AMERICAN ISRAELI PAPER MILLS LTD
Form 6-K
August 12, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K
Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934
For the Month of August 2004

AMERICAN ISRAELI PAPER MILLS LTD.
(Translation of Registrant's Name into English)
P.O. Box 142, Hadera, Israel
(Address of Principal Corporate Offices)

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

|X| Form 20-F |_| 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 |X| No

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

Attached hereto as Exhibit 1 and incorporated herein by reference is the Registrant's press release dated August 12, 2004 with respect to the Registrant's results of operations for the quarter ended June 30, 2004.

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 June 30, 2004.

Attached hereto as Exhibit 3 and incorporated herein by reference are the Registrant's unaudited condensed consolidated financial statements for the quarter ended June 30, 2004.

Attached hereto as Exhibit 4 and incorporated herein by reference is the Interim Report of Neusiedler Hadera Paper Ltd. with respect to the quarter ended June 30, 2004.

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 June 30, 2004.

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: August 12, 2004.

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
1.	Press release dated August 12, 2004.
2.	Registrant's management discussion.
3.	Registrant's unaudited condensed consolidated financial statements.
4.	Interim report of Neusiedler Hadera Paper Ltd.
5.	Unaudited condensed interim consolidated financial statements of Hogla-Kimberly Ltd. and subsidiaries.

EXHIBIT 1

AMERICAN ISRAELI PAPER MILLS LTD.
REPORTS FINANCIAL RESULTS FOR SECOND QUARTER AND SIX MONTHS

- DECLARES CASH DIVIDEND -

Hadera, Israel, August 12, 2004 - American Israeli Paper Mills Ltd. (ASE:AIP) (the "Company" or "AIPM") today reported financial results for the second quarter and first six months ended June 30,2004.

Pursuant to the directives of Standard No.12 of the Accounting Israeli Standards Board ("Standard 12"), the Company began to report in nominal New Israeli Shekels (NIS) as of January 1, 2004. In the past, the Company's reports were in NIS, adjusted to changes in the exchange rate of the US dollar against the NIS.

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

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 Neusiedler Hadera Paper (NHP) and Hogla-Kimberly (H-K) that were consolidated in the past, until the transfer of control over these companies to the international strategic partners), we also present 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"), net of intercompany sales and irrespective of the percentage of holding.

Aggregate group sales in the first six months of 2004(January - June 2004) totaled NIS 1,337.9 million compared with NIS 1,144.5 million in the corresponding period last year (January - June 2003). Aggregate sales in the second quarter of 2004 (April - June 2004) totaled NIS 655.3 million, compared with NIS 565.3 million in the corresponding quarter last year(April - June 2003).

Aggregate operating profit in the first six months of 2004 totaled NIS 106.0 million compared with NIS 74.8 million in the corresponding period last year.

Aggregate operating profit in the second quarter of 2004 totaled NIS 49.6 million, compared with NIS 37.4 million in the corresponding quarter last year.

The consolidated data below does not include the results of operations of NHP, H-K, Carmel Container Systems and TMM Integrated Recycling industries, which are included in the Company's share in results of associated companies.

Consolidated sales in the first six months of 2004 totaled NIS 238.2 million compared with NIS 232.7 million in the corresponding period last year. Consolidated sales in the second quarter of the year totaled NIS 119.1 million, compared with NIS 115.0 million in the corresponding quarter last year.

Operating profit in the first six months of 2004 totaled NIS 27.3 million compared with NIS 23.1 million in the corresponding period last year. Operating profit in the second quarter of 2004 totaled NIS 13.8 million, compared with NIS 10.0 million in the corresponding quarter last year.

Profit after taxes and before the Company's share in the profits of associated companies in the reported period amounted to NIS 15.2 million (not including an extraordinary tax benefit of NIS 5.8 million - see below), compared with NIS 9.9 million in the corresponding period last year (not including NIS 1 million non-recurring capital gain).

In June this year a law was passed in Israel, effective retroactively from January 1, 2004, which gradually lowers the corporate tax rate (before the amendment - 36%) to 35% in 2004 and gradually down to 30% in 2007. The effect of this change on the Company's deferred taxes (in the consolidated report) amounted to NIS 5.8 million (mainly due to the decrease in future tax liabilities which were deferred in respect of timing differences in depreciation, which was taken at a faster pace in the tax reports).
The tax benefits including our share in the tax benefit of the associated companies amounted to NIS 10.2 million.

Net profit totaled NIS 42.6 million during the six months period this year, as compared with NIS 31.4 million in the corresponding period last year. Net profit in the reported period includes the above mentioned tax benefits. Net profit in the 2003 period included approximately NIS 1.0 million in net non-recurring capital gains.

Earnings per share (EPS) (before non-recurring gains) in the first six months of 2004 totaled NIS 8.01 ($1.78 per share) compared with NIS 7.58 ($1.73 per share) for the corresponding period last year. Earnings per share in the first six months of 2004, including special earnings, amounted to NIS 10.53 ($2.34 per share).

The inflation rate in the first six months of 2004 was 1.4% as compared with negative inflation rate of -0.5% in the corresponding period last year.

The exchange rate of the NIS was devaluated against the U.S. dollar in the first six months of 2004 by approximately 2.7% as compared with a revaluation of 9.0% in the corresponding period last year.

Mr. Yaacov Yerushalmi, Chairman of the Company's Board of Directors, said that a certain recovery in the Israeli economy has been felt in recent months, reflected in higher growth percentages and an increase in private consumption, following several years of a severe recession that resulted in negative growth, lower demand, greater competition and increased unemployment.

Pulp prices have been rising since the beginning of 2004 and there are signs of stabilization in the third quarter of the year. Concurrently, weak demand for paper, particularly in Europe, is causing the erosion of margins and the shutting down of paper machines over the world.

The consolidated gross margin as a percentage of sales reached 23% in the first six months of 2004 as compared with 22.3% in the corresponding period last year.

The improved gross margin compared to the corresponding period last year resulted from increased production of the machines, efficiency measures and a decrease in energy prices as a result of an average decrease of approximately 5% compared with the corresponding period last year (when fuel oil prices rose dramatically following the tension leading up to the war in Iraq). This improvement was partially offset by an increase of raw materials prices mainly in the field of collection of paper waste for recycling.

The Company's share in the earnings of associated companies in the reported period amounted to NIS 21.6 million (including NIS 4.4 million representing our share in a non-recurring benefit recorded in respect of the change in the corporate tax rate), compared with NIS 20.4 million in the corresponding periods last year.

The following principal changes were recorded in the Company's share in the earnings of the main associated companies (this year - not including the aforementioned tax benefit), in relation to the corresponding period last year:

o The Company's share in the net earnings of NHP fell by NIS 2.2 million. Most of the change in the net earnings of NHP is associated with higher financial expenses this year at NHP as a result of repayment of shareholders' loans, which led to an increase in NHP's debt balance, and the 2.7% devaluation (as a result of the transition to reporting in NIS in accordance with Standard 12, due to a surplus of dollar liabilities).

o The Company's share in the earnings of H-K Israel increased by about NIS 1.4 million, primarily due to the ongoing improvement in operating profit at H-K Israel compared with the corresponding period last year. The increase was partially offset by lower financial revenues this year compared with last year, due to transition to reporting in NIS pursuant to Standard 12 and the effects of depreciation-revaluation on its linkage balance sheet. Due to the effects of the change in the exchange rate on the financial expenses, as aforesaid, the net earnings of H-K Israel in the second quarter of the year amounted to NIS 15.2 million, compared with NIS 22.1 million in the second quarter of 2003.

  The Company's share in the net earnings of Ovisan (Turkey) fell by NIS 5.7 million despite the increase in output and the expansion of operations, and was mainly due to the effects of the sharp devaluation (of the Turkish lira against the dollar), particularly in the second quarter of the year, both on the costs of raw materials, which are purchased mainly in dollars, and on financial expenses. The results were also influenced by the intense competition, reflected in an increase in advertising expenses along with erosion of prices.

o The Company's share in the net earnings of the Carmel Group increased by NIS 1.6 million, due to the continued improvement in the operating profit. The improvement resulted from the comprehensive efficiency measures being implemented by Carmel, coupled with the growth in the volume of operations.

o The Company's share in the earnings of TMM increased by NIS 0.2 million, as a result of improved operating profit and a certain decrease in the high financial expenses of the company during the reported period, as compared with the corresponding period last year, due mainly to the decrease in the interest rate between the periods.

A total of 5,403 shares were issued during the reported period (0.1% dilution), as a result of the exercise of 17,985 option warrants as part of the Company's employee stock option plans.

The Board of Directors of the Company declared yesterday a cash dividend in a total amount of NIS 100 million (approximately $22.11 million), or NIS

25.12425($5.55478) per share. The dividend will be paid on September 9, 2004 to shareholders of record on August 25, 2004. The foregoing dollar value of the cash dividend is calculated based on the exchange rate in effect on August 10, 2004 of NIS 4.523 to $1.00. The exact dollar payment per each share will be determined on the record date, based on the exchange rate on such date.

In case of change in the issued share capital of the Company until the record date the dividend per share shall be adjusted accordingly.

The ex-dividend date on the American Stock Exchange is August 23, 2004. The ex-dividend date on the Tel Aviv Stock Exchange is August 26, 2004.

No Ordinary Share transfers between the Company's US and Israeli registers will be permitted from August 23, 2004 through and including August 26, 2004, in order to avoid any confusion that may result from the different ex-dividend dates on the American Stock Exchange and the Tel Aviv Stock Exchange. The temporary suspension of transfers between registers will not affect the trading of the Company's Ordinary Shares on either the American Stock Exchange or the Tel Aviv Stock Exchange.

The dividend is subject to a 25% tax imposed by the State of Israel.

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 for publicly updating the said forward-looking statements, regardless of whether these updates originate from new information, future events or any other reason.

AMERICAN ISRAELI PAPER MILLS LTD.

SUMMARY OF RESULTS

(UNAUDITED)

NIS IN THOUSANDS(1)
EXCEPT PER SHARE AMOUNTS

	SIX MONTHS ENDED JUNE 30,	
	2004	2003
Net sales	238,244	232,697

Net earnings	42,630*	31,354*
Earnings per share	10.53*	7.84*

	THREE MONTHS ENDED JUNE 30,	
	2004	2003
Net sales	119,062	114,998
Net earnings	25,195*	18,233
Earnings per share	6.22*	4.56

* The net earnings of the 6 months and 3 months ended June 30, 2004 include a non- recurring tax benefit of about NIS 10.2 million (see above). The net earnings in the 6 months ended June 30, 2003 included a non-recurring net capital gain of about NIS 1.0 million.

(1) New Israeli Shekel amounts are reported according to Accounting Standard No. 12 of the Israeli Accounting Standard Board (hereafter - Standard No. 12) - "Discontinuance of Adjusting Financial Statements for Inflation". The reported NIS under Standard No. 12 are nominal NIS, for transactions made after January 1, 2004. The amounts of the corresponding period last year have been adjusted to reflect changes in the rate of exchange between the U.S. dollar and the New Israeli Shekel until the end of December 2003 (date of transition to Standard No. 12).

EXHIBIT 2

August 11, 2004

I. MANAGEMENT DISCUSSION

We are honored to present the consolidated financial statements of the American Israeli Paper Mills Ltd. Group ("AIPM") for the first six months of the year 2004.

A. A SUMMARIZED DESCRIPTION OF THE GROUP AND ITS BUSINESS ENVIRONMENT

1. GENERAL

AIPM is the leading Israeli group (the "Group") in the manufacture of paper and paper products. The Group produces and markets a wide range of paper types, household paper products, hygiene products, disposable baby diapers, absorbent products for the incontinent, office supplies, corrugated board packaging and consumer packaging. The Group is also engaged in recycling operations in the fields of paper and plastics as well as in the treatment of solid waste.

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

2. THE BUSINESS ENVIRONMENT

A certain recovery in the Israeli economy has been felt in recent months, reflected in higher growth percentages and an increase in private consumption, following several years of a severe recession that resulted in negative growth, lower demand, greater competition and increased unemployment.

Pulp prices have been rising since the beginning of 2004 and there are signs of price stabilization in the third quarter of the year. Concurrently, weak demand for paper, particularly in Europe, is eroding margins and causing shutting down of paper machines all over the world.

Pursuant to the directives of Standard No. 12 of the Accounting Standards Board ("Standard 12"), the Company began to make its reports in nominal New Israeli Shekels (NIS), as of January 1, 2004. In the past, the Company's reports were in NIS, adjusted to changes in the exchange rate of the US dollar against the NIS. The comparison figures with the corresponding period last year and with the whole of 2003 are the dollar figures, as reported in the past, multiplied by the exchange rate of the US dollar as at December 31, 2003, the day of the transition to NIS-based reporting pursuant to Standard 12 ($1 = NIS 4.379).

During the reported period (January-June 2004), the exchange rate of the NIS in relation to the US dollar was devaluated by approximately 2.7%, as compared with a revaluation of 9.0% in the corresponding period last year (January-June 2003).

The inflation rate during the reported period was 1.4%, as compared with a negative inflation rate of -0.5% 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 Neusiedler Hadera Paper ("NHP") and Hogla-Kimberly that were consolidated in the past, until the transfer of control over these companies to the international strategic partners), the aggregate data appearing below 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") net of inter-company sales and without considering the holding percentage of AIPM in such companies.

Aggregate sales in the first half of the year amounted to NIS 1,337.9 million, as compared with NIS 1,144.5 million in the corresponding period last year.

The aggregate operating profit totaled NIS 106.0 million during the reported period, as compared with NIS 74.8 million in the corresponding period last year.

Aggregate sales in the second quarter of the year (April-June 2004) amounted to NIS 655.3 million, compared with NIS 565.3 million in the corresponding quarter last year (April-June 2003).

Aggregate operating profit in the second quarter of the year amounted to NIS 49.6 million, compared with NIS 37.4 million in the corresponding quarter last year.

2. CONSOLIDATED DATA

Sales during the reported period amounted to NIS 238.2 million, as compared with NIS 232.7 million in the corresponding period last year.

Operating profit totaled NIS 27.3 million during the reported period, as compared with NIS 23.1 million in the corresponding period last year.

Sales in the second quarter of the year amounted to NIS 119.1 million, compared with NIS 115.0 million in the corresponding quarter last year.

Operating profit in the second quarter amounted to NIS 13.8 million, compared with NIS 10.0 million in the corresponding period last year.

The financial expenses amounted to NIS 4.5 million during the reported period, as compared with NIS 12.0 million in the corresponding quarter last year (see section C5 below).

Profit after taxes and before the Company's share in the profits of associated companies in the reported period amounted to NIS 15.2 million (not including an extraordinary tax benefit in the consolidated report of NIS 5.8 million - see below), compared with NIS 9.9 million in the corresponding period last year (not including a non-recurring capital gain).

Profit after taxes and before the Company's share in the profits of associated companies in the second quarter of the year amounted to NIS 7.7 million (not including the aforementioned tax benefit), compared with NIS 3.6 million in the corresponding quarter last year.

3. NET EARNINGS AND EARNINGS PER SHARE

Net profits totaled NIS 42.6 million during the reported period, as compared with NIS 31.4 million in the corresponding period last year. Net profits in the reported period includes profit resulting from the effect of the corporate tax rate reduction (from 36% to 30% until 2007) on the deferred tax reserve (in the consolidated report, and our share in associated companies), which amounted to NIS 10.2 million (see C6 below).

Net earnings in the corresponding period last year included a non-recurring net capital gain of approximately NIS 1.0 million.

Net earnings before non-recurring gains in the reported period amounted to NIS 32.4 million, compared with NIS 30.3 million in the corresponding period last year.

Earnings Per Share in the reported period (before non-recurring gains) amounted to NIS 801 per NIS 1 par value ($1.78 per share), as compared with NIS 758 per NIS 1 par value ($1.73 per share) in the corresponding period last year.

Earnings Per Share including special earnings in the reported period amounted to NIS 1,053 per NIS 1 par value ($2.34 per share).

The return on shareholders' equity in annual terms (before special earnings) amounted to 10.6% during the reported period, as compared with 9.6% 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 during the reported period amounted to NIS 238.2 million, as compared with NIS 232.7 million in the corresponding period last year.

The increase in sales is primarily attributed to a quantitative increase in the sales of packaging paper and a slight improvement in the average price of fluting and of wastepaper.

2. COST OF SALES

The cost of sales amounted to NIS 183.4 million - or 77.0% of sales - during the reported period, as compared with NIS 180.8 million - or 77.7% of sales - in the corresponding period last year. The gross margin as a percentage of sales reached 23.0% during the reported period, as compared with 22.3% in the corresponding period last year.

The improved gross margin in relation to the corresponding period last year, resulted from increased output production of the machines, efficiency measures and a decrease in energy prices by an average of 5% compared with the corresponding period last year (when fuel oil prices rose dramatically as a result of the tension leading up to the war in Iraq). It is noted that fuel oil prices rose in the second quarter of the year and it seems that prices are still rising in the third quarter. The said improvement was partially offset by the higher prices of raw materials, primarily in the field of collection of paper waste for recycling.

WAGES

Wages as part of the cost of sales and selling, general and administrative expenses amounted to NIS 72.4 million in the reported period, resembling the corresponding period last year.

However, since in the corresponding period the data were adjusted to the dollar and taking into account the effects of changes in the exchange rate of the dollar on the reporting last year, with the transition to reporting in accordance with Standard 12, the adjusted cost of wages last year is presented at about NIS 3 million less than the nominal cost as was at that time.

3. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses (including wages) amounted to NIS 27.5 million in the reported period - or 11.6% of sales - compared with NIS 28.9 million - or 12.4% of sales - in the corresponding period last year.

4. OPERATING PROFIT

Operating profit totaled NIS 27.3 million during the reported period (11.5% of sales), as compared with NIS 23.1 million (9.9% of sales) in the corresponding period last year.

5. FINANCIAL EXPENSES

Financial expenses amounted to NIS 4.5 million during the reported period, as compared with NIS 12.0 million in the corresponding period last year.

Financial expenses in the corresponding period last year were affected by the revaluation of the shekel against the dollar (9.0%), which caused a significant increase in the financial expenses in that period, when financial reporting was adjusted to the dollar.

With the transition to reporting in nominal shekels in accordance with Standard 12, the financial expenses of the Company have decreased in the reported period this year, as a result of the effects of the devaluation in the period (2.7%) on the surplus dollar assets of the Company.

6. TAXES ON INCOME

Taxes on income from current operations amounted to NIS 7.7 million in the reported period, as compared with NIS 1.1 million in the corresponding period last year.

The principal reasons for the increase in tax expenses in the reported period as compared with the corresponding period last year, are the growth in pre-tax earnings (about NIS 12 million) and the benefit recorded last year (when the reports were dollar-adjusted) due to the effect of the sharp revaluation on tax expenses (erosion of the tax reserve).

In June 2004 a law was passed in Israel, effective retroactively from January 1, 2004, which lowers the corporate tax rate (before the amendment - 36%) to 35% in 2004 and gradually down to 30% in 2007. The effect of this change on the Company's deferred taxes (in the consolidated report) amounted to NIS 5.8 million (mainly due to the decrease in future tax liabilities which were deferred in respect of timing differences in depreciation, which was taken at a faster pace in the tax reports) and brought tax expenses down to only NIS 1.9 million.

7. EARNINGS AFTER TAX AND BEFORE THE COMPANY'S SHARE IN THE EARNINGS OF ASSOCIATED COMPANIES

Earnings after tax and before the Company's share in the earnings of associated companies and non-recurring gains in the reported period amounted to NIS 15.2 million, compared with NIS 9.9 million in the corresponding period last year (this year - not including a tax benefit in respect of the change in corporate tax totaling NIS 5.8 million in the consolidated report, last year - not including a non-recurring capital gain of approximately NIS 1 million).

8. THE COMPANY'S SHARE IN THE EARNINGS OF ASSOCIATED COMPANIES

The companies whose earnings are reported under this item (according to AIPM's holdings therein), include primarily NHP, Hogla-Kimberly, Carmel and TMM Integrated Recycling Industries.

The Company's share in the earnings of associated companies in the reported period amounted to NIS 21.6 million (including NIS 4.4 million our share in a non-recurring benefit recorded in respect of the change in the corporate tax rate), compared with NIS 20.4 million in the corresponding periods last year.

The following principal changes were recorded in the Company's share in earnings of the main associated companies (this year - not including the aforementioned tax benefit), in relation to the corresponding period last year:

- The Company's share in the net earnings of NHP, fell by NIS 2.2 million. Most of the change in the net earnings is associated with higher financial expenses this year at NHP as a result of repayment of shareholders' loans, which led to an increase in NHP's debt balance, and the 2.7% devaluation of the NIS (as a result of the transition to reporting in NIS in accordance with Standard 12, due to a surplus of dollar liabilities).

- The Company's share in the earnings of Hogla-Kimberly Israel increased by about NIS 1.4 million, primarily due to the ongoing improvement in operating profit at Hogla-Kimberly Israel compared with the corresponding period last year. This improvement was achieved mainly by continuing efficiency measures, both in logistics and in production, and particularly as a result of the increased production of Huggies diapers in Afula. The increase was partially offset by lower financial revenues this year compared with last year, due to transition to reporting in NIS pursuant to Standard 12 and the effects of depreciation-revaluation on its linkage balance sheet. Due to the effects of the change in the exchange rate on financial expenses, as aforesaid, the net earnings of Hogla-Kimberly Israel in the second quarter of the year amounted to NIS 15.2 million, compared with NIS 22.1 million in the corresponding quarter last year.

The Company's share in the net earnings of Ovisan (Turkey) fell by NIS 5.7 million despite the increase in output and the expansion of operations and mainly due to the effects of the sharp devaluation (of the Turkish Lira against the dollar), particularly in the second quarter of the year, both on the costs of raw materials, which are purchased mainly in dollars, and on financial expenses. The results were also influenced by the intense competition, reflected in an increase in advertising expenses along with erosion of prices.

- The Company's share in the net earnings of the Carmel Group increased by NIS 1.6 million, due to the continued improvement in the operating profit. The improvement resulted from the comprehensive efficiency measures being implemented by the company, coupled with the growth in the volume of operations.

- The Company's share in the net earnings of TMM increased by NIS 0.2 million, as a result of improved operating profit and a certain decrease in the high financial expenses of the company during the reported period, as compared with the corresponding period last year, due mainly to the decrease in the interest rate between the periods.

D. LIQUIDITY AND INVESTMENTS

1. ACCOUNTS RECEIVABLE - TRADE

Accounts Receivable as at June 30, 2004, amounted to NIS 146.9 million, as compared with NIS 144.5 million on June 30, 2003. The increase in accounts receivable resulted primarily from the growth in the volume of operations. Credit terms remained as they have been at December 2003.

2. CASH FLOWS

The cash flows from operating activities totaled NIS 19.8 million during the reported period, as compared with negative cash flows of NIS 13.1 million in the corresponding period last year (before dividend from an associated company in the sum of 16.4 million. Including the said dividend the cash flows from operating activities last year was positive and reached a total of NIS 3.2 million). The improvement in cash flows from current operations in the reported period is derived mainly from a smaller increase in operating working capital in the reported period compared with last year, when there was a significant increase, mainly of a one-time nature.

3. INVESTMENTS IN FIXED ASSETS

Investments in fixed assets totaled NIS 12.1 million in the reported period, as compared with NIS 11.5 million in the corresponding period last year, and included investment in production, marketing and conveying processes as well as expansion of operations in confidential data destruction in Israel.

4. FINANCIAL LIABILITIES

The long-term liabilities (including current maturities) amounted to NIS 270.9 million as at June 30, 2004, as compared with NIS 76.5 million on June 30, 2003.

Most of the increase in long-term liabilities is attributed to raising NIS 200 million in loans through an issue of notes (Series 2) from institutional investors on December 21, 2003. Some of the proceeds from the issue of the notes served for the repayment of short-term credit, while the rest was invested primarily in deposits and in short-term financial assets.

The balance of short-term credit, as at June 30, 2004 amounted to NIS 135.5 million, as compared with NIS 142.5 million on June 30, 2003. Credit balances remained similar to the balances in the corresponding period last year, despite the special dividend paid to the shareholders (NIS 75 million), due to a positive cash flow from current operations and the use of some of some of the proceeds of the issue for partial repayment of the short-term credit as aforesaid.

E. EXPOSURE AND MANAGEMENT OF MARKET RISKS

In continuation to the Management Discussion dated December 31, 2003, in which the essence of the exposure to market risks and its management, as determined by the Board of Directors, was outlined, the following is an update, as at June 30, 2004:

The Company's CPI-linked liabilities (net of deposits) amount to a net overall sum of approximately NIS 183 million, at interest no higher than the market rate. If inflation were to rise significantly, a loss might be generated in the Company's financial statements due to a surplus of CPI-linked liabilities. Therefore, in January 2004, the Company entered into a forward transaction, with a term of one year, to hedge the sum of NIS 200 million against a rise in the CPI (at a cost of 0.92% per year).

REPORT OF LINKAGE BASES

The following are the balance sheet items, according to linkage bases, as at December 31, 2003 and updated for June 30, 2004:

IN NIS MILLION	UNLINKED	CPI-LINKED	IN FOREIGN CURRENCY, OR LINKED THERETO (PRIMARILY $)
ASSETS			
CASH AND CASH EQUIVALENTS	61.3		8.5
SHORT-TERM DEPOSITS AND INVESTMENTS	61.1	45.7	
ACCOUNTS RECEIVABLE AND DEBIT BALANCES	233.0	2.2	47.4
INVENTORIES			
INVESTMENTS IN ASSOCIATED COMPANIES	12.6	11.1	15.8
DEFERRED TAXES ON INCOME			
FIXED ASSETS, NET			
DEFERRED EXPENSES, NET OF AMORTIZATION			
TOTAL ASSETS	368.0	59.0	71.7
LIABILITIES			
CREDIT FROM BANKS	135.5		
ACCOUNTS PAYABLE AND CREDIT BALANCES	153.6	6.0	8.9
DEFERRED TAXES ON INCOME			
NOTES		235.8	
OTHER LIABILITIES	32.8		2.3
SHAREHOLDERS' EQUITY			
TOTAL LIABILITIES AND EQUITY	321.9	241.8	11.2
SURPLUS FINANCIAL ASSETS (LIABILITIES) AS AT JUNE-30-2004	46.1	(182.8)	60.5
SURPLUS FINANCIAL ASSETS (LIABILITIES) AS AT DECEMBER 31, 2003	69.4	(229.2)	65.2

ASSOCIATED COMPANIES

Hogla-Kimberly, an associated company, has a subsidiary operating in Turkey. The impact of the exposure of this subsidiary to the economic situation in Turkey - and especially to fluctuations in the exchange rate of the Turkish lira in relation to the US dollar - might affect the Group's financial statements in the Company's share in the earnings of associated companies.

F. 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 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 are beyond the control of the Company. The Company undertakes no obligation to publicly update such forward-looking statements, regardless of whether the updates originate from new information, future events or any other reason.

G. DIVIDEND

The Board of Directors of the Company declared on August 11, 2004 a cash dividend for the year 2004 in a total amount of approximately NIS 100 million (NIS 25.12 per share), which will be paid to shareholders of the Company.

H. MISCELLANEOUS

In the second quarter of the year, the Company began operating in the confidential data destruction sector in Switzerland, through the operation of mobile shredder trucks at customer sites, as part of a test case for entering this field in Europe.

I. DONATIONS AND CONTRIBUTIONS

As part of its business and social commitment, the AIPM Group devotes efforts and resources to community assistance and support, focusing on providing help to the weaker echelons of Israeli society - primarily teenagers - as part of a desire to build and contribute to the shaping the human fabric of Israeli society. As part of this policy, the Company makes contributions to various institutions that are active in these areas, while also participating, through its employees, in volunteer work in the community for promoting these same objectives.

Moreover, student scholarships amounting to NIS 90 thousand were awarded in the reported period, through the Shenkar Foundation, which was established by the Company together with its Austrian strategic partner in NHP.

J. GENERAL

5,403 shares were issued during the reported period (0.1% dilution), on account of the exercise of 17,985 options as part of the Company's senior employee stock option plans.

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Y. Yerushalmi	Zvi Livnat
Chairman of the Board of Directors	Director

EXHIBIT 3

AMERICAN ISRAELI PAPER MILLS LTD.

SUMMARY OF CONSOLIDATED BALANCE SHEETS

NIS IN THOUSANDS (see note 1c)

	JUNE 30, 2004 (UNAUDITED)	JUNE 30, 2003 (UNAUDITED)	DEC. 31, 2003 (AUDITED)
CURRENT ASSETS:			
Cash and cash equivalents	69,752	18,334	158,706
Short-term deposits and investments	106,753		20,000
Receivables :			
Trade	146,883	144,536	140,996
Other	145,382	150,485	128,246
Inventories	88,782	83,611	90,654
Total current assets	557,552	396,966	538,602
INVESTMENTS AND LONG TERM RECEIVABLES:			
Investments in associated companies	401,214	370,257	383,879
Deferred income taxes	3,885		3,985
	405,099	370,257	387,764
FIXED ASSETS			
Cost	961,693	940,708	953,656
Less - accumulated depreciation	638,163	617,960	628,015
	323,530	322,748	325,641
Deferred charges - net of accumulated amortization	1,215	506	1,267
	1,287,396	1,090,477	1,253,274
CURRENT LIABILITIES:			
Credit from banks	135,516	142,511	144,989
Current maturities of long-term notes	6,668	6,814	6,590
Payables and accured liabilities :			
Trade	81,395	84,911	84,602
Other	87,105	66,847	73,010
Total current liabilities	310,684	301,083	309,191
LONG-TERM LIABILITIES			

Deferred income taxes	54,753	58,889	61,801
Loans from banks and other liabilities (net of current maturities):			
Notes	229,181	34,158	233,039
Other liabilities	35,075	35,521	35,013
Total long term liabilities	319,009	128,568	329,853
Total liabilities	629,693	429,651	639,044
SHAREHOLDERS' EQUITY:			
Share capital	125,257	125,256	125,257
Capital surplus	90,060	90,060	90,060
Currency adjustments in respect of financial statements of associated companies	(279)	100	(1,122)
Retained earnings	342,665	445,410	400,035
Dividend declared after balance sheet date	100,000		
	657,703	660,826	614,230
	1,287,396	1,090,477	1,253,274

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 (see note 1c)

	SIX-MONTH PERIOD ENDED JUNE 30		THREE-MO ENDED
	2004	2003	2004
	(UNAUDITED)		(UNAU
Net sales	238,244	232,697	119,062
Cost of sales	183,374	180,779	91,557
Gross profit	54,870	51,918	27,505
Selling and marketing, administrative and general expenses :			
Selling and marketing	15,904	15,094	7,559
Administrative and general	11,628	13,763	6,151
	27,532	28,857	13,710

Income from ordinary operations	27,338	23,061	13,795
Financial expenses - net	4,471	12,017	2,427
Gain from realization of assets		1,606	
Income before taxes on income	22,867	12,650	11,368
Taxes on income (tax benefit) (see note 2)	1,876	1,658	(2,124)
Income from operations of the company and the consolidated subsidiaries	20,991	10,992	13,492
Share in profits of associated companies - net	21,639	20,362	11,703
Net income for the period	42,630	31,354	25,195
NET INCOME PER NIS 1 PAR VALUE OF SHARES (IN N.I.S)	1,053	784	622

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 (see note 1c)

	SHARE CAPITAL	CAPITAL SURPLUS	ADJUSTMENTS DUE TO THE TRANSLATION OF FINANCIAL STATEMENTS OF ASSOCIATED COMPANIES	RET EAR
Balance at January 1, 2004 (audited)	125,257	90,060	(1,122)	40
Changes during the six month period ended June 30, 2004 (unaudited) :				
Net income				4
Dividend declared after balance sheet date				(10
Exercise of employees options into shares	*			
Adjustments due to the translation respect				

of financial statements of associated companies			843	
Balance at June 30, 2004 (unaudited)	125,257	90,060	(279)	34
Balance at January 1, 2003 (audited)	125,256	90,060	(3,482)	43
Changes during the six month period ended June 30, 2003 (unaudited) :				
Net income				3
Dividend distributed				(2
Exercise of employees options into shares	*			
Adjustments due to the translation respect of financial statements of associated companies			3,582	
Balance at June 30, 2003 (unaudited)	125,256	90,060	100	44
Balance at April 1, 2004 (unaudited)	125,257	90,060	(62)	41
Changes during the three month period ended June 30, 2004 (unaudited):				
Net income				2
Dividend declared after balance sheet date				(10
Exercise of employees options into shares	*			
Adjustments due to the translation respect of financial statements of associated companies			(217)	
Balance at June 30, 2004 (unaudited)	125,257	90,060	(279)	34
Balance at April 1, 2003 (unaudited)	125,256	90,060	(2,772)	42
Changes during the three month period ended June 30, 2003 (unaudited):				
Net income				1
Erosion of the dividend proposed in March 2003				
Exercise of employees options into shares	*			
Adjustments due to the translation respect of financial statements of associated companies			2,872	
Balance at June 30, 2003 (unaudited)	125,256	90,060	100	44
Balance at January 1, 2003 (audited)	125,256	90,060	(3,482)	43
Changes during the year ended December 31, 2003 (audited):				
Net income				6
Dividend distributed				(9
Exercise of employees options into shares	1			
Adjustments due to the translation respect of financial statements of associated companies			2,360	
Balance at December 31, 2003 (audited)	125,257	90,060	(1,122)	40

* Represents a sum under 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 (see note 1c)

	SIX-MONTH PERIOD ENDED JUNE 30, 2004 (UNAUDITED)	SIX-MONTH PERIOD ENDED JUNE 30, 2003 (UNAUDITED)	THREE-MONT PERIOD END JUNE 30, 20 (UNAUDITED
CASH FLOWS FROM OPERATING ACTIVITIES :			
Net income for the period	42,630	31,354	25,1
Adjustments to reconcile net income to net cash provided by operating activities (*):	(22,856)	(28,110)	(15,5
Net cash provided by operating activities	19,774	3,244	9,6
CASH FLOWS FROM INVESTING ACTIVITIES :			
Purchase of fixed assets	(12,119)	(11,475)	(5,6
Short-term deposits and investments - net	(86,999)		(30,0
Associated companies :			
Investment in associated companies and loans granted	(779)	(1,735)	(4
Repayment of loans	6,882	15,327	6,8
Proceeds from sale of fixed assets	438	1,991	
Net cash provided by (used in) investing activities	(92,577)	4,108	(29,1
CASH FLOWS FROM FINANCING ACTIVITIES:			
Notes Issuance, net of issuance expenses of NIS 800,000			
Consideration in respect of the exercise of options by employees			
Repayment of long-term loans from banks and others	(383)	(381)	(3
Redemption of Notes	(6,666)	(6,770)	(6,6
Dividend paid		(25,060)	
Short-term bank credit and loans - net	(9,102)	37,733	(4,8
Net cash provided by (used in) financing activities	(16,151)	5,522	(11,9
Increase (decrease) in cash and cash equivalents	(88,954)	12,874	(31,3
Balance of cash and cash equivalents at beginning of period	158,706	5,460	101,1
Balance of cash and cash equivalents at end of period	69,752	18,334	69,7

(*) Adjustments to reconcile net income to net cash provided by operating activities:

INCOME AND EXPENSES NOT INVOLVING CASH FLOWS:			
Associated companies:			
Share in profits of associated companies - net	(21,639)	(20,363)	(11,7
Dividend received from those companies		16,391	
Depreciation and amortization	14,078	14,186	7,0
Deferred income taxes - net	(7,493)	(1,952)	(6,5
Capital (gains) losses on sale of fixed assets	(234)	(1,011)	
Income from short-term deposits and investments, not realized yet	246		3
Linkage differences (erosion) of principal of long-term loans from banks and others - net	74	91	
Exchange and linkage differences on Notes	2,886	4,161	2,9
Erosion of long-term loans to associated companies	(956)	(1,377)	(1
Linkage differences on long term capital note to an associated company		2,986	
CHANGES IN OPERATING ASSETS AND LIABILITIES:			
Increase in receivables	(22,578)	(38,138)	(12,4
Decrease (increase) in inventories	1,872	6,883	4,4
Increase (decrease) in payables and accrued liabilities	10,888	(9,967)	5
	(22,856)	(28,110)	(15,5

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

AMIRICAN ISRAELI PAPER MILLS LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AT JUNE 30, 2004

(Unaudited)

NOTE 1 - GENERAL

a. The interim financial statemenA. as of June 30, 2004 and for the six and three month periods then ended (hereafter - the interim financial statements) were drawn up in condensed form, in accordance with Accounting Standard No. 14 of the Israel Accounting Standards Board (hereafter - the IASB) and in accordance with the Securities (Preparation of Periodic and Immediate Financial Statements) Regulations , 1970.

b. The accounting principles applB.d in preparation of the interim statements are consistent with those applied in the annual financial statements, except for the adoption for the first time of standard No. 12 of the IASB - " Discontinuaunce of adjusting Financial statements of inflation", see c hereafter. Nevertheless, the interim statements do not include all the information and explanations required for the annual financial statements.

Costs unevenly incurred during the year are brought forward or deferred for interim reporting purposes if, and only if, such costs may be brought forward or deferred in the annual reporting.

c. Transition to nominal-historicC. financial reporting:
With effect from January 1, 2004, the company has adopted the provisions of Standard No. 12 -"Discontinuance of Adjusting Financial Statements for Inflation" - of the IASB and, pursuant thereto, the company has discontinued, from the aforesaid date, the practice of adjusting its financial statements for the effects of changes in the exchange rate of the U.S. dollar (hereafter - "the dollar").

Through December 31, 2003, the company prepared its financial statements on the basis of historical cost adjusted for the changes In the general purchasing power of Israeli currency (hereafter - "NIS"), based upon changes in the exchange rate of the dollar, in accordance with pronouncements of the Institute of Certified Public Accountants in Israel (hereafter - "the Israeli Institute"). The adjusted amounts, as above, presented in the financial statements as of December 31, 2003 (hereafter - "the transition date"), are used as the opening balances for the nominal-historical financial reporting in the following periods. Additions made after the transition date have been included in the financial statements at their nominal values

The comparative figures included in these financial statements are based on the adjusted financial statements for the prior reporting periods, as previously presented, after adjustment to the exchange rate for December 31, 2003 (the exchange rate in effect at the transition date).

The amounts reported for periods after the transition date are composed as follows: all the amounts originating from the period prior to the transition date are composed of their adjusted amount at the transition date, with the addition of amounts in nominal values that were added after the transition date, and net of amounts that were deducted after the transition date (the retirement of such sums is effected at their adjusted values as of transition date, their nominal values, or a combination of the two, according to the circumstances). All the amounts originating from the period after the transition date are included in the financial statements at their nominal values.

Follwing are the changes in exchange rate of the dollar and in the Israeli consumer price index (the "CPI"):

	CPI %	EXCHANGE RATE OF THE DOLLAR %
Increase (decrease) in the six months ended June 30:		
2004	1.4	2.7
2003	(0.5)	(9.0)
Increase (decrease) in the three months ended June 30:		
2004	1.5	(0.7)
2003	(1.3)	(8.0)
Increase in the year ended December 31, 2003	(1.9)	(7.6)

The dollar exchange rate as of June 30, 2004 is: $1=NIS 4.497

AMIRICAN ISRAELI PAPER MILLS LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AT JUNE 30, 2004

(Unaudited)

NOTE 2 - REDUCTION OF CORPORATE TAX RATE

On June 29, 2004, the Israeli Knesset passed the Income Tax Ordinance Amendment (No. 140 and Ad Hoc Provision) law, 2004 (hearafter - the amendment), which provides for the gradual reduction - commencing from January 1, 2004 - in the rate of corporate tax from 36% to 30%, in the following manner: the rate for 2004 will be 35%, in 2005 - 34%, in 2006 - 32% and in 2007 and thereafter - 30%. The amendment was signed at the beginning of July 2004 by the officials authorized by the state of Israel to approve it, and was published in the Official Gazette of the Government of Israel on July 11,2004. As a result of the amendment the tax expenses in the statement of income were reduced by NIS 5,824 millions in the periods of 6 months and 3 months ended June 30, 2004, on account of of the company's deferred income taxes.

NOTE 3 - SEGMENT INFORMATION

Data on segment activity - In NIS in thousands:

For the period of 6 monthes

	Paper and recycling		Marketing of office supplies	
	Jan-June 2004	Jan-June 2003	Jan-June 2004	Jan-June 2003
Sales - net (1)	180,186	166,635	58,058	66,062
Income (loss) from operations	30,198	23,127	(2,860)	(66)

For the period of 3 monthes

	Paper and recycling		Marketing of office supplies	
	April-June 2003	April-June 2004	April-June 2003	April-June 2004

Sales - net (1)	91,634	84,721	27,428	30,277
Income (loss) from operations	15,540	10,386	(1,745)	(341)

(1) Represents sales to external customers.

[GRAPHIC OMITTED]

Enclosed please find the financial reports of the following associated companies:

- Neusiedler Hadera Paper Ltd.
- Hogla-Kimberly Ltd.

The financial report of the following associated companies are not included:

- Carmel Containers Systems Ltd., according to section 44(c) of the Securities (Periodic and Immediate Reports) Regulations.
- TMM Integrated Recycling Industries Ltd., a reporting corporation.

[GRAPHIC OMITTED]

EXHIBIT 4

NEUSIEDLER HADERA PAPER LTD. AND SUBSIDIARIES
UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
AS OF JUNE 30, 2004

NEUSIEDLER HADERA PAPER LTD. AND SUBSIDIARIES
UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
AS OF JUNE 30, 2004

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The Board of Directors of
Neusiedler Hadera Paper Ltd.

RE: REVIEW OF UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2004

Gentlemen:

At your request, we have reviewed the condensed interim consolidated financial statements ("interim financial statements") of Neusiedler Hadera Paper Ltd. ("the Company") and its subsidiaries, as follows:

- Balance sheet as of June 30, 2004.

- Statements of operations for the six months and three months ended June 30, 2004.

- Statements of changes in shareholders' equity for the six months and three months ended June 30, 2004.

- Statements of cash flows for the six months and three months ended June 30, 2004

The financial statements for the three-month period ended March 31, 2004, were reviewed by other accountants. In addition, the comparative figures as of December 31, 2003 and for the year then ended were audited by other auditors, and the comparative figures as of June 30, 2003 and for the six months and three months then ended were reviewed by other accountants. Those other auditors and accountants issued unqualified reports on all those financial statements.

Our review was conducted in accordance with procedures prescribed by the Institute of Certified Public Accountants in Israel. The procedures included, inter alia, reading the aforementioned interim financial statements, reading the minutes of the shareholders' meetings and meetings of the board of directors and its committees, and making inquiries with the persons responsible for financial and accounting affairs.

Since the review that was performed is limited in scope and does not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the aforementioned interim financial statements.

In performing our review, nothing came to our attention which indicates that material adjustments are required to the aforementioned interim financial statements for them to be deemed financial statements prepared in conformity with generally accepted accounting principles in Israel and in accordance with the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

Brightman Almagor & Co.

Certified Public Accountants
A Member Firm of Deloitte Touche Tohmatsu

Tel Aviv, August 10, 2004

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NEUSIEDLER HADERA PAPER LTD. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS
(NIS in thousands)

	June 30,

	2004 Reported Amounts (1)	2003 Adjusted Amounts (2) (Unaudited)	
A S S E T S			
Current Assets			
Cash and cash equivalents	14,768	60,666	
Trade receivables	159,301	138,942	
Other receivables	9,564	18,705	(*)
Inventories	84,823	75,765	
Total current assets	268,456	294,078	
Fixed Assets			
Cost	135,916	127,473	
Less - accumulated depreciation	28,392	21,545	
	107,524	105,928	
Other Assets - Goodwill	4,113	4,733	
Total assets	380,093	404,739	
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Short-term bank credit	3,158	--	
Current maturities of long-term bank loans	15,567	14,897	
Trade payables	85,748	76,663	
American Israeli Paper Mills Group, net	60,820	67,069	
Other payables and accrued expenses	18,603	18,933	(*)
Total current liabilities	183,896	177,562	
Long-Term Liabilities			
Long-term bank loans	45,025	66,420	
Capital notes to shareholders	31,479	56,927	
Deferred taxes	25,154	28,026	
Accrued severance pay, net	145	145	
Total long-term liabilities	101,803	151,518	
Shareholders' Equtiy			
Share capital	1	1	
Capital reserves	43,352	43,352	
Retained ernings	51,041	32,306	
	94,394	75,659	
Total liabilities and shareholders' equity	380,093	404,739	

(*) Reclassified.

(1) See Note 2B(1).

(2) Adjusted for changes in the exchange rate of the U.S. dollar as of December 31, 2003.

E. Amar Chief Financial Officer	A. Solel General Manager	Y. Yerushalmi Vice Chairman of the Board of Directors

Approval date of the interim financial statements: August 10 ,2004.

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

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NEUSIEDLER HADERA PAPER LTD. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
(NIS in thousands, except per share data)

	Six months ended June 30,		Three months
	2004	2003	2004
	Reported Amounts (1)	Adjusted Amounts (2)	Reported Amounts (1)
	(Unaudited)		(Unaud
SALES, NET	350,186	325,584	169,828
COST OF SALES	303,719	280,539 (*)	146,910
GROSS PROFIT	46,467	45,045	22,918
OPERATING COSTS AND EXPENSES			
Selling expenses	23,245	21,168	10,587
General and administative expenses	3,907	3,855 (*)	2,204
	27,152	25,023	12,791
OPERATING PROFIT	19,315	20,022	10,127
FINANCING EXPENSES, NET	(7,641)	(2,190)	(1,872)
OTHER INCOME (LOSS), NET	34	(31)(*)	34
INCOME BEFORE INCOME TAXES (TAX BENEFITS)	11,708	17,801	8,289
INCOME TAXES (TAX BENEFITS)	(761)	5,548	(1,876)

NET INCOME FOR THE PERIOD	12,469	12,253	10,165
BASIC EARNINGS PER ORDINARY SHARE			
EARNINGS PER ORDINARY SHARE (IN NIS)	12,469	12,253	10,165
Number of shares used in computation	1,000	1,000	1,000

(*) RECLASSIFIED.

(1) See Note 2B(1).
(2) Adjusted for changes in the exchange rate of the U.S. dollar as of December 31, 2003.

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

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NEUSIEDLER HADERA PAPER LTD.
CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(NIS in thousands)

	Share capital	Capital reserves	Retaine earning
Six months ended June 30, 2004 (Unaudited) (Reported Amounts (1))			
Balance - January 1, 2004	1	43,352	38,57
Net income for the period			12,46
Balance - June 30, 2004	1	43,352	51,04
Six months ended June 30, 2003 (Unaudited) (Adjusted Amounts (2))			
Balance - January 1, 2003	1	43,352	20,05
Net income for the period			12,25
Balance - June 30, 2003	1	43,352	32,30
Three months ended June 30, 2004 (Unaudited) (Reported Amounts (1))			

Balance - April 1, 2004	1	43,352	40,87
Net income for the period			10,16
Balance - June 30, 2004	1	43,352	51,04
Three months ended June 30, 2003 (Unaudited) (Adjusted Amounts (2))			
Balance - April 1, 2003	1	43,352	27,20
Net income for the period			5,10
Balance - June 30, 2003	1	43,352	32,30
Year ended December 31, 2003 (Adjusted Amounts (2))			
Balance - January 1, 2003	1	43,352	20,05
Net income for the year			18,51
Balance - December 31, 2003	1	43,352	38,57

(1) See Note 2B(1).
(2) Adjusted for changes in the exchange rate of the U.S. dollar as of December 31, 2003.

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

NEUSIEDLER HADERA PAPER LTD. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(NIS in thousands)

	Six months ended June 30,		Three mon
	2004	2003	2004
	Reported Amounts (1)	Adjusted Amounts (2)	Reporte Amounts (
	(Unaudited)		(
CASH FLOWS - OPERATING ACTIVITIES			

Net income for the period	12,469	12,253	10,16
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Income and expenses not involving cash flows:			
Depreciation and amortization	4,485	4,265	2,25
Deferred taxes, net	(843)	5,547	(1,73
Increase in liability for severance pay, net	--	12	-
Capital loss (gain) from sale of fixed assets	(34)	92	(3
Exchange rate differences of long-term bank loans	1,328	2,251	(6
Exchange rate differences of long-term capital notes to shareholders	1,453	--	(3
Changes in assets and liabilities:			
Decrease (increase) in trade receivables	(11,553)	16,056	(4,42
Decrease (increase) in other receivables	3,404	705 (*)	4,56
Decrease (increase) in inventories	4,408	3,932	(3,56
Increase (decrease) in trade payables	(18,349)	13	(12,04
Increase (decrease) in American Israeli Paper Mills Group, net	7,852	12,384	(2,27
Increase (decrease) in other payables and accrued expenses	999	(4,690)(*)	(1,20
Net cash provided by (used in) operating activities	5,619	52,820	(8,40
CASH FLOWS - INVESTING ACTIVITIES			
Acquisition of fixed assets	(4,440)	(3,472)	(2,19
Proceeds from sale of fixed assets	86	324	6
Net cash used in investing activities	(4,354)	(3,148)	(2,12
CASH FLOWS - FINANCING ACTIVITIES			
Short-term bank credit, net	3,158	(18)	3,15
Repayment of long-term loans	(7,569)	(7,424)	(1,30
Repayment of long-term capital notes to shareholders	(13,764)	(30,653)	(13,76
Net cash used in financing activities	(18,175)	(38,095)	(11,91
Increase (decrease) in cash and cash equivalents	(16,910)	11,577	(22,44
Cash and cash equivalents - beginning of period	31,678	49,089	37,21
Cash and cash equivalents - end of period	14,768	60,666	14,76

(*) Reclassified.

(1) See Note 2B(1).
(2) Adjusted for changes in the exchange rate of the U.S. dollar as of December 31, 2003.

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

NEUSIEDLER HADERA PAPER LTD. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2004

NOTE 1 - BASIS OF PRESENTATION

The unaudited condensed interim consolidated financial statements as of June 30, 2004 and for the six months and three months then ended ("interim financial statements") of Neusiedler Hadera Paper Ltd. ("the Company") and subsidiaries should be read in conjunction with the audited consolidated financial statements of the Company and subsidiaries as of December 31, 2003 and for the year then ended, including the notes thereto. In the opinion of management, the interim financial statements include all adjustments necessary for a fair presentation of the financial position and results of operations as of the dates and for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results to be expected on a full-year basis.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. GENERAL

The interim financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP") in Israel, in a condensed format in accordance with GAAP applicable to the preparation of interim period financial statements, including those under Standard No. 14, "Interim Financial Reporting".

B. NEW ACCOUNTING STANDARDS

The accounting principles applied in the preparation of these interim financial statements are consistent with those principles applied in the preparation of the most recent annual audited financial statements with the exception of the following:

(1) CESSATION OF FINANCIAL STATEMENT ADJUSTMENT AND CHANGE TO REPORTING IN REPORTED AMOUNTS - STANDARD NO. 12

(A) DEFINITIONS:

Adjusted Amount - historical nominal amount adjusted for changes in the exchange rate of the U.S dollar as of December 31, 2003, in accordance with Opinion No. 36 of the Institute of Certified Public Accountants in Israel.

Reported Amount - Adjusted Amount plus amounts in nominal terms added subsequent to December 31, 2003, and less amounts subtracted after that date.

NEUSIEDLER HADERA PAPER LTD. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. NEW ACCOUNTING STANDARDS (CONT.)

(1) Cessation of Financial Statement Adjustment and Change to Reporting in Reported Amounts - Standard No. 12 (cont.)

(B) In January 2004, Israeli Accounting Standard No. 12 "Cessation of Financial Statements Adjustment" came into effect. Following the initial implementation of Standard No. 12, commencing January 1, 2004, the Group ceased the presentation of its financial statements based on nominal historical cost adjusted for the changes in the exchange rate of the US Dollar in relation to the NIS. Effective with the interim financial statements as of March 31, 2004 and for the reporting periods thereafter, the Group's financial statements are prepared and presented in Reported Amounts.

Comparative figures included in the interim financial statements relating to December 31, 2003 and June 30, 2003 and for the year and six-month and three-month periods respectively then ended, are presented in Adjusted Amounts.

(C) REPORTED AMOUNTS ARE DETERMINED AS FOLLOWS:

Balance Sheet Items

Monetary items (items whose balance sheet amount reflects their current value or realization value at the balance sheet date) are presented at their nominal value as of the balance sheet date.

Non-monetary items are presented at their Adjusted Amounts plus additions and dispositions occurring during the reporting period. Additions made subsequent to December 31, 2003 and dispositions of items added subsequent to such date, are presented at their historical nominal value. Dispositions of items added prior to December 31, 2003 are presented at their Adjusted Amount.

Statement of Operation Items

Income and expenses reflecting transactions, and financial income and expenses, are presented at their nominal value.

Income and expenses deriving from non-monetary items (mainly depreciation and amortization) were presented in a manner corresponding to the presentation of the related non-monetary balance sheet item, as illustrated above.

(D) The amounts at which non-monetary items are presented in these interim financial statements do not necessarily represent their realization value or economic value, but solely their Reported Amount.

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NEUSIEDLER HADERA PAPER LTD. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. NEW ACCOUNTING STANDARDS (CONT.)

(2) AMORTIZATION OF GOODWILL - STANDARD NO. 20

In March 2004, the Israeli Accounting Standard Board issued Standard No. 20 "The Amortization Period of Goodwill". Standard No. 20 calls for the amortization of goodwill over its useful life, based on a systematic method that should reflect the estimated expected period in which the goodwill is to contribute economic benefits. The amortization period shall not exceed 20 years from the date on which the goodwill was initially recognized. Standard No. 20 is in effect for reporting periods commencing January 1, 2004, and its provisions are to be applied on a prospective basis. The implementation of Standard No. 20 did not, and is not expected to, affect the Group's financial position and results of operations.

C. Following are the changes in the representative exchange rate of the U.S. dollar vis-a-vis the NIS and in the Israeli Consumer Price Index ("CPI").

	REPRESENTATIVE EXCHANGE RATE OF THE DOLLAR (NIS PER $1)	CPI "IN RESPECT OF (IN POINTS)
AS OF:		
June 30, 2004	4.497	181.09
June 30, 2003	4.312	181.09
December 31, 2003	4.379	178.58
Increase (decrease) during the:	%	%
Six months ended June 30, 2004	2.7	1.4
Six months ended June 30, 2003	(9.0)	(0.5)
Three months ended June 30, 2004	(0.7)	1.5
Three months ended June 30, 2003	(8.0)	(1.3)
Year ended December 31, 2003	(7.6)	(1.9)

NOTE 3 - REDUCTION OF CORPORATE TAX RATE

In June 2004, the Israeli Knesset passed Amendment No. 140 to the Income Tax Ordinance, according to which the corporate income-tax rate would gradually be reduced from the current 36% to 30% by 2007 (2004-35%, 2005-34%, 2006-32%, 2007-30%). The effect of this change on the Group's current and deferred income tax provisions is reflected by a reduction of NIS 4,655 thousand in income tax expense for the six-month and three-month periods ended June 30, 2004.

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EXHIBIT 5

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
AS OF JUNE 30, 2004

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
AS OF JUNE 30, 2004

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The Board of Directors of
Hogla-Kimberly Ltd.

RE: REVIEW OF UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2004

Gentlemen:

At your request, we have reviewed the condensed interim consolidated financial statements ("interim financial statements") of Hogla-Kimberly Ltd. ("the Company") and its subsidiaries, as follows:

- Balance sheet as of June 30, 2004.
- Statements of operations for the six months and three months ended June 30, 2004.
- Statements of changes in shareholders' equity for the six months and three months ended June 30, 2004.
- Statements of cash flows for the six months and three months ended June 30, 2004.

Our review was conducted in accordance with procedures prescribed by the Institute of Certified Public Accountants in Israel. The procedures included, inter alia, reading the aforementioned interim financial statements, reading the minutes of the shareholders' meetings and meetings of the board of directors and its committees, and making inquiries with the persons responsible for financial and accounting affairs.

Since the review that was performed is limited in scope and does not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the aforementioned interim financial statements.

In performing our review, nothing came to our attention which indicates that material adjustments are required to the aforementioned interim financial statements for them to be deemed financial statements prepared in conformity with generally accepted accounting principles in Israel and in accordance with the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

Brightman Almagor & Co.

Certified Public Accountants
A Member Firm of Deloitte Touche Tohmatsu

Tel Aviv, August 5, 2004

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS
(NIS IN THOUSANDS)

	JUNE 30, 2 0 0 4 REPORTED AMOUNTS (1)	JUNE 30, 2 0 0 3 ADJUSTED AMOUNTS (3)
	(UNAUDITED)	
CURRENT ASSETS		
Cash and cash equivalents	80,369	9,838
Current maturities of long-term deposits	8,095	1,313
Trade receivables	261,448	208,967
Other receivables	19,310	12,905
Inventories	113,139	100,506
	482,361	333,529
LONG-TERM INVESTMENTS		
Long-term deposits	71,952	77,947
Capital note of shareholder	32,770	33,279
	104,722	111,226
FIXED ASSETS		
Cost	480,793	473,042
Less - accumulated depreciation	212,210	202,533
	268,583	270,509
OTHER ASSETS - GOODWILL	28,435	30,457
	884,101	745,721
CURRENT LIABILITIES		
Short-term bank credit	-	12,065
Current maturities of long-term bank loans	19,261	23,875
Trade payables	191,509	131,151
Other payables and accrued expenses	42,454	30,959
	253,224	198,050
LONG-TERM LIABILITIES		
Long-term bank loans	103,880	86,266
Deferred taxes	30,827	24,873
	134,707	111,139
MINORITY INTEREST	52,887	47,612
SHAREHOLDERS' EQUITY		
Share capital	28,788	28,788
Capital reserves	156,799	156,799
Translation adjustments relating to foreign held autonomous Subsidiary (2)	1,690	-
Retained earnings	256,006	203,333
	443,283	388,920

	884,101	745,721

(1) See Note 2B(1).
(2) See Note 2B(2).
(3) Adjusted for changes in the exchange rate of the U.S dollar as of December 31, 2003.

T. DAVIS	A. MAGID	A. BRENNER
Chairman of the Board of Directors	Financial Manager	Managing Director

Approval date of the interim financial statements: August 5, 2004.

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

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
(NIS IN THOUSANDS)

	SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDED JUNE 30,	
	2 0 0 4	2 0 0 3	2 0 0 4	2 0 0
	REPORTED AMOUNTS (1)	ADJUSTED AMOUNTS (2)	REPORTED AMOUNTS (1)	ADJUST AMOUNTS
	(UNAUDITED)			
Net sales	524,924	404,625	258,158	207,
Cost of sales	363,809	292,518	178,772	144,
GROSS PROFIT	161,115	112,107	79,386	62,
Selling expenses	94,782	60,581	49,139	(*)33,
General and administrative expenses	20,494	19,383	10,574	(*)9,
OPERATING PROFIT	45,839	32,143	19,673	20,
Financing income (expenses), net	(6,322)	9,592	(8,402)	11,
Other income, net	1,257	227	1,170	
INCOME BEFORE INCOME TAXES	40,774	41,962	12,441	31,

Income taxes	10,669	6,416	(189)	2,
INCOME AFTER INCOME TAXES	30,105	35,546	12,630	29,
Minority interest in earnings of Subsidiary	(1,493)	(3,354)	(331)	(2,
NET INCOME FOR THE PERIOD	28,612	32,192	12,299	26,
EARNINGS PER SHARE (IN NIS)	3.46	3.90	1.49	3
NUMBER OF SHARES USED IN COMPUTATION	8,263,473	8,263,473	8,263,473	8,263,

(*) Reclassified.

(1) See Note 2B(1).
(2) Adjusted for changes in the exchange rate of the U.S dollar as of December 31, 2003.

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

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(NIS IN THOUSANDS)

	SHARE CAPITAL	CAPITAL RESERVES	TRANSLATION ADJUSTMENTS RELATING TO FOREIGN HELD AUTONOMOUS SUBSIDIARY	RETAINED EARNINGS
SIX MONTHS ENDED JUNE 30, 2004 (UNAUDITED) (REPORTED AMOUNTS (1))				
Balance - January 1, 2004	28,788	156,799	-	227,394
Translation adjustments relating to foreign held autonomous Subsidiary (2)			1,690	
Net income for the period				28,612

Balance - June 30, 2004	28,788	156,799	1,690	256,006
SIX MONTHS ENDED JUNE 30, 2003 (UNAUDITED) (ADJUSTED AMOUNTS (3))				
Balance - January 1, 2003	28,788	156,799	-	171,141
Dividend paid				
Net income for the period				32,192
Balance - June 30, 2003	28,788	156,799	-	203,333

(1) See Note 2B(1).
(2) See Note 2B(2).
(3) Adjusted for changes in the exchange rate of the U.S dollar as of December 31, 2003.

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

HOGLA-KIMBERLY LTD.
CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(NIS IN THOUSANDS)

	SHARE CAPITAL	CAPITAL RESERVES	TRANSLATION ADJUSTMENTS RELATING TO FOREIGN HELD AUTONOMOUS SUBSIDIARY	RETAINED EARNINGS
THREE MONTHS ENDED JUNE 30, 2004 (UNAUDITED) (REPORTED AMOUNTS (1))				
Balance - April 1, 2004	28,788	156,799	2,124	243,707
Translation adjustments relating to foreign held				

autonomous Subsidiary (2)			(434)	
Net income for the period				12,299
Balance - June 30, 2004	28,788	156,799	1,690	256,006
THREE MONTHS ENDED JUNE 30, 2003 (UNAUDITED) (ADJUSTED AMOUNTS (3))				
Balance - April 1, 2003	28,788	156,799	-	176,604
Net income for the period				26,729
Balance - June 30, 2003	28,788	156,799	-	203,333
YEAR ENDED DECEMBER 31, 2003 (ADJUSTED AMOUNTS (3))				
Balance - January 1, 2003	28,788	156,799	-	171,141
Dividend paid				
Net income for the year				56,253
Balance - December 31, 2003	28,788	156,799	-	227,394

(1) See Note 2B(1).
(2) See Note 2B(2).
(3) Adjusted for changes in the exchange rate of the U.S dollar as of December 31, 2003.

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

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(NIS IN THOUSANDS)

	SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDE JUNE 30,	
	2 0 0 4	2 0 0 3	2 0 0 4	2 0

	REPORTED AMOUNTS (1)	ADJUSTED AMOUNTS (3)	REPORTED AMOUNTS (1)	ADJU AMOUN
	(UNAUDITED)			
CASH FLOWS - OPERATING ACTIVITIES				
Net income for the period	28,612	32,192	12,299	26
Adjustments to reconcile net income to net cash provided by operating activities (Appendix A)	10,651	(17,015)	5,504	(24
NET CASH PROVIDED BY OPERATING ACTIVITIES	39,263	15,177	17,803	2
CASH FLOWS - INVESTING ACTIVITIES				
Withdrawal of long-term bank deposits	-	7,882	-	7
Acquisition of fixed assets	(6,117)	(17,159)	(2,659)	(7
Proceeds from sale of fixed assets	1,827	531	1,328	
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(4,290)	(8,746)	(1,331)	
CASH FLOWS - FINANCING ACTIVITIES				
Dividend paid	-	(32,843)	-	
Long-term loans received	13,603	10,737	9,176	7
Repayment of long-term loans	(4,421)	(7,882)	-	(7
Short-term bank credit	(1,087)	12,065	-	(4
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	8,095	(17,923)	9,176	(4
TRANSLATION ADJUSTMENTS OF CASH AND CASH EQUIVALENTS OF FOREIGN HELD AUTONOMOUS SUBSIDIARY (2)	(39)	-	(164)	
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	43,029	(11,492)	25,484	(2
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	37,340	21,330	54,885	11
CASH AND CASH EQUIVALENTS - END OF PERIOD	80,369	9,838	80,369	9

(1) See Note 2B(1).
(2) See Note 2B(2).
(3) Adjusted for changes in the exchange rate of the U.S dollar as of December 31, 2003.

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

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
APPENDICES TO CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(NIS IN THOUSANDS)

	SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDE JUNE 30,	
	2 0 0 4	2 0 0 3	2 0 0 4	2 0
	REPORTED AMOUNTS (1)	ADJUSTED AMOUNTS (2)	REPORTED AMOUNTS (1)	ADJU AMO (
	(UNAUDITED)			
A. ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
INCOME AND EXPENSES NOT INVOLVING CASH FLOWS:				
Minority interest in earnings of Subsidiary	1,493	3,354	331	2
Depreciation and amortization	11,726	12,984	5,674	6
Deferred taxes, net	(688)	4,067	(1,131)	1
Gain from sale of fixed assets	(1,257)	(227)	(1,170)	
Effect of exchange rate differences, net	(555)	(2,986)	43	(2
CHANGES IN ASSETS AND LIABILITIES:				
Decrease (increase) in trade receivables	(29,861)	(26,744)	8,468	(26
Decrease (increase) in other receivables	(2,995)	(1,170)	449	(3
Increase in inventories	(20,113)	(14,081)	(12,099)	(2
Increase (decrease) in trade payables	36,683	(5,659)	8,342	(12
Net change in balances with related parties	11,504	14,993	5,275	15
Increase (decrease) in other payables and accrued expenses	4,714	(1,546)	(8,678)	(2
	10,651	(17,015)	5,504	(24
B. NON-CASH ACTIVITIES				
Acquisition of fixed assets on credit	3,363	4,366	2,729	4

(1) See Note 2B(1).
(2) Adjusted for changes in the exchange rate of the U.S dollar as of December 31, 2003.

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

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2004

NOTE 1 - BASIS OF PRESENTATION

The unaudited condensed interim consolidated financial statements as of June 30, 2004 and for the six months and three months then ended ("interim financial statements") of Hogla-Kimberly Ltd. ("the Company") and subsidiaries should be read in conjunction with the audited consolidated financial statements of the Company and subsidiaries as of December 31, 2003 and for the year then ended, including the notes thereto. In the opinion of management, the interim financial statements include all adjustments necessary for a fair presentation of the financial position and results of operations as of the dates and for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results to be expected on a full-year basis.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. GENERAL

The interim financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP") in Israel, in a condensed format in accordance with GAAP applicable to the preparation of interim period financial statements, including those under Standard No. 14, "Interim Financial Reporting".

B. NEW ACCOUNTING STANDARDS

The accounting principles applied in the preparation of these interim financial statements are consistent with those principles applied in the preparation of the most recent annual audited financial statements with the exception of the following:

(1) CESSATION OF FINANCIAL STATEMENT ADJUSTMENT AND CHANGE TO REPORTING IN REPORTED AMOUNTS - STANDARD NO. 12

(A) DEFINITIONS:

ADJUSTED AMOUNT - historical nominal amount adjusted for changes in the exchange rate of the U.S dollar as of December 31, 2003, in accordance with Opinion No. 36 of the Institute of Certified Public Accountants in Israel.

REPORTED AMOUNT - Adjusted Amount plus amounts in nominal terms added subsequent to December 31, 2003, and less amounts subtracted after that date.

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF JUNE 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. NEW ACCOUNTING STANDARDS (cont.)

(1) CESSATION OF FINANCIAL STATEMENT ADJUSTMENT AND CHANGE TO REPORTING IN REPORTED AMOUNTS - STANDARD NO. 12 (cont.)

(B) In January 2004, Israeli Accounting Standard No. 12 "Cessation of Financial Statements Adjustment" came into effect. Following the initial implementation of Standard No. 12, commencing January 1, 2004, the Group ceased the presentation of its financial statements based on nominal historical cost adjusted for the changes in the exchange rate of the US Dollar in relation to the NIS. Effective with the interim financial statements as of March 31, 2004 and for the reporting periods thereafter, the Group's financial statements are prepared and presented in Reported Amounts.

Comparative figures included in the interim financial statements relating to December 31, 2003 and June 30, 2003 and for the year and six-month and three-month periods respectively then ended, are presented in Adjusted Amounts.

(C) REPORTED AMOUNTS ARE DETERMINED AS FOLLOWS:

BALANCE SHEET ITEMS

Monetary items (items whose balance sheet amount reflects their current value or realization value at the balance sheet date) are presented at their nominal value as of the balance sheet date.

Non-monetary items are presented at their Adjusted Amounts plus additions and dispositions occurring during the reporting period. Additions made subsequent to December 31, 2003 and dispositions of items added subsequent to such date, are presented at their historical nominal value. Dispositions of items added prior to December 31, 2003 are presented at their Adjusted Amount.

Minority interest in a Subsidiary is presented based on the interim financial statements of that Subsidiary prepared according to the guidance of Standard No. 12.

STATEMENT OF OPERATION ITEMS

Income and expenses reflecting transactions, and financial income and expenses, are presented at their nominal value.

Income and expenses deriving from non-monetary items (mainly depreciation and amortization) were presented in a manner corresponding to the presentation of the related non-monetary balance sheet item, as illustrated above.

Minority interest in earnings of a Subsidiary is determined based on the interim financial statements of that Subsidiary prepared according to the guidance of Standard No. 12.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. NEW ACCOUNTING STANDARDS (cont.)

(1) CESSATION OF FINANCIAL STATEMENT ADJUSTMENT AND CHANGE TO REPORTING IN REPORTED AMOUNTS - STANDARD NO. 12 (cont.)

(D) The amounts at which non-monetary items are presented in these interim financial statements do not necessarily represent their realization value or economic value, but solely their Reported Amount.

(2) TRANSLATION OF FOREIGN OPERATIONS' FINANCIAL STATEMENTS - STANDARD NO. 13

(A) In January 2004, Israeli Accounting Standard No. 13 "Effect of Changes in Foreign Exchange Rates" came into effect. This Standard addresses the translation of transactions denominated in foreign currency, as well as the translation of financial statements of a foreign entity, for inclusion in the financial statements of the reporting company. Standard No. 13 supersedes Clarifications No. 8 and 9 to Opinion No. 36 of the Institute of Certified Public Accountants in Israel, which were nullified on the date on which Accounting Standard No. 12 came into effect, as described in (1) above.

(B) A FOREIGN ENTITY CLASSIFIED AS A FOREIGN HELD AUTONOMOUS SUBSIDIARY

o Following the implementation of Standard No. 13, commencing January 2004 goodwill derived from an investment made in another entity is to be treated as one of that entity's assets. Accordingly, the goodwill associated with the Group's investment in Ovisan (a Subsidiary located in Turkey) is translated to NIS at the closing rate, rather than at the exchange rate at the date in which said investment was made, as was previously required under the applicable accounting literature in effect through December 31, 2003.

- o Monetary and non-monetary assets and liabilities of the foreign entity are translated at the closing rate.

- o Operating and cash flow items of the foreign entity are translated, in general, by the average exchange rate for the reporting period, rather than by the closing rate as was previously required under the applicable accounting literature prior to the date in which Standard No. 13 came into effect (January 1, 2004).

- o All differences resulting from the translation of the foreign entity's financial statements by the method described above, are included in a separate component of shareholders' equity as "Translation adjustments relating to foreign held autonomous Subsidiary".

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

B. NEW ACCOUNTING STANDARDS (cont.)

(3) AMORTIZATION OF GOODWILL - STANDARD NO. 20

In March 2004, the Israeli Accounting Standard Board issued Standard No. 20 "The Amortization Period of Goodwill". Standard No. 20 calls for the amortization of goodwill over its useful life, based on a systematic method that should reflect the estimated expected period in which the goodwill is to contribute economic benefits. The amortization period shall not exceed 20 years from the date on which the goodwill was initially recognized. Standard No. 20 is in effect for reporting periods commencing January 1, 2004, and its provisions are to be applied on a prospective basis. The implementation of Standard No. 20 did not, and is not expected to, affect the Group's financial position and results of operations.

C. During the six months ended June 30, 2004, the representative exchange rate of the US Dollar vis-a-vis the NIS increased by 2.7%, the exchange rate of the Turkish Lira vis-a-vis the NIS increased by 3.1%, the Israeli Consumer Price Index increased by 1.4%. During the three months ended June 30, 2004, the representative exchange rate of the US Dollar vis-a-vis the NIS decreased by 0.7%, the exchange rate of the Turkish Lira vis-a-vis the NIS increased by 13.7%, the Israeli Consumer Price Index increased by 1.5%.

NOTE 3 - REDUCTION OF CORPORATE TAX RATE

In June 2004, the Israeli Knesset passed Amendment No. 140 to the Income Tax Ordinance, according to which the corporate income-tax rate would gradually be reduced from the current 36% to 30% by 2007 (2004-35%, 2005-34%, 2006-32%, 2007-30%). The effect of this change on the Group's current and deferred income tax provisions is reflected by a reduction of approximately NIS 4.3 million in income tax expense for the six-month and three-month periods ended June 30, 2004.