

AMERICAN ISRAELI PAPER MILLS LTD  
Form 20-F/A  
September 29, 2005

Commission File No. 1-4212

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 20-F/A  
(Amendment No. 1)

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

For the fiscal year ended December 31, 2004

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AMERICAN ISRAELI PAPER MILLS LTD.

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

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Israel

(Jurisdiction of incorporation or organization)

P.O. Box 142, Hadera 38101, Israel  
(Address of principal executive offices)

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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)

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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:

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3,996,674 Ordinary Shares, par value NIS .01 per share

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 which financial statement item the registrant has elected to follow: Item 17  Item 18

### EXPLANATORY NOTE

American Israeli Paper Mills Ltd. ("AIPM" or the "Company") is filing this Amendment No. 1 on Form 20-F to amend its Annual Report for the period ending December 31, 2004, as filed with the Securities and Exchange Commission (the "Commission") on June 28, 2005 (the "Original Filing"). The purpose of this Amendment is to: (1) amend Item 4C entitled "Organizational Structure" and Item 15 entitled "Controls and Procedures", (2) include Kesselman & Kesselman's audit reports for Mondi Business Paper Hadera Ltd. and Brightman Almagor & Co.'s audit reports for Rakefet Marketing and Trade Services Ltd. and (3) include comparative figures for the US GAAP adjustments reports of Rakefet Marketing and Trade Services Ltd., for Mondi Business Paper Hadera Ltd. and of Hogla-Kimberly Ltd. This Amendment No. 1 does not otherwise update information in the Original Filing to reflect facts or events occurring subsequent to the date of the Original Filing.

### PART I

#### ITEM 4 - INFORMATION ON THE COMPANY

##### C. Organizational Structure

As of May 31, 2005, Clal Industries and Investment Ltd. (Clal) beneficially owned 32.90% of the ordinary shares of the Company and Discount Investment Corporation Ltd. (DIC) beneficially owned 18.59% 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 67.26% of DIC and 61.93% of Clal. See "Item 7 - Major Shareholders and Related Party Transactions."

##### Significant subsidiaries and associated companies

Name of the Company	Ownership and Voting
Subsidiaries	
Amnir Recycling Industries Ltd.	100.00%
Graffiti Office Supplies & Paper Marketing Ltd.	100.00%
Attar Marketing Office Supplies Ltd.	100.00%
American Israeli Paper Mills Paper Industry (1995) Ltd.	100.00%

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Datashred 2003 AG	75.00%
Associated Companies	
Hogla-Kimberly Ltd.	49.90%
Ovisan Sihhi Bez Sanai Ve Ticaret A.S.	49.90%
Mondi Business Paper Hadera Ltd.	49.90%
Barthelemi Holdings Ltd.	33.91%
T.M.M. Integrated Recycling Industries Ltd. (direct and indirect)	41.60%
Carmel Containers Systems Ltd.	26.25%
C.D. Packaging Systems Limited (direct and indirect)	63.20%*
Cycle-Tec Recycling Technology Ltd.	30.18%

In the exhibits we enclosed the auditors' reports of other companies, because they have other auditors depending on their audit reports, although these companies are immaterial to the Company's operations.

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### 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 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 19 - EXHIBITS

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- (a) The following financial statements and supporting documents are filed with this report:
- (i) Reports of Independent Registered Public Accounting Firms to the Shareholders of 1) Rakefet Marketing and Trade Services Ltd. and 2) Mondi Business Paper Hadera Ltd. (formerly: Neuisiedler Hadera Paper Ltd.)
  - (ii) Reconciliation to US GAAP report of Rakefet Marketing and Trade Services Ltd. for the year ended December 31, 2004.
  - (iii) Reconciliation to US GAAP report of of Mondi Business Paper Hadera Ltd. for the year ended December 31, 2004.
  - (iv) Reconciliation to US GAAP report of of Hogla-Kimberly Ltd. for the year ended December 31, 2004.
- (b) Exhibits:
- 31.1 Certification of Chief Executive Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to ss. 302 of the Sarbanes-Oxley Act.
  - 31.2 Certification of Chief Financial Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to ss. 302 of the Sarbanes-Oxley Act.
  - 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C.ss.1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act.
  - 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C.ss.1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act.

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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

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Name: Lea Katz  
Title: Corporate Secretary

Dated: September 29, 2005

EXHIBIT INDEX

- 19(a) (i) Reports of Independent Registered Public Accounting Firms to the Shareholders of 1) Rakefet Marketing and Trade Services Ltd. and 2) Mondi Business Paper Hadera Ltd. (formerly: Neuisiedler Hadera Paper Ltd.)
- 19(a) (ii) Reconciliation to US GAAP report of Rakefet Marketing and Trade Services Ltd. for the year ended December 31, 2004.
- 19(a) (iii) Reconciliation to US GAAP report of Mondi Business Paper Hadera Ltd. for the year ended December 31, 2004.
- 19(a) (iv) Reconciliation to US GAAP report of Hogla-Kimberly Ltd. for the year ended December 31, 2004.
- 31.1 Certification of Chief Executive Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to ss. 302 of the Sarbanes-Oxley Act.
- 31.2 Certification of Chief Financial Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to ss. 302 of the Sarbanes-Oxley Act.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C.ss.1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C.ss.1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act.

EXHIBIT 19(a) (i)

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Independent Auditors' Report

to the Shareholders of

Rakefet Marketing and Trade Services Ltd.

We have audited the accompanying balance sheets of Rakefet Marketing and Trade Services Ltd. (the "Company") as of December 31, 2004 and 2003 and the related statements of operations and changes in shareholders' equity for each of the three years in the period ended December 31, 2004. 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 audit.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including those prescribed by the Israeli Auditors' Regulations (Mode of Performance), 1973. 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,

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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 Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2004 and 2003 and the results of operations and changes in shareholders' equity for each of the three years then ended, in accordance with generally accepted accounting principles in Israel.

As explained in Note 2A, the financial statements as of dates and for reporting period commencing January 1, 2004, are presented at reported amounts, in accordance with accounting standards of the Israeli Accounting Standards Board. The financial statements as of dates prior to January 1, 2004 and for reporting periods ended through December 31, 2003, have been prepared on the basis of historical cost adjusted for changes in the exchange rate of the U.S. dollar in relation to the NIS, in accordance with pronouncements of the Institute of Certified Public Accountants in Israel.

/s/ Brightman Almagor & Co.  
Brightman Almagor & Co.  
Certified Public Accountants

A Member Firm of Deloitte Touche Tohmatsu

Tel Aviv, March 7, 2005

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### REPORT OF INDEPENDENT AUDITORS

To the shareholders of  
MONDI BUSINESS PAPER HADERA LTD (formerly: Neusiedler Hadera Paper Ltd.)

We have audited the financial statements of Mondri business paper Hadera Ltd. (formerly: Neusiedler Hadera Paper Ltd, hereafter - the Company) and the consolidated financial statements of the Company and its subsidiaries: balance sheets as of December 31, 2003 and the related statements of income, changes in shareholders' equity and cash flows for each of the two years in the period ended December 31, 2003. 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 conducted our audits in accordance with auditing standards generally accepted in Israel and in the standards of the Public Company Accounting Oversight Board (United States), including those prescribed by the Israeli Auditors (Mode of Performance) Regulations, 1973, 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 provide a reasonable basis for our opinion.

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position - of the

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Company and consolidated - as of December 31, 2003 results of operations, the changes in shareholders' equity and the cash flows - of the Company and consolidated - for each of the two years in the period ended December 31, 2003, in conformity with accounting principles generally accepted ("GAAP") in Israel. Furthermore, in our opinion, the financial statements referred to above are prepared in accordance with the Israeli Securities (Preparation of Annual Financial Statements) Regulations, 1993.

As explained in note 1b, the financial statements referred to above are presented in values adjusted for the changes in the exchange rate of the U.S. dollar, in accordance with pronouncements of the Institute of Certified Public Accountants in Israel.

Tel-Aviv, Israel  
March 10, 2004

/s/ Kesselman & Kesselman

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EXHIBIT 19(a) (ii)

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Date: March 7, 2005  
Our ref: 783910

To: Rakefet Marketing and Trade Services Ltd.  
Ramla  
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Gentlemen,

Re: US GAAP Adjustments Report as of December 31, 2004  
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Pursuant to your request and as the independent accountants of Rakefet Marketing and Trade Services Ltd. ("the Company"), we have audited the Company's US GAAP Adjustments Report as of December 31, 2004 and for the year then ended ("the Report"). The Report, which is enclosed herewith, marked by our Firm's identification seal, is your responsibility.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States) and with generally accepted auditing standards in Israel, including those prescribed by the Israeli Auditors' Regulations (Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Report is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Report, assessing the accounting principles used and significant estimates made by the Board of Directors and management, as well as evaluating the overall Report presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Report referred to above present fairly, in all material

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respects, the financial position of the Company as of December 31, 2004, and the results of operations and changes in shareholders' equity for the year then ended., in accordance with generally accepted accounting principles in the United States of America.

Sincerely,

/s/ Brightman Almagor & Co.  
Brightman Almagor & Co.  
Certified Public Accountants

A Member Firm of Deloitte Touche Tohmatsu

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Rakefet Marketing and Trade Services Ltd.

US GAAP Adjustments Report  
As of December 31, 2004  
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As of the date of this letter, the audit of the Company's books has been completed, and the financial statements of the Company are to be prepared in accordance with generally accepted accounting principles ("GAAP") applicable in Israel. The following describes the effects on the Company's financial statements had the Company would have prepared its financial statements in accordance with GAAP applicable in the United States of America.

A. Basis of Measurement - Adjusted NIS vis-a-vis Nominal NIS

According to Israeli GAAP, the financial statements of the Company through December 31, 2003 were presented based on nominal historical cost adjusted for the changes in the exchange rate of the U.S. Dollar in relation to the NIS based on the principles presented in Note 2A(4) to the Parent-Company's (Hogla-Kimberly Ltd.) financial statements as of December 31, 2004, while according to US GAAP, the financial statements are to be presented in nominal historical terms. Accordingly, the effect of the difference in the basis of measurement on the Company's financial position and results of operations is excluded for the U.S. GAAP presentation. As presented in Note 2A to the Parent-Company's financial statements as of December 31, 2004, commencing January 1, 2004, the Company ceased the presentation of its financial statements based on adjusted NIS, and effective with the interim financial statements as of March 31, 2004 and for the reporting periods thereafter, including the year ended December 31, 2004, the Company's financial statements are prepared and presented in Reported Amounts, as defined in Note 2A(1) to the Mother-Company's financial statements as of December 31, 2004.

B. Selected Balance Sheet Items



	As of December 31, 2004	
	As reported	Adjustment
	-----	-----
		NIS in thousands
	-----	-----
Shareholders' equity	268,433	1,059
	=====	=====

	As of December 31, 2003	
	As reported	Adjustment
	-----	-----
		NIS in thousands
	-----	-----
Shareholders' equity	253,175	1,092
	=====	=====

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Rakefet Marketing and Trade Services Ltd.

US GAAP Adjustments Report  
As of December 31, 2004  
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C. Selected Statements of Operation Items

	Company	
	Year ended December 31,	
	2004	2003
	----	----
		NIS in thousands
		-----
Net income under Israeli GAAP	15,258	35,149
Effect of material differences between Israeli GAAP and US GAAP:		
Change in basis of measurement from adjusted NIS to nominal NIS	28	(16,057)
Deferred taxes	(61)	(569)
	-----	-----

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Net income under US GAAP

15,225  
=====

18,523  
=====

2  
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D. Changes in Shareholders' Equity in Accordance with US GAAP

	NIS in tho
	-----
Shareholders' equity under US GAAP as of January 1, 2002	207,22
Net income for the year under US GAAP	28,51
	-----
Shareholders' equity under US GAAP as of December 31, 2002	235,74
	=====
	NIS in tho
	-----
Shareholders' equity under US GAAP as of January 1, 2003	235,74
Net income for the year under US GAAP	18,52
	-----
Shareholders' equity under US GAAP as of December 31, 2003	254,26
	=====
	NIS in tho
	-----
Shareholders' equity under US GAAP as of January 1, 2004	254,26
Net income for the year under US GAAP	15,22
	-----
Shareholders' equity under US GAAP as of December 31, 2004	269,49
	=====

/s/

-----  
signature

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EXHIBIT 19(a) (iii)  
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Date: February 23, 2005  
Our ref: 793776

To: Mondi Business Paper Hadera Ltd.  
Hadera  
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Gentlemen,

Re: US GAAP Adjustments Report as of December 31, 2004  
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Pursuant to your request and as the independent accountants of Mondi Business Paper Hadera Ltd. ("the Company"), we have audited the Company's US GAAP Adjustments Report as of December 31, 2004 and for the year then ended ("the Report"). The Report, which is enclosed herewith, marked by our Firm's identification seal, is your responsibility.

The Company's US GAAP adjustments financial data as of December 31, 2003 and for each of the two years in the period then ended were audited by other auditors whose report, dated March 10, 2004, expressed an unqualified opinion on those US GAAP adjustments financial data.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States) and with generally accepted auditing standards in Israel, including those prescribed by the Israeli Auditors' Regulations (Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Report is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Report, assessing the accounting principles used and significant estimates made by the Board of Directors and management, as well as evaluating the overall Report presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Report referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2004, and the results of operations and changes in shareholders' equity for the year then ended, in accordance with generally accepted accounting principles in the United States of America.

Sincerely,

Brightman Almagor & Co.  
Certified Public Accountants

A Member Firm of Deloitte Touche Tohmatsu

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Mondi Business Paper Hadera Ltd.

US GAAP Adjustments Report  
As of December 31, 2004  
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The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles ("GAAP") applicable in Israel. The following describes the effects on the Company's consolidated financial statements had the Company prepared its financial statements in accordance with GAAP applicable in the United States of America.

A. Recent accounting pronouncements by the FASB

- (1) SFAS No. 151 - Inventory Costs, an Amendment of ARB No. 43, Chapter 4 - In November 2004 the FASB issued SFAS No. 151, "Inventory Costs, an Amendment of ARB No. 43, Chapter 4". SFAS No. 151 amends the guidance in ARB 43, Chapter 4, "Inventory Pricing", which provides guidance on the allocation of certain costs to inventory. SFAS 151 clarifies that abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) should be recognized as current-period charges. In addition, SFAS 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this statement are effective for inventory costs incurred during fiscal years beginning after June 2005. The provisions of this statement shall be applied prospectively. The Company is currently assessing the impact of the adoption of this Standard on the Company's financial position and results of operations under U.S. GAAP.
  
- (2) SFAS 153, Exchange of Non-Monetary Assets - In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets an amendment of APB No. 29". This Statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. The Statement specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date this Statement is issued. Retroactive application is not permitted. The Company is assessing the impact of the adoption of this Standard, and currently estimates that its adoption in not expected to have a material effect on the Company's financial position and results of operations.

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Mondi Business Paper Hadera Ltd.

US GAAP Adjustments Report  
As of December 31, 2004  
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B. Goodwill

According to Israeli GAAP, goodwill is to be amortized over the expected estimated economic life of the asset acquired, while according to US GAAP (SFAS 142), commencing January 2002 goodwill is no longer amortized but rather is reviewed annually (or more frequently if impairment indicators arise) for impairment. Following are the corresponding balance-sheet items presented according to US GAAP with

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regard to the goodwill associated with the acquisition of Miterani (see Note 7B to the Company's financial statements as of December 31, 2004) and the other GAAP differences outlined in D. Below.

### C. Basis of Measurement - Adjusted NIS vis-a-vis Nominal NIS

According to Israeli GAAP, the financial statements of the Group through December 31, 2003 were presented based on nominal historical cost adjusted for the changes in the exchange rate of the U.S. Dollar in relation to the NIS based on the principles presented in Note 2A(4) to the Company's financial statements as of December 31, 2004, while according to US GAAP, the financial statements are to be presented in nominal historical terms. Accordingly, the effect of the difference in the basis of measurement on the Group's financial position and results of operations is excluded for the U.S. GAAP presentation. As presented in Note 2A to the Company's financial statements as of December 31, 2004, commencing January 1, 2004, the Group ceased the presentation of its financial statements based adjusted NIS, and effective with the interim financial statements as of March 31, 2004 and for the reporting periods thereafter, including the year ended December 31, 2004, the Group's financial statements are prepared and presented in Reported Amounts, as defined in Note 2A(1) to the Company's financial statements as of December 31, 2004.

### D. Selected Balance Sheet Items

	As of December 31, 2004			As of
	As reported	Adjustment	As per US GAAP	reported
	-----	-----	-----	-----
		NIS in thousands		NI
		-----		---
Other assets-Goodwill	3,800	1,678	5,478	4,423
	-----	-----	-----	-----
Shareholders' equity	99,187	(2,313)	96,874	81,925
	=====	=====	=====	=====

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Mondi Business Paper Hadera Ltd.

US GAAP Adjustments Report  
As of December 31, 2004  
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### E. Selected Statements of Operation Items

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	Consolidated and	
	Year ended Dec	
	2 0 0 4	2 0
	NIS in thou	
Net income under Israeli GAAP	17,262	18,51
Effect of material differences between Israeli GAAP and US GAAP:		
Change in basis of measurement from adjusted NIS to nominal NIS	(1,104)	5,36
Amortization of goodwill	623	60
Deferred taxes	440	(2,93
Net income under US GAAP	17,221	21,55

F. Changes in Shareholders' Equity in Accordance with US GAAP

	NIS in th	
	2 0 0 4	2 0
Shareholders' equity under US GAAP as of the beginning of the year	79,653	58,
Net income for the year under US GAAP	17,221	21,
Shareholders' equity under US GAAP as of the end of the year	96,874	79,

/s/ Avi Magid

Avi Magid  
Chief Financial Officer

EXHIBIT 19(a) (iv)

Date: March 7, 2005  
Our ref: 783908

To: Hogla-Kimberly Ltd.  
Ramla  
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Gentlemen,

Re: US GAAP Adjustments Report as of December 31, 2004

Pursuant to your request and as the independent accountants of Hogla-Kimberly Ltd. ("the Company"), we have audited the Company's US GAAP Adjustments Report as of December 31, 2004 and for the year then ended ("the Report"). The Report, which is enclosed herewith, marked by our Firm's identification seal, is your responsibility.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States) and with generally accepted auditing standards in Israel, including those prescribed by the Israeli Auditors' Regulations (Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Report is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Report, assessing the accounting principles used and significant estimates made by the Board of Directors and management, as well as evaluating the overall Report presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Report referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2004, and the results of operations and changes in shareholders' equity for the year then ended, in accordance with generally accepted accounting principles in the United States of America.

Sincerely,

/s/

Brightman Almagor & Co.  
Certified Public Accountants

A Member Firm of Deloitte Touche Tohmatsu

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[OBJECT OMITTED]

US GAAP Adjustments Report  
As of December 31, 2004  
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The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles ("GAAP") applicable in Israel. The following describes the effects on the Company's consolidated financial statements had the Company prepared its financial statements in accordance with GAAP applicable in the United States of America.

A. Recent accounting pronouncements by the FASB

- (1) SFAS No. 151 - Inventory Costs, an Amendment of ARB No. 43, Chapter 4 - In November 2004 the FASB issued SFAS No. 151, "Inventory Costs, an Amendment of ARB No. 43, Chapter 4".

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SFAS No. 151 amends the guidance in ARB 43, Chapter 4, "Inventory Pricing", which provides guidance on the allocation of certain costs to inventory. SFAS 151 clarifies that abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) should be recognized as current-period charges. In addition, SFAS 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this statement are effective for inventory costs incurred during fiscal years beginning after June 2005. The provisions of this statement shall be applied prospectively. The Company is currently assessing the impact of the adoption of this Standard on the Company's financial position and results of operations under U.S. GAAP.

- (2) SFAS 153, Exchange of Non-Monetary Assets - In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets an amendment of APB No. 29". This Statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. The Statement specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date this Statement is issued. Retroactive application is not permitted. The Company is assessing the impact of the adoption of this Standard, and currently estimates that its adoption is not expected to have a material effect on the Company's financial position and results of operations.

### B. Goodwill

According to Israeli GAAP, goodwill is to be amortized over the expected estimated economic life of the asset acquired, while according to US GAAP (SFAS 142), commencing January 2002 goodwill is no longer

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[OBJECT OMITTED]

amortized but rather is reviewed annually (or more frequently if impairment indicators arise) for impairment. Following are the corresponding balance-sheet items presented according to US GAAP with regard to the goodwill associated with the acquisition of Ovisan (see Note 9B to the Company's financial statements as of December 31, 2004) and the other GAAP differences outlined in D. Below.

### C. Basis of Measurement - Adjusted NIS vis-a-vis Nominal NIS



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According to Israeli GAAP, the financial statements of the Group through December 31, 2003 were presented based on nominal historical cost adjusted for the changes in the exchange rate of the U.S. Dollar in relation to the NIS based on the principles presented in Note 2A(4) to the Company's financial statements as of December 31, 2004, while according to US GAAP, the financial statements are to be presented in nominal historical terms. Accordingly, the effect of the difference in the basis of measurement on the Group's financial position and results of operations is excluded for the U.S. GAAP presentation. As presented in Note 2A to the Company's financial statements as of December 31, 2004, commencing January 1, 2004, the Group ceased the presentation of its financial statements based adjusted NIS, and effective with the interim financial statements as of March 31, 2004 and for the reporting periods thereafter, including the year ended December 31, 2004, the Group's financial statements are prepared and presented in Reported Amounts, as defined in Note 2A(1) to the Company's financial statements as of December 31, 2004.

D. Selected Balance Sheet Items

	As of December 31, 2004 -----		
	As reported -----	Adjustment ----- NIS in thousands -----	As p US GA -----
Other assets - Goodwill	25,878 =====	8,731 =====	34,60 =====
Shareholders' equity	436,532 =====	(419) =====	436,11 =====

	As of December 31, 2003 -----		
	As reported -----	Adjustment ----- NIS in thousands -----	As p US GA -----
Other assets - Goodwill	29,073 =====	5,536 =====	34,60 =====
Shareholders' equity	412,981 =====	(3,003) =====	409,97 =====

E. Selected Statements of Operation Items

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	Consolidated and Company ----- Year ended December 31, -----		
	2004 ----	2003 ----	2002 ----
		NIS in thousands -----	
Net income under Israeli GAAP	26,928	56,253	22,700
Effect of material differences between Israeli GAAP and US GAAP:			
Change in basis of measurement from adjusted NIS to nominal NIS		(5,694)	19,300
Amortization of goodwill	1,254	2,768	
Deferred taxes	2,832		2,700
	(2,298)	(4,458)	(1,000)
	-----	-----	-----
Net income under US GAAP	28,716 =====	48,869 =====	43,700 =====

F. Changes in Shareholders' Equity in Accordance with US GAAP

	NIS in thousands -----
Shareholders' equity under US GAAP as of January 1, 2002	397,100
Dividend	(46,690)
Translation adjustments	4,850
Net income for the year under US GAAP	47,360
	-----
Shareholders' equity under US GAAP as of December 31, 2002	402,630 =====

	NIS in thousands -----
Shareholders' equity under US GAAP as of January 1, 2003	402,630
Dividend	(36,490)
Translation adjustments	(5,020)
Net income for the year under US GAAP	48,860
	-----
Shareholders' equity under US GAAP as of December 31, 2003	409,970 =====

F. Changes in Shareholders' Equity in Accordance with US GAAP

	NIS in thousands -----
Shareholders' equity under US GAAP as of January 1, 2004	409,970
Translation adjustments	(2,580)
Net income for the year under US GAAP	28,710
	-----

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Shareholders' equity under US GAAP as of December 31, 2004

436,11  
=====

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signature