includes economic exposure (on account of surplus proceeds on payments in foreign currency or linked thereto) and accounting exposure (on account of a surplus of dollar-linked assets over foreign-currency-denominated liabilities).

As at March 31, 2007, the Company had no hedging transactions on account of exposure to foreign currency and the Company consequently recorded no profits or losses on account of such hedging transactions.

Consumer Price Index Risks

The Company is exposed to changes in the Consumer Price Index, pertaining to bonds issued by the Company, in the total sum of NIS 226 million.
In December 2006 and January 2007, the Company entered into hedging transactions for a period of one year, to protect itself against a rise in the CPI, in the amount of NIS 220 million, pursuant to previous transactions that were made in December 2005 and terminated at the end of 2006.

Interest Risks

The Company is exposed to changes in interest rates, primarily on account of notes, in the sum of NIS 226 million.

Credit Risks

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

Linkage Base Report

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

In NIS Millions	Unlinked	CPI-linked	In foreign currency, or linked thereto (primarily US$)	Non-Monetary Items	Total
Assets					
Cash and cash equivalents	1.3		56.7		58.0
Other Accounts Receivable	210.7	0.3	61.7	12.0	284.7
Inventories				65.8	65.8
Investments in Associated Companies	50.9		6.2	279.8	336.9
Deferred taxes on income				6.5	6.5
Fixed assets, net				403.7	403.7
Total Assets	262.9	0.3	124.6	767.8	1,155.6
Liabilities					
Credit from Banks	202.2				202.2
Accounts Payable	182.8		6.5		189.3
Deferred taxes on income				41.5	41.5
Long-Term Loans- including current maturities	37.4				37.4
Notes (bonds)- including current maturities		225.5			225.5
Other liabilities	32.8				32.8
Shareholders' equity, funds and retained earnings				426.9	426.9
Total liabilities and equity	455.2	225.5	6.5	468.4	1,155.6
Surplus financial assets (liabilities) as at Mar-31-07	**(192.3)**	**(225.2)**	**118.1**	**299.4**	
Surplus financial assets (liabilities) as at Dec-31-2006	**(154.2)**	**(226.2)**	**66.3**	**314.1**	

Associated Companies

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

G. **Forward-Looking Statements**

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

I. **General**

A total of 4,434 shares were issued during the reported period (0.1% dilution), on account of the exercise of 11,950 options warrants as part of the Company s senior employee option plan.

During the reported period, the Company continued its preparations for the conversion of its existing co-generation systems from the use of fuel oil to the use of natural gas. The use of natural gas is being delayed due to factors outside the scope of the Company s influence and the gas is expected to arrive in the course of 2007.

In February 2007, Pursuant to its acceptance of a purchase offer dated January 4, 2007, AIPM finalized the sale of all its direct and indirect holdings in TMM Integrated Recycling Industries Ltd. to CGEA, so that AIPM has absolutely ceased to be a shareholder in TMM (additional details in the immediate report dated February 13, 2007).

On April 15, 2007, the General Meeting of the shareholders approved the appointment of Brightman Almagor & Co as external auditors of the Company for the year 2007. Brightman Almagor & Co will replace Keselman & Keselman & Co that served as external auditors of the Company since 1954.

On May 13, 2007, The Board of Directors approved the employment agreement of the CEO of the Company. Regarding the details of the transaction, a Press Release will be submitted in close proximity to this report. Regarding the influence of the transaction on the Company s financial outcomes, see note 3 to the Financial Reports, hereby attached.

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

Exhibit 3

AMERICAN ISRAELI PAPER MILLS LTD.

SUMMARY OF CONSOLIDATED BALANCE SHEETS
NIS IN THOUSANDS

	MARCH 31,2007 (UNAUDITED)	MARCH 31,2006 (UNAUDITED)	DEC. 31,2006 (AUDITED)
Current assets:			
Cash and cash equivalents	**58,022**	4,062	13,621
Short-term deposits and investments		11,512	
Accounts receivables :			
Trade	**177,617**	155,313	168,050
Other	**107,124**	119,311	146,684
Inventories	**65,766**	62,392	62,109
Total current assets	**408,529**	352,590	390,464
Investments and long term receivables:			
Investments in associated companies	**336,902**	431,155	375,510
Deferred income taxes	**6,490**	5,655	6,490
	343,392	436,810	382,000
Fixed assets:			
Cost	**1,106,939**	1,071,413	1,109,239
Less - accumulated depreciation	**703,277**	685,613	708,416
	403,662	385,800	400,823
	1,155,583	1,175,200	1,173,287
Current liabilities:			
Credit from banks	**202,237**	135,924	203,003
Current maturities of long-term notes	**41,454**	6,833	41,567
Payables and accured liabilities :			
Trade	**95,604**	87,077	96,273
Other	**93,737**	107,533	103,699
Total current liabilities	**433,032**	337,367	444,542
Long-term liabilities:			
Deferred income taxes	**41,475**	44,987	41,613

	MARCH 31,2007 (UNAUDITED)	MARCH 31,2006 (UNAUDITED)	DEC. 31,2006 (AUDITED)
Loans and other liabilities (net of current maturities):			
Long-term bank loans	**32,181**		33,515
Notes	**189,212**	227,126	190,005
Other liabilities	**32,770**	32,770	32,770
Total long term liabilities	**295,638**	304,883	297,903
Total liabilities	**728,670**	642,250	742,445
Shareholders' equity:			
Share capital	**125,257**	125,257	125,257
Capital surplus	**90,060**	90,060	90,060
Capital surplus on account of tax benefit from exercise of employee options	**2,673**	1,635	2,414
Currency adjustments in respect of financial statements of associated company and a subsidiary	**(9,002)**	(181)	(8,341)
Retained earnings	**217,925**	316,179	221,452
	426,913	532,950	430,842
	1,155,583	1,175,200	1,173,287

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

AMERICAN ISRAELI PAPER MILLS LTD.

SUMMARY OF CONSOLIDATED STATEMENTS OF INCOME
NIS IN THOUSANDS

	THREE-MONTH PERIOD ENDED MARCH 31 2007	2006	YEAR ENDED DEC. 31 2006
	(UNAUDITED)		(AUDITED)
Sales - net	**136,638**	131,488	530,109
Cost of sales	**104,066**	103,826	418,725
Gross profit	**32,572**	27,662	111,384
Selling and marketing, administrative and general expenses:			
Selling and marketing	**7,696**	7,923	31,366
Administrative and general	**8,008**	6,407	29,517
	15,704	14,330	60,883
Income from ordinary operations	**16,868**	13,332	50,501
Financial expenses - net	**6,194**	4,241	31,111
Other income (expenses) - net			37,305
Income before taxes on income	**10,674**	9,091	56,695
Taxes on income	**3,403**	2,700	16,702
Income from operations of the company and the consolidated subsidiaries	**7,271**	6,391	39,993
Share in profits (losss) of associated companies - net	**(10,798)**	1,770	(26,202)
Net Income (loss) before cumulative effect at beginning of period in profits of associated companies as a result of accounting changes	**(3,527)**	8,161	13,791
Cumulative effect at beginning of period in profits of associated companies		**(461)**	**(461)**
Net income (loss) for the period	**(3,527)**	7,700	13,330
Basic net earning (loss) before accumulated effect per share (in N.I.S)	**(0.87)**	2.03	3.42
Cumulative effect at beginning of year, in profits of associated			

	THREE-MONTH PERIOD ENDED MARCH 31		YEAR ENDED DEC. 31
companies, as a result of accounting changes		**(0.11)**	**(0.11)**
Basic net earning (loss) per share (in N.I.S)	**(0.87)**	1.92	3.31
Fully diluted earning (loss) before accumulated effect per share (in N.I.S)	**(0.87)**	2.02	3.39
Cumulative effect at beginning of year, in profits of associated companies, as a result of accounting changes		**(0.11)**	**(0.11)**
Fully diluted earning (loss) per share (in N.I.S)	**(0.87)**	1.91	3.28
Number of shares used to compute the basic earnings per share (in N.I.S)	**4,034,732**	4,017,683	4,025,181
Number of shares used to compute the fully diluted earnings per share (in N.I.S)	**4,034,732**	4,036,704	4,058,610

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

AMERICAN ISRAELI PAPER MILLS LTD.

SUMMARY OF STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
NIS IN THOUSANDS

	SHARE CAPITAL	CAPITAL SURPLUS	CAPITAL SURPLUS RESULTING FROM TAX BENEFIT ON EXERCISE OF EMPLOYEE OPTIONS	DIFFERENCES FROM TRANSLATION OF FOREIGN CURRENCY RESULTING FROM FINANCIAL STATEMENTS OF ASSOCIATED COMPANIES	RETAINED EARNINGS	TOTAL
Balance at January 1, 2007 (audited)	**125,257**	**90,060**	**2,414**	**(8,341)**	**221,452**	**430,842**
Changes during the three month period ended March 31, 2007 (unaudited)						
Net income (loss)					**(3,527)**	**(3,527)**
Exercise of employee options into shares	*		**259**			**259**
Differences from currency translation resulting from translation of financial statements of associated companies				**(661)**		**(661)**
Balance at March 31, 2007 (unaudited)	**125,257**	**90,060**	**2,673**	**(9,002)**	**217,925**	**426,913**
Balance at January 1, 2006 (audited)	125,257	90,060	401	(813)	308,479	523,384
Changes during the three month period ended March 31, 2006 (unaudited)						
Net income					7,700	7,700
Exercise of employee options into shares	*		1,234			1,234
Differences from currency translation resulting from translation of financial statements of associated companies				632		632
Balance at March 31, 2006 (unaudited)	**125,257**	**90,060**	**1,635**	**(181)**	**316,179**	**532,950**
Balance at January 1, 2006 (audited)	125,257	90,060	401	(813)	308,479	523,384
Changes during the year ended December 31, 2006(audited)						
Net income					13,330	13,330
					(100,357)	(100,357)

	SHARE CAPITAL	CAPITAL SURPLUS	CAPITAL SURPLUS RESULTING FROM TAX BENEFIT ON EXERCISE OF EMPLOYEE OPTIONS	DIFFERENCES FROM TRANSLATION OF FOREIGN CURRENCY RESULTING FROM FINANCIAL STATEMENTS OF ASSOCIATED COMPANIES	RETAINED EARNINGS	TOTAL
Dividend paid						
Exercise of employee options into shares	*		2,013			2,013
Differences from currency translation resulting from translation of financial statements of associated companies				(7,528)		(7,528)
Balance at December 31, 2006 (audited)	**125,257**	**90,060**	**2,414**	**(8,341)**	**221,452**	**430,842**

* Less than 1,000 NIS.

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

AMERICAN ISRAELI PAPER MILLS LTD.

SUMMARY OF CONSOLIDATED STATEMENTS OF CASH FLOWS
NIS IN THOUSANDS

	THREE-MONTH PERIOD ENDED MARCH 31, 2007 (UNAUDITED)	THREE-MONTH PERIOD ENDED MARCH 31, 2006 (UNAUDITED)	YEAR ENDED DEC. 31, 2006 (AUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES :			
Net income (loss) for the period	**(3,527)**	7,700	13,330
Adjustments to reconcile net income to net cash provided by operating activities (a)	**3,359**	9,186	39,775
Net cash provided by (used in) operating activities	**(168)**	16,886	53,105
CASH FLOWS FROM INVESTING ACTIVITIES :			
Purchase of fixed assets	**(11,171)**	(13,925)	(53,107)
Short-term deposits and investments			11,582
Collection of loans from associated companies			2,112
Proceeds from sale of subsidiary consolidated in the past (B)	**27,277**		