AMERICAN ISRAELI PAPER MILLS LTD
Form 20-F
June 28, 2004

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

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

For the fiscal year ended December 31, 2003

AMERICAN ISRAELI PAPER MILLS LTD.

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

Israel

(Jurisdiction of incorporation or organization)

P.O. Box 142, Hadera 38101, Israel

(Address of principal executive offices)

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

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

Securities registered or to be registered

pursuant to Section 12(g) of the Act:

None

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

pursuant to Section 15(d) of the Act:

None

(Title of Class)

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

3,968,295 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 |X| No |_|.

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

PART I

ITEM 1 - IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable to Annual Reports

ITEM 2 - OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable to Annual Reports

ITEM 3 - KEY INFORMATION

A. Selected Financial Data

The Company prepares its financial statements in accordance with Israeli GAAP. Israeli GAAP and U.S. GAAP vary in certain respects, as described in ITEM 18 below.

The following selected financial data is derived from the audited consolidated financial statements of American Israeli Paper Mills Ltd. ("AIPM" or the "Company"). The consolidated financial statements since 2000 were influenced significantly by the following transactions:

(a) The finalization of the joint venture with Neusiedler AG (NAG), an Austrian corporation, under which Neusiedler Hadera Paper (NHP), a company engaged in the manufacture of printing and writing paper was formed, effective January 1, 2000, and in which NAG holds 50.1% and AIPM holds 49.9% of the shares. Consequently, as of that date, the results of NHP's operations are no longer consolidated with the results of the Company. Since January 1, 2000, AIPM's share in NHP's results is included in the Company's statement of income under the item "Company's share in profits of associated companies." In the balance sheets, AIPM's share in the shareholders' equity of NHP is included in "Investments in associated companies."

(b) On March 31, 2000, Kimberly-Clark Corporation (KC) exercised the option that was granted to it in January 2000 and acquired from AIPM 0.2% of the shares in Hogla-Kimberly Ltd. in return for $5 million, thereby increasing its holdings in Hogla-Kimberly to 50.1%. Consequently, as of the second quarter of 2000, the results of Hogla-Kimberly are no longer consolidated with AIPM's consolidated results and AIPM's share in the results of operations of Hogla-Kimberly (49.9%) is included in the item "Company's share in the profits of associated companies." AIPM's share in the shareholders' equity of Hogla-Kimberly is included in the balance sheets under "Investments in associated companies."

The following table sets forth certain selected financial data with respect to the Company presented in New Israeli Shekel (NIS):

Five Fiscal Year Financial Summary/1/

According to Israeli GAAP
(In Thousands of Adjusted NIS Except Per Share Amounts) Year Ended December 31

Income Statement data:	2003	2002	2001	/2/2000	/2/199
Net Sales	465,092	455,775	469,709	745,946	1,665,6
Operating Income	46,584	36,454	20,526	63,212	156,8
Share in profits of associated companies, net	35,549	16,727	15,011	36,034	2,7
Net Income	60,047	37,460	34,447	/3/84,445	70,1
Selected balance sheet data:					
Total Assets	1,253,274	1,052,123	1,052,141	1,058,901	1,628,2
Working Capital	229,411	86,931	77,963	74,433	265,5
Investment in Marketable Securities and Fixed Term Bank Deposits					78,8
Property, Plant & Equipment (net)	325,641	325,837	311,168	311,872	539,6
Long-term Debt	268,052	70,257	79,611	93,510	141,0
Share Capital & Capital Surplus	215,317	215,316	215,316	215,316	215,8
Shareholders' Equity	614,230	650,950	634,472	603,200	572,9
Per Share Data:					
Shares Outstanding at End of Year	3,968,295	3,918,710	3,918,710	3,890,561	3,854,5
Net Income per NIS 1 Par value:					
Primary	1,494	947	873	2,137	1,7
Fully Diluted	1,494	947	873	2,137	1,7
Dividend per share	/4/25.12	/4/5.30	/4/-	13.79	69.

/1/ The financial statements of the Company are presented in New Israeli Shekels adjusted to reflect the changes in the purchasing power of Israeli currency (i.e., adjusted shekels). These adjustments were determined on the basis of the changes in the U.S. Dollar/Israel Shekel exchange rate (see page 5 and see Note 1 to Consolidated Financial Statements).

/2/ See above explanation of changes in the consolidated statements, resulting in the de-consolidation of NHP (as of January 1, 2000) and of Hogla-Kimberly (as of March 31, 2000).

/3/ The net income includes a material non-reoccurring gain in the year 2000, in the sum of NIS 20,087 thousands, originated from the changes in holdings described above.

/4/ Dividend for 2001, in the sum of NIS 5.30 per share ($1.21 per share) was declared in March 2002 and paid in April 2002.

Dividend for 2002, in the sum of NIS 6.31 per share ($1.44 per share) was declared in March 2003 and paid in April 2003.

Dividend paid in 2003 includes a special dividend for 2003 in the sum of NIS 18.81 per share ($4.29 per share).

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According to U.S. GAAP

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

	Year ended December 31				
Income Statement and balance sheet data:	2003	2002	2001	*2000	
Sales	481,491	492,990	451,152	705,884	1
Operating Income	53,688	53,751	25,723	61,189	
Share in profits of associated companies, net	20,972	27,464	22,993	37,967	
Net Income	/1/38,469	54,624	49,876	/1/79,853	
Total Assets	1,189,215	1,026,083	966,747	926,362	1
Working Capital	225,788	85,803	78,111	65,272	
Investment in Marketable Securities and Fixed Term Bank Deposits					
Property, Plant & Equipment (net)	283,831	279,077	245,949	243,656	
Long-term Debt	268,052	76,001	80,284	86,292	
Shareholders' Equity	550,354	602,675	569,920	512,988	
Per Share Data: (re-measured NIS)					
Shares Outstanding at End of Year	3,968,295	3,918,710	3,918,710	3,890,561	3
Net Income Per Share					
Basic	9.77	13.94	12.75	20.52	
Diluted	9.69	13.81	12.66	20.16	
Dividend per share	/2/25.55	/2/5.77	/2/-	12.84	

For further information about the effect of application of U.S. GAAP, see Item 18.

* See above explanation of changes in the consolidated statements, resulting in the de-consolidation of NHP (as of January 1, 2000) and of Hogla-Kimberly (as of March 31, 2000) and their becoming associated companies.

/1/ The net income includes a material non-reoccurring loss in the year 2003, in the sum of NIS 16,986 thousands, representing other than temporary impairment of an investment in an associated company. A material non-reoccurring gain was included in the year 2000, in the sum of NIS 18,500 thousands, originated from the changes in holdings described above.

/2/ Dividend for 2001, in the sum of NIS 5.77 per share ($1.21 per share) was declared in March 2002 and paid in April 2002.

Dividend for 2002, in the sum of NIS 6.61 per share ($1.44 per share) was declared in March 2003 and paid in April 2003.

Dividend paid in 2003 includes a special dividend for 2003 in the sum of NIS 19.04 per share ($4.29 per share).

Exchange Rates

The exchange rate between the NIS and U.S. dollar published by the Bank of Israel was NIS 4.555 to the dollar on May 31, 2004. The high and low exchange rates between the NIS and the U.S. dollar during the six months of December 2003 through May 2004, as published by the Bank of Israel, were as follows:

Month	High	Low
	1 U.S. dollar =	1 U.S. dollar =
December 2003	4.352 NIS	4.441 NIS
January 2004	4.371 NIS	4.483 NIS
February 2004	4.437 NIS	4.493 NIS
March 2004	4.483 NIS	4.535 NIS
April 2004	4.599 NIS	4.515 NIS
May 2004	4.634 NIS	4.555 NIS

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

Period	Exchange Rate
January 1, 1999 - December 31, 1999	4.154 NIS/$1
January 1, 2000 - December 31, 2000	4.067 NIS/$1
January 1, 2001 - December 31, 2001	4.219 NIS/$1
January 1, 2002 - December 31, 2002	4.736 NIS/$1
January 1, 2003 - December 31, 2003	4.512 NIS/$1

Forward Looking Statements

This Annual Report on Form 20-F contains "forward-looking" statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "1934 Act") (collectively, the "Safe Harbor Provisions"). These are statements that are not historical facts and include statements about our beliefs and expectations. These statements contain potential risks and uncertainties and actual results may differ significantly. Forward-looking statements are typically identified by the words "believe", "expect", "intend", "estimate" and similar

expressions. Such statements appear in this Annual Report and include statements regarding the intent, belief or current expectation of the Company or its directors or officers. Actual results may differ materially from those projected, expressed or implied in the forward-looking statements as a result of various factors including, without limitation, the factors set forth below under the caption "Risk Factors" (we refer to these factors as "Cautionary Statements"). Any forward-looking statements contained in this Annual Report speak only as of the date hereof, and we caution potential investors not to place undue reliance on such statements. We undertake no obligation to update or revise any forward-looking statements. All subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the Cautionary Statements.

B. Capitalization and indebtedness

Not applicable.

C. Reason for the offer and use of proceeds

Not applicable.

D. Risk factors

Risks relating to the Company's Operations in Israel

Security, economic and political conditions in Israel may affect the results of the Company's operations.

The Company is incorporated under Israeli law and our principal offices are located in Israel. Political, economic and security conditions in Israel directly affect our operations. Since the establishment of the State of Israel in 1948, various armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. Israel signed a peace treaty with Egypt in 1979 and a peace treaty with Jordan in 1994. As of the date of this annual report, Israel has not entered into any peace agreement with Syria or Lebanon. Since 1993 several agreements have been signed between Israel and the Palestinians, but a final agreement has not been achieved. Since October 2000, there has been a marked increase in hostilities between Israel and the Palestinians, which have adversely affected the peace process, placed the Israeli economy under significant stress, and have negatively influenced Israel's relationship with several Arab countries.

Competition

Most of the Group's products are exposed to competition with local and imported products. The said competition might have influence over the selling prices and the Group's market share in its different fields of operations, especially in times of recession.

Raw materials prices

The Group is exposed to changes in raw materials prices, especially from imports (mainly pulp and fluff). Because of the small size of the Israeli market and the influence of the competing imports over selling prices, an increase in raw materials prices might erode the Group's gross margin and by that to decrease the Group's profitability.

Dependency on energy prices

The Group's operations are highly dependent on energy consumption and thereby are highly effected by fuel prices. The Group's profit may be adversely effected in case of high increase in fuel prices.

Inflation

A high inflation rate can, in the long run affect the Group's wage expenses, since these expenses might be influenced by the changes in the Inflation rate.

An income tax reform in Israel may affect the Company's shareholders and the Company

Effective as of January 2003, the Israeli Parliament has enacted a wide ranging reform of the Israeli income tax system. These tax reforms have resulted in significant changes to the Israeli tax system. (See Note 7e to the financial statements attached- Reform of the Israeli tax system).

Risks relating to our operations in Turkey

The company is subject to various risks related to the operations in Turkey, where Hogla-Kimberly operates through its subsidiary, Ovisan, resulting from the economic instability in Turkey, and the high inflation rates. This economic instability may effect the purchasing power in Turkey and together with the volatility of the Turkish currency that may continue, might have a material adverse effect on the operations of Ovisan.

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

ITEM 4 - INFORMATION ON THE COMPANY

A. History and Development of the Company

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

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

The need to meet future challenges caused the Company to reorganize its operations into separate business units. Effective as of December 31, 1995, the Company's machines used in the manufacture of packaging and printing and writing paper were transferred to a wholly-owned subsidiary of the Company, and the Company's machines used in the manufacturing of printing and writing papers were sold in 2000 to NHP. The Company's machines used in the manufacture of household papers were sold to Hogla-Kimberly.

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

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

management was assigned.

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

1. In July 1992, the Group purchased 25% of the shares of Carmel Container Systems Ltd. ("Carmel"), a leading Israeli designer, manufacturer and marketer of containers, packaging materials and related products. As of May 31, 2004, the Group held 26.5% of the shares of Carmel. Other major shareholders in this company are Rand Whitney Inc. (35.46%) and Ampal Ltd. (21.75%).

2. In 1996, KC acquired, 49.9% of the shares of Hogla, a wholly-owned subsidiary of the Company and a leading Israeli consumer products company, which was then renamed Hogla-Kimberly Ltd. The partnership was intended to expand the local production base in Israel, in order to serve both local and regional demand, and to offer Hogla-Kimberly access to international markets. In 1999, Hogla-Kimberly purchased Ovisan, a Turkish manufacturer and marketer of diapers and paper products.

In January 2000, AIPM and KC entered into an agreement pursuant to which AIPM granted KC an option to acquire from AIPM an additional 0.2% of the Hogla-Kimberly equity. On March 31, 2000, KC exercised the option thereby increasing its holdings in Hogla-Kimberly to 50.1%.

3. In February 2000, effective January 1, 2000, AIPM entered into a joint venture agreement with NAG, pursuant to which NAG acquired 50.1% of AIPM's printing and writing paper operations. The printing and writing paper operation was separated from AIPM upon the completion of this transaction and was sold to NHP, a subsidiary that was established for this purpose. In return for the acquisition of 50.1% of the shares of the new company, NAG paid to NHP $10 million in cash and lent to NHP $10 million.

NAG is a member of Mondi Europe, a group of companies with many years of experience in the paper industry, wide global deployment and annual production capacity in excess of 5 million tons of various grades of paper and pulp. The establishment of the joint venture is expected to result in a doubling of the paper production capacity in Israel within the coming years, while relying on the NAG marketing network for the export of 50,000 to 80,000 tons of printing and writing paper annually.

4. Amnir Recycling Industries Ltd. (a wholly owned subsidiary of AIPM) acquired in 1997 and 1998 20% and 10%, respectively, of Cycle-Tec Recycling Technologies Ltd. (Cycle-Tec), a research and development company which develops a process for manufacturing of a high strength / low cost composite material, based on recycled post consumer plastic and paper treated with special chemical additives, for a total of $150,000. In 1999, Amnir acquired additional shares of Cycle-Tec for $80,000. In March 2000 and in July 2001, Amnir acquired additional shares of Cycle-Tec for $93,243 and $100,000, respectively. As of May 31, 2004, Amnir owned 30.18% of Cycle-Tec.

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

6. In March 2000, AIPM and CGEA, on the one hand, and Tamam Integrated Recycling Industries Ltd. (T.M.M) and its controlling shareholders, on the other hand, entered into an agreement

pursuant to which AIPM and CGEA acquired through a joint company from T.M.M.'s controlling shareholders 62.5% of the share capital of T.M.M., a leading Israeli company in the solid waste management field, for $15.85 million. Simultaneously therewith, 100% of Amnir Environment's shares were transferred to T.M.M. in return for an allocation of 35.3% of the shares of T.M.M to the shareholders of Amnir Environment. Following such transaction, AIPM and CGEA owned together, 75.74% of the shares of T.M.M. In August and September 2000, T.M.M. acquired approximately 3% of its own share capital. In December 2001, and in August 2003 AIPM and CGEA acquired additional shares of T.M.M.'s share capital through a joint company (Barthelemi Holdings Ltd.), resulting in an increase in the ownership of shares of T.M.M. by AIPM and CGEA to 88.02% as of May 31, 2004.

Capital Expenditures and Divestitures

2003:

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

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

2002:

The investments in fixed assets totaled about NIS 46.8 million (about $10.7 million). These investments included:

- The payment of approximately NIS 26.8 million ($6.1 million) in connection with the extension of the lease for the Shafir Compound, from the Tel Aviv Municipality, for an additional period ending during 2059.
- The completion of the investment in the anaerobic installation in Hadera, Israel as part of the Group's environmental operations. The additional investment in 2002 totaled NIS 3.5 million ($0.8 million).
- Investments totaling NIS 16.6 million ($3.8 million) in the renovation of manufacturing and transport equipment. 2001:

2001:

The investments in fixed assets in 2001 totaled about NIS 30.0 million (about $6.9 million). These investments included:

- An initial investment of NIS 4.0 million ($0.9 million) in an anaerobic plant in Hadera, Israel as part of the Group's environmental operations.
- Investments totaling NIS 26.1 million ($6.0 million) in the renovation of equipment and transportation.

B. Business Overview

I. The Group's Operations and Principal Activities

The Group, through its subsidiaries and main affiliated companies, produces and markets a wide variety of paper types such as coated and uncoated printing and writing paper, packaging and wrapping paper, tissue paper for personal care and household use and various grades of board.

The Group is also engaged in the conversion of household paper products into consumer products such as bathroom tissue and paper towels, napkins and facial tissue; the production and marketing of disposable baby diapers, adult incontinence, absorbent products and feminine hygiene products; the production and marketing of paperboard for the packaging industry; the production and marketing of corrugated boxes; and the marketing of office supplies.

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The collection and recycling of a variety of waste materials is also a major Group activity, with waste paper used in the production of paper and board. In addition, the Group is engaged in plastics and solid waste recycling for industrial and agricultural applications.

In 1989, the Company was declared a monopoly in the field of paper production and marketing in reels and sheets by Israel's Authority for Restricted Trade Practices, but this declaration was partially revoked in 1998 with respect to printing and writing paper. Until January 2001, some of the Group's products, such as printing and writing paper (in reels and sheets) were under price control. In January 2001, these restrictions were cancelled.

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

- Grades of Paper and Board

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

- Packaging Products

Folding cartons, Corrugated containers and pallets and Solid board containers.

- Household Products

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

- Industrial, Hospital and Food Service Products

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

- Other Products

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

Sales and Marketing

The Group's paper grades are sold to publishers, major printers, converters, and wholesalers some of which are part of the Group, and independent and other direct customers.

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

The Group's main marketing strategy has the following objectives:

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

(b) Increasing cut-size paper exports of NHP significantly, through the marketing network of NAG in Europe and worldwide.

(c) Meeting the growing and changing requirements of the market by adding new paper grades and improving the quality of existing grades to meet the technological changes required by new printing equipment.

(d) Exploring new business opportunities and increasing the range of its products.

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

** The financial statements of the Company are presented in NIS adjusted to reflect the changes in the purchasing power of Israeli currency (i.e., adjusted NIS). These adjustments were determined on the basis of the changes in the U.S. Dollar/NIS exchange rate (see Item 3 - "Key Information - Selected Financial Data" and Note 1 to the Company's Consolidated Financial Statements).

Paper Manufacturing and recycling /1/			Marketing Office Supplies /2/			Total		
2003	2002	2001	2003	2002	2001	2003	2002	200
332.1	314.6	316.4	133.0	141.1	153.3	465.1	455.8	469.

The above mentioned segments include the following activities:

1. Paper manufacturing and recycling - collecting and recycling of paper waste; manufacturing and marketing paper, mainly packaging paper, which rely mainly on paper waste as raw materials.

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

Raw Materials

The raw materials required for paper and board production are different wood pulps, secondary fibers (i.e., waste paper) and various chemicals and fillers. Pulp is imported primarily from major suppliers in Scandinavia, the United States, Portugal, Austria, Germany, Brazil and South Africa on a regular basis. The bulk of the pulp tonnage purchased is secured by revolving long-term agreements renewed on a yearly basis. Most of the waste paper and the fillers are acquired from Israeli sources.

About 65% of the fibers required in paper production of the Group (including printing and writing paper and household products) come from waste paper, which in some paper grades, is used in lieu of relatively more expensive pulp.

Since 1996, the Company has been using precipitated calcium carbonate (PCC), a special pigment used for filling and coating paper in order to improve quality. The PCC is manufactured in a plant constructed and operated by Specialty Minerals Israel Ltd. (SMI), which is a wholly owned subsidiary of Minerals Technologies Inc., a U.S. company.

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

Competition

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

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

C. Organizational Structure

Clal Industries and Investment Ltd. (Clal) owns 32.54% of the Company. Discount Investment Corporation Ltd. (DIC) owns 18.39% of the Company. Clal and DIC agreed to coordinate and pool their voting power in the Company. IDB Development Corporation Ltd. owns 64.7% of DIC and 63.6% of Clal.

Significant subsidiaries and associated companies

Name of the Company	Ownership and Voting	Country Incorporat

Subsidiaries		
Amnir Recycling Industries Ltd.	100.00%	Israel
Graffiti Office Supplies & Paper Marketing Ltd.	100.00%	Israel
Attar Marketing Office Supplies Ltd.	100.00%	Israel
American Israeli Paper Mills Paper Industry (1995) Ltd.	100.00%	Israel
Associated Companies		
Hogla-Kimberly Ltd.	49.90%	Israel
Hogla-Kimberly Marketing Ltd.	49.90%	Israel
Shikma Ltd.	49.90%	Israel
Ovisan Sihhi Bez Sanai Ve Ticavet A.S	49.90%	Turkey
Hogla-Kimberly Holdings A.S	49.90%	Turkey
Neusiedler Hadera Paper Ltd.	49.90%	Israel
Neusiedler Hadera Paper Marketing (1999) Ltd.	49.90%	Israel
Grafinir Paper Marketing Ltd.	49.90%	Israel

Name of the Company	Ownership and Voting	Country Incorporat
Mitrani Paper Marketing 2000 (1998) Ltd.	49.90%	Israel
Yavnir (1999) Ltd.	49.90%	Israel
Barthelemi Holdings Ltd.	33.91%	Israel
T.M.M. Integrated Recycling Industries Ltd. (direct and indirect)	41.60%	Israel
Carmel Containers Systems Ltd.	26.25%	Israel
C.D. Packaging Systems Limited (direct and indirect)	63.20%*	Israel

D. Property, Plants and Equipment

The Group's principal executive offices and manufacturing and warehouse facilities are located on approximately 69 acres of land in Hadera, Israel, which is 31 miles south of Haifa, a major seaport, and 28 miles north of Tel Aviv. The Company owns 51 acres, and 18 acres are leased from the Israel Land Administration, an agency of the State of Israel, under several leases. The lease periods terminate during future years until 2050.

The Group's facilities in Hadera are housed in two-story plants and several adjoining buildings. Approximately 1,200,000 square feet are utilized for manufacturing, storage and sales and administrative offices. An additional plant is located in renovated modern buildings on a 10 acre plot in Afula, a city in northern Israel. The Molett plant is located in Nahariya, in northern Israel, on approximately 6 acres. In September 2002, the Group signed an agreement with the Tel Aviv Municipality for the extension of the lease period of the real estate lease for a plant in Tel Aviv, that was shut down at the end of 2002, until the year 2059, in return for the payment of $6.2 million by the Group. The Group is investigating several options for using the land.

The Group also owns a warehouse containing 50,000 square feet situated on three acres in the Tel Aviv area, and a two acre parcel in the industrial zone of Bnei Brak, near Tel-Aviv, which is used for waste paper collection. Hogla-Kimberly headquarters and logistic center which are rented under a long term lease agreement are located in a new modern site in Zrifin, near Tel-Aviv, covering an area of 430,550 square feet., with 188,370 square feet of buildings.

The Group sold at the end of 2002 the land and buildings it owned in the city of Ashdod, in southern Israel, and at the beginning of 2003 the Group sold 8 of 10 apartments it owned in Hadera.

The Group rents plant and office facilities in Migdal Haemek and Caesarea and additional warehouses and waste paper collection sites throughout Israel.

The machinery, equipment and assets of the Company are free of any mortgage, lien, pledge or

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* The holding in voting shares is 63.05%

other charge or security interest.

The Group owns six paper machines that are used in the manufacture of various grades of paper and board. Most of the paper production facilities of the Company and its subsidiaries are located in Hadera where it operates five machines with a combined production capacity of over 310,000 tons per year. The Group owns another machine in Nahariya which produces tissue paper with production capacity of 20,000 tons per year.

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

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

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

Environmental Regulation Matters

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

In 2003 the Group recorded a significant improvement in sewage waste quality, following the conclusion of the running-in and the optimization of its anaerobic process facility and a significant reduce in sewage quantity.

The Company is investing money and efforts in environmental projects, while placing emphasis on separating industrial effluent streams by type and curtailing their volume. This effort includes educating the employees on environmental matters.

The Group's achievements in the environmental protection during the last few years were acknowledged at the end of 2002, when the paper mills at the Hadera site won the Shield for Environmental Excellence in Industry Award granted by the Israeli Ministry of the Environment. In 2003 all plants at the main Hadera site passed successfully various environmental inspections.

ITEM 5 - OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Critical Accounting Policies and Estimates

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The Company's discussion and analysis of the financial condition and operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in Israel (for information as to the reconciliation between U.S. and Israeli GAAP, see Item 18). The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

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

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

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

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

Inventories

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

Allowance for doubtful accounts

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

Contingencies and risks involving the business

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

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

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Deferred income taxes

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

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

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

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

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

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

Recently issued pronouncement - "Discontinuance of Adjusting Financial Statements for Inflation"

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

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

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The implementation of Standard No. 12 will mainly affect the financial income and expenses items.

A. Operating Results

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

Amount and Percentage Increase (Decrease)
New Israeli Shekels (in thousands)/1/

	Year ended 12/31/03 v. year ended 12/31/02		Year year
	Changes NIS	%	Changes NIS

Net sales	9,317	2.0	(13,934
Cost of sales	(1,586)	(0.4)	(20,053
Gross profit	10,903	11.9	6,119
Selling, administrative and general expenses	774	1.4	(9,809
Income from ordinary operations	10,129	27.8	15,928
Financial income (expenses) - net	(13,001)	435.3	(8,090
Other income (loss)	4,551		(4,037
Income before taxes on income	1,679	5.5	3,801
Taxes on income	2,086	21.3	(2,504
Income from operation of the Company and the consolidated subsidiaries	3,765	18.2	1,297
Share in profits of associated companies	18,822	112.5	1,716
Net income	22,587	60.3	3,013

The statements of income for the years ended December 31, 2003, 2002 and 2001 are presented in adjusted New Israeli Shekels as explained in Note 1 to the Consolidated Financial Statements. The changes in purchasing power of New Israeli Shekels were determined on the basis of changes in the U.S. dollar/New Israeli Shekel exchange rate. All figures in the adjusted statements of income are expressed in terms of December 31, 2003 shekels (1 U.S. $= NIS 4.379).

The number of New Israeli Shekels which were exchangeable for 1 U.S. dollar increased (decreased) over the prior year by 9.3%, 7.3% and (7.6%) in 2001, 2002 and 2003, respectively.

/1/ The financial statements of the Company are presented in New Israeli Shekels adjusted to reflect the changes in the purchasing power of Israeli currency (i.e., adjusted shekels). These adjustments were determined on the basis of the changes in the U.S. Dollar/Israel Shekel exchange rate (see page 5 and see Note 1 to Consolidated Financial Statements).

The adjusted NIS figures have been translated into U.S. dollars using the representative exchange rate of the U.S. dollar on December 31, 2003 ($1 = NIS 4.379).

The translated U.S. dollar figures should not be construed as a representation that the Israeli currency amounts actually represent, or could be converted into U.S. dollars.

See Note 1 to the financial statements attached and Item 18 for anticipated effect of adoption of accounting pronouncements that have been issued but are not yet required to be adopted.

2003 compared to 2002

I. Overview of Results of Operations

1. Consolidated Data

Sales in 2003 totaled NIS 465.1 million, as compared with NIS 455.8 million in 2002 ($106.2 million as compared with $104.1 million).

The operating profit in 2003 amounted to NIS 46.6 million, as compared with NIS 36.5 million in 2002 ($10.6 million, as compared with $8.3 million).

The financial expenses in 2003 amounted to NIS 16.0 million, as compared with NIS 3.0 million in 2002 ($3.7 million, as compared with $0.7 million). The increased financial expenses are primarily attributed to the impact of the revaluation on the net monetary balances (see analysis below - Chapter III, Section 5).

2. Net Income and Earnings Per Share

Net profit in 2003 amounted to NIS 60.0 million, as compared with NIS 37.5 million in 2002 ($13.7 million, as compared with $8.6 million).

Net profit in 2003 includes NIS 1.0 million ($0.2 million) in net capital gains, resulting from the sale of apartments that were owned by the Company and that served Company employees in the past, coupled with a NIS 1.6 million ($0.4 million) tax benefit, on account of the exercise of employee option warrants. The net profit in 2002 included approximately NIS 0.4 million ($0.1 million) in non-recurring income, net, from the realization of assets and from taxes on account of preceding years.

The Earnings Per Share in 2003 amounted to NIS 1,494 per NIS 1 par value ($3.41 per share), as compared with NIS 947 per NIS 1 par value ($2.16 per share) in 2002.

The return on shareholders' equity amounted to 9.2% in 2003, as compared with 5.9% in 2002.

II. The Business Environment

The severe recession that has been plaguing the Israeli economy over the past several years, as part of the global economic crisis, has been accompanied by security events and terrorist attacks and has resulted in negative growth of the Israeli economy during this period, along with a considerable rise in unemployment, lower domestic demand (due to the lower purchasing power of the public and due to the significant decrease in incoming tourism), coupled with a significant escalation in competition in all sectors.

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The said global economic crisis - especially in Europe - has also affected the paper industry and resulted in a supply surplus and consequently in continuing the importing of low-priced paper into Israel. These imports have led to increased competition, especially in fine paper, accompanied by a decrease in selling prices. As a result of the rise in pulp prices during the same period, the margin between selling prices and pulp prices has decreased as well.

Pulp prices rose by an average of approximately 10% in 2003, as compared with 2002. These prices are estimated to continue to rise moderately in the first half of 2004.

Despite the difficult business environment, the Group has managed to maintain its operations at full capacity throughout this period, while expanding its operations in overseas markets.

Signs of a recovery in the Israeli economy began appearing toward the end of 2003, as reflected by low, albeit positive growth (although no growth was recorded in 2003 in per capita terms), coupled with a certain positive change in the business atmosphere in the economy.

The exchange rate of the NIS compared to the U.S. dollar was revaluated by 7.6% in 2003, as compared with a devaluation of 7.3% in 2002.

Inflation was negative in 2003, at -1.9%, as compared with an inflation rate of 6.5% in 2002.

The negative inflation enabled the Bank of Israel to significantly lower the interest rates, by approximately 3.7% in 2003. This has led to a lowering of the Prime rate at the commercial banks in 2003, from 10.4% to 6.7%.

III. Analysis of Operations and Profitability

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

1. Sales

The consolidated sales totaled NIS 465.1 million in 2003, as compared with NIS 455.8 million in 2002 ($106.2 million as compared with $104.1 million).

The 2002 consolidated sales included a sum of NIS 7.9 million ($1.8 million) of sales derived from the Shafir operation that was discontinued as of September 2002.

The NIS 17.2 million ($3.9 million) increase in sales - net of Shafir's sales in 2002 - originated primarily from a quantitative increase of approximately 6% in packaging paper.

2. Cost of Sales

The cost of sales amounted to NIS 362.2 million in 2003 -77.9% of sales - as compared with NIS 363.8 million -79.8% of sales - in 2002 ($82.7 million, as compared with $83.1 million).

The gross margin as a percentage of sales reached 22.1% in 2003, as compared with 20.2% in 2002.

The improved gross margin in 2003 compared to 2002, was achieved due to the Company's ongoing improvements and increased efficiency. The said efficiency was expressed by the increased output of the machines, by less work hours per ton and a decrease in the consumption of energy per ton produced, coupled with the continued reduction of various manufacturing costs.

The improved gross margin was achieved despite a sharp increase in energy prices, following an average increase of approximately 21% in fuel oil prices compared to 2002 (energy expenses grew by NIS 4.8 million ($1.1 million), also on account of the transition to low-sulfur fuel oil, due to the demands of the Ministry of the Environment). Furthermore a 23% increase was recorded in water prices.

Labor Wages

The labor wages recorded in the cost of sales, in the selling expenses and in the general and administrative expenses, totaled NIS 137.0 million in 2003, as compared with NIS 125.5 million in 2002 ($31.3 million as compared with $28.7 million).

The increase in labor expenses originated primarily from an increase in wages in dollar terms, due to the change in the average exchange rate between the two periods, coupled with the updating of wages, to prevent a decrease in real wages as a result of the rise in the CPI in 2002 (as mentioned above, the CPI rose by 6.5% in 2002).

The said increase in wages was partially offset by the decrease in personnel (as a result of efficiency measures and the shutting down of Shafir).

3. Selling, General and Administrative Expenses

The selling, general and administrative expenses (including wages) amounted to NIS 56.3 million in 2003 (12.1% of sales), as compared with NIS 55.5 million (12.2% of sales) in 2002 ($12.9 million as compared with $12.7 million).

The increase in selling, general and administrative expenses originated primarily from an increase in NIS-denominated expenses (including wages), in dollar terms (due to the low dollar exchange rate, as compared with 2002).

4. Operating Profit

The operating profit amounted to NIS 46.6 million - 10.0% of sales - in 2003, as compared with NIS 36.5 million - 8% of sales - in 2002 ($10.6 million, as compared with $8.3 million).

5. Financial Expenses

The financial expenses totaled NIS 16.0 million in 2003, as compared with NIS 3.0 million in 2002 ($3.7 million as compared with $0.7 million).

The Company possesses a surplus of NIS-denominated financial liabilities over financial assets (consisting primarily of notes and short-term bank credit, denominated in NIS). Consequently, whereas a devaluation serves to lower the financial expenses, a revaluation leads to an increase in the financial expenses.

Elevated financial expenses were recorded by the Company in 2003, originating primarily from the dollar revaluation, whereas in 2002, the devaluation led to lower financial expenses (a difference of 15% between the current year and in 2002).

It should nevertheless be stated that the cash-flow-related financial expenses in 2003 (interest expenses net of revenues) amounted to NIS 8.8 million ($2.0 million), similar to the amount paid in 2002.

6. Taxes on Income

The expenditure for taxes on income totaled NIS 7.7 million in 2003, as compared with NIS 9.8 million in 2002 ($1.8 million as compared with $2.2 million).

The principal factor behind the decrease in tax expenses in 2003, as compared with 2002, is the difference between the real-term revaluation in 2003 and the real term devaluation in 2002. This devaluation served to decrease the protection on shareholders' equity (measured for tax purposes according to the changes in the Consumer Price Index) and increased the expenditure on taxes in 2002. A high real-term revaluation was recorded in 2003, that contributed to lowering the tax expenditure.

7. Profit After Taxes and Before the Company's Share in the Earnings of Associated Companies

The profit after taxes and before the Company's share in the earnings of associated companies amounted to NIS 24.5 million in 2003, as compared with NIS 20.7 million in 2002 ($5.6 million, as compared with $4.7 million).

8. Company's Share in Earnings of Associated Companies

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

The Company's share in the earnings of associated companies amounted to NIS 35.5 million in 2003, as compared with NIS 16.7 million in 2002 ($8.1 million, as compared with $3.8 million).

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

- The Company's share in the net profit of NHP grew by NIS 1.2 million ($0.3 million) as a result of the continuing improvement in operating profitability, that was attained primarily due to efficiency measures and the reorganization of operations and marketing at the division. The improved profitability was impaired by a certain decrease in operating profit in the second half of 2003, as compared with the preceding quarters of 2003 (due to the lower margins and the competition against imports), coupled with the increase in financial expenses, primarily on account of the repayment of some of the loans that were received from the shareholders when the Company was founded.

- The Company's share in the net earnings of Hogla-Kimberly grew by NIS 19.0 million ($4.3 million), as a result of the improved operating profit at Hogla-Kimberly as compared with 2002. This is primarily attributed to the improved efficiency in logistics following the relocation to the central warehouse in Tzrifin and the gradual transition toward the manufacturing of HUGGIES diapers in Afula. Efficiency measures were also initiated at Ovisan (the subsidiary in Turkey) and were expressed by a significant improvement in the operating profit. The net profit also grew compared with 2002 on account of financial revenues that were recorded at Hogla-Kimberly and at Ovisan in 2003, due to the effects of the revaluation (in the NIS and in the Turkish lira, as compared with the U.S. dollar).

- The Company's share in the net profit of the Carmel Group grew by NIS 2.5 million ($0.6 million) due to the transition from an operating loss in the preceding quarters, to an operating profit starting with the third quarter of 2003. This improvement is attributed to the comprehensive efficiency measures that are being initiated by Carmel.

- The Company's share in the net profit of TMM decreased by NIS 2.3 million ($0.5 million), as a result of higher financial expenses in 2003, as compared with 2002. This is attributed to an increase in bank credit (as a result of an increase in customer debts primarily local municipalities coupled by strategic investments in the development of the Company that were financed using bank credit) and to the real-term interest in CPI terms, that was higher in 2003 than it was in 2002.

IV. Liquidity and Investments

1. Cash Flows

The cash flows from operating activities amounted to NIS 52.7 million in 2003, as compared with NIS 77.2 million in 2002 ($12.0 million, as compared with $17.6 million). The decrease in the cash flows from operating activities in 2003, despite the improvement in the net profit, originated primarily from the increase in operating working capital in 2003, that is non-recurring for the most part. This increase stemmed primarily from the increase in customer debts, on the one hand, and from the decrease in the supplier debt, on the other hand (originated primarily from a change in the days of payables credit, as part of price update agreements).

2. Investments in Fixed Assets

The investments in fixed assets amounted to NIS 29.2 million in 2003, as compared with NIS 46.8 million in 2002 ($6.7 million, as compared with $10.7 million). The investments in 2003 included investments in environmental issues (approximately $0.6 million), an investment in expanding the output of the packaging paper machine (approximately $0.6 million), as well as investments in equipment, transportation and IT.

3. Financial Liabilities

The long-term liabilities (including current maturities) amounted to NIS 275.0 million at December 31, 2003, as compared with NIS 77.2 million at December 31, 2002 ($62.8 million as compared with $17.6 million).

Most of the increase in the long-term liabilities is attributed to loans raised through notes (Series 2) from institutional entities, in the amount of NIS 200 million ($45.6 million), at December 21, 2003.

Some of the proceeds from the notes were used for the repayment of short-term credit.

The short-term credit balance totaled NIS 144.6 million at December 31, 2003, as compared with NIS 104.0 million at December 31, 2002 ($33.0 million, as compared with $23.8 million).

The increase in 2003 in the credit balances (which reached at the maximum point about NIS 200 million) originates primarily from the dividends paid to the shareholders (totaling NIS 100 million, or $22.6 million), as well as from the repayment of long-term debts. The increase in the credit balances was partially offset by dividends and by the repayment of a loan from associated companies, coupled with part of the proceeds from the notes, as stated above.

Most of the credit for financing the Company's operations is denominated in NIS. Due to the said increase in liabilities, the surplus of net financial liabilities denominated in NIS grew from NIS 104.9 million at December 31, 2002 to NIS 159.8 million at December 31, 2003 (from $24.0 million to $36.5 million).

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2002 compared to 2001

I. Overview of Results of Operations

The following are principal figures regarding the Company's operations. For a detailed analysis, see paragraph III - "Analysis of Operations and Profitability" below.

1. Consolidated Data - The Company and its subsidiaries

The consolidated sales amounted to NIS 455.8 million in 2002, as compared with NIS 469.7 million in 2001 ($104.1 million, as compared with $107.3 million).

The operating income in 2002 amounted to NIS 36.5 million in 2002, as compared with NIS 20.5 million in 2001 ($8.3 million, as compared with $4.7 million).

The earnings before taxes and before other incomeamounted to NIS 33.5 million in 2002, as compared with NIS 25.6 million in 2001 ($7.6 million, as compared with $5.9 million).

2. Net Income and Earnings Per Share

Net income (before non-recurring income) totaled NIS 37.1 million in 2002, as compared with NIS 30.6 million in 2001 ($8.5 million, as compared with $7.0 million).

Net income in 2002 included non-recurring income of NIS 0.4 million ($0.1 million), net, generated by the discontinuation of operations at Shafir and Molett, from the sale of real estate in Ashdod, Israel (after deduction of the applicable taxes) and from non-recurring tax revenues (see III.9, below).

Net income in 2002, including non-recurring income, totaled to NIS 37.5, as compared with NIS 34.4 million in 2001 ($8.6 million, as compared with $7.9 million).

Earnings Per Share for 2002 totaled NIS 947 per NIS 1 par value ($2.16 per share), as compared with NIS 873 per NIS 1 par value ($1.99 per share) for 2001.

The return on shareholders' equity, before non-recurring income, amounted to 5.8% in 2002, as compared with 5.1% in 2001.

II. The Business Environment and the influence of External Factors

The slowdown in Israel's economy grew more severe in 2002. The slowdown in operations, effected by the global economic situation and by the security-related events in Israel, was characterized by a decrease in domestic demand, negative GDP growth and increased unemployment.

The accelerated devaluation of the NIS against the US dollar continued with fluctuation throughout the year. At its peak, the US dollar exchange rate reached a record of NIS 5 per dollar (13% devaluation since the end of 2001), and its ascent was only curbed by the raising of interest rates by the Governor of the Bank of Israel.

The accelerated devaluation during 2002 resulted in an increase in the prices of imported inputs, but due to the economic situation in Israel, the reduced demand and the increased competition, it was impossible to adjust the selling prices as warranted by such devaluation. The sales turnover in dollar

terms was consequently eroded, despite the quantitative growth in sales in most of the Group's operations, and the profitability was impaired.

In response to the foregoing economic situation, the Group initiated efficiency measures that were intended to deal with the difficult economic environment, while preserving AIPM's market shares and profitability of its various operations, despite the said erosion and while focusing on its cost base. These efficiency measures, which encompass all of the Group's different operations, included personnel cutbacks, on both management and operational levels, increased productivity and the creation of a lower cost base, resulting in a greater ability to adjust to market conditions.

2002 was a year marked by stability in global pulp prices, following a year with a sharp decline in prices. Pulp prices appeared to be rising in the first quarter of 2003 (by approximately 10%) and this trend is expected to continue in the second quarter of 2003 as well.

The inflation rate in 2002 amounted to 6.5%, as compared with an inflation rate of 1.4% in 2001.

The NIS declined by 7.3% against the dollar in 2002, compared with a decline of 9.3% in 2001.

III. Analysis of Operations and Profitability

The analysis below is based on the consolidated data.

1. Sales

The consolidated sales amounted to NIS 455.8 million in 2002, as compared with NIS 469.7 million in 2001 (-3%); ($104.1 million, as compared with $107.3 million).

The decrease in the sales turnover is primarily attributed to the termination of some operations in 2002 (See III.9, below). The termination of these operations resulted in a NIS 26.3 million (approximately $6 million) decrease in the consolidated sales turnover.

An increase was recorded in 2002 in the volume sales of packaging paper (fluting) in the domestic market, as compared to 2001. The growth in sales as a result of such volume growth was partially offset by the decrease in local selling prices, resulting from the severe crisis impacting the packaging sector (corrugators).

With the intention of running at full capacity, while preserving manufacturing efficiency, lowering the cost base, the Packaging Papers and Recycling Division expanded its production and sales in 2002, thereby lowering the average total cost per ton.

The turnover of the office supplies sector declined due to lower demand stemming from the economic situation and the erosion of prices in dollar terms.

2. Cost of Sales

The cost of sales amounted to NIS 363.8 million - or 79.8% of sales - in 2002, as compared with NIS 383.8 million - or 81.7% of sales - in 2001 ($83.1 million, as compared with $87.7 million).

The gross profit amounted to NIS 92.0 million - or 20.2% of sales - in 2002, as compared with NIS 85.9 million - or 18.3% of sales - in 2001 ($21.0 million, as compared with $19.6 million).

The increase in the gross margin was due to the Group's continuing efficiency measures and the acceleration of these measures due to the economic situation in Israel.

The improved efficiency was achieved, among other things, by:

- Lower wage costs, primarily as a result of personnel cutbacks and the impact of the devaluation (see below).

- Increased output of the packaging paper machine, thereby lowering the cost per ton.

- Lower raw material utilization costs.

- Reduction of various operating expenses.

- Increased proportion of self-generated electricity (as opposed to purchased electricity), following improvements in the operation of the new power plant at the Hadera plant.

Some of the above savings were offset as a result of a 12.3% increase in fuel oil prices, originating from the increase in fuel oil prices in 2002, coupled with the transition to the use of low-sulfur fuel oil, in accordance with the demands of the Israeli Ministry of the Environment.

The increase in fuel oil prices increased the cost of self-generated electricity by approximately $1 million, compared with 2001 (not including the increase in quantity, resulting from the increase in production).

Labor Wages

The labor wages reflected in the cost of sales, the selling expenses and the general and administrative expenses, amounted to NIS 125.5 million in 2002, as compared with NIS 148.4 million in 2001, representing a decrease of 15.4% ($28.7 million as compared with $33.9 million).

The lower labor expenses originated both from the reduction in the number of personnel as a result of the Group's efficiency measures (savings of 6.2%, excluding the shutting down of Shafir), as well as the erosion of the wages in dollar terms, due to the sharp devaluation of the NIS during 2002.

3. Selling, General and Administrative Expenses

The selling, general and administrative expenses (including wages) amounted to NIS 55.5 million in 2002 (12.2% of sales), as compared with NIS 65.4 million (13.9% of sales) in 2001 ($12.7 million, as compared with $14.9 million).

This decrease is primarily attributed to the lower labor expenses and to the efficiency measures implemented by AIPM, as detailed above.

4. Operating Income

The operating income amounted to NIS 36.5 million in 2002 (8.0% of sales), as compared with NIS 20.5 million in 2001 (4.4% of sales) ($8.3 million, as compared with $4.7 million).

5. Financial Revenues (Expenses)

Financial expenses of NIS 3.0 million were recorded in 2002, as compared with financial revenues of NIS 5.1 million in 2001 ($0.7 million in expenses, as compared with revenues of $1.2 million).

Most of AIPM's interest-bearing liabilities are denominated in NIS, while some are linked to the CPI .

Due to the increased devaluation in 2001 (which was considerably greater than the increase in the CPI), the CPI-linked and NIS liabilities eroded, thereby creating financial revenues for 2001. In 2002, the devaluation was lower and only slightly surpassed the increase in the CPI, resulting in financial expenses.

Furthermore, despite the fact that the average balance of short-term credit in 2002 was similar to that in 2001, the average interest rate on the credit was higher this year, due to the interest rate increases by the Bank of Israel.

6. Profits Before Taxes

The profits before taxes and before other income/expenses amounted to NIS 33.5 million in 2002, as compared with NIS 25.6 million in 2001 ($7.6 million, as compared with $5.9 million).

7. Taxes on Income

The taxes on income expenses, on account of the current operations, totaled NIS 13.1 million in 2002, as compared with NIS 11.2 million in 2001 ($3.0 million, as compared with $2.6 million).

The tax expenses grew in 2002 compared to 2001, primarily due to the NIS 7.9 million increase in income before taxes ($1.8 million). The said increase was partially offset by the larger real-term devaluation last year, which resulted in the erosion of the hedging of shareholders' equity for tax purposes in 2001, calculated according to changes in the Consumer Price Index, resulting in increased tax expenses in the financial statements for 2001.

8. Company's Share in Earnings of Associated Companies

The companies whose earnings are reported under this item (according to AIPM's share therein), include primarily: Hogla-Kimberly, NHP, Carmel and T.M.M. (including Amnir Environmental Services).

AIPM's share in the earnings of associated companies amounted to NIS 16.7 million in 2002, as compared with NIS 15.0 million in 2001 ($3.8 million, as compared with $3.4 million, respectively).

The following are the detailed changes in the earnings of associated companies in 2002 as compared to 2001:

- The Company's share in NHP's earnings grew by approximately NIS 11.8 million ($2.7 million) in 2002, as compared with 2001. This growth was rendered possible by the comprehensive efficiency program implemented by NHP, which included the restructuring of operations and marketing, including a significant growth in export sales. The manufacturing efficiency and machine output at NHP grew considerably in 2002 as a result of the said measures and assisted NHP in returning to profitability, despite the adverse market conditions.

- The decrease in the Company's share in Hogla-Kimberly's earnings amounted to NIS 8.8 million ($2.0 million). This decrease was attributed to an increase in competition in the non-food household sector (in which Hogla-Kimberly operates) during 2002, both from international brands - primarily Procter & Gamble in the baby diapers sector - as well as from private labels of the retail marketing chains. In response to the competition, Hogla-Kimberly is implementing various marketing measures that are intended to enable it to preserve its sales volumes, although while incurring certain erosion in selling prices and operating profitability.

- The decrease in the Company's share in Carmel's earnings amounted to NIS 1.3 million ($0.3 million). This decrease was attributed to the continuing crisis, expressed by lower demand for packaging, due to the declining volumes of operation in industry and agriculture, which resulted in a volume decrease in demand for packaging and in lower prices. The decrease in sales adversely affected the profitability of Carmel, despite the efficiency efforts and the lower raw material costs. Carmel is continuing to implement additional efficiency measures, which are expected to result in an increased level of profitability.

- The T.M.M.-Amnir operations continued to expand in 2002, while recording a constant improvement in operational efficiency and in profitability.

IV. Liquidity and Investments

1. Cash Flows

Cash flows from operating activities amounted to NIS 55.3 million in 2002 (excluding dividend received from an associated company), as compared with cash flows of NIS 19.3 million in 2001 ($12.6 million, as compared with $4.4 million). The improved cash flows were attributed primarily to annual differences in operating working capital. The operating working capital grew by NIS 29.4 million ($6.7 million) in 2001, as compared with a NIS 5.5 million ($1.2 million) decrease in operating working capital in 2002, originating primarily from a decrease in inventories in 2002. The cash flows from operating activities, including the said dividend, amounted to $17.6 million in 2002.

2. Investments in Fixed Assets

The investments in fixed assets totaled NIS 46.8 million in 2002, as compared with NIS 30.0 million in 2001 ($10.7 million, as compared with $6.9 million).

The investments in 2002 included the payment of approximately NIS 26.8 million ($6.1 million) on account of the extension of the lease on the Shafir Compound from the Tel Aviv Municipality, for an additional period, until 2059.

The investments also included the completion of the investment in the anaerobic installation in Hadera, as part of the Group's environmental operations, coupled with ongoing investments in the renovation of manufacturing and transport equipment.

B. Liquidity and capital resources

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

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

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

The Company uses loans from local financial institutions, mostly banks, to finance its activities. As of December 31, 2003, these loans consisted of the following:

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

2. Long-term loans from banks and other liabilities - see Note 4a and 4c to the financial statements attached.

3. Notes - see Note 4b to the financial statements attached.

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

The Group may incur additional tax liabilities in the event of inter-company dividend distributions, derived from "approved enterprises" profits. The said dividend distribution from investee companies is in the amount of up to approximately NIS 95 million (of which the Company's share of the additional tax is NIS 16 million, if this dividend is distributed). No account was taken of the additional tax, since AIPM has the ability and the intention that such earnings are to be reinvested and that no dividend would be declared which would involve additional tax liability to the Group in the foreseeable future.

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

There are no significant investments in research and development activities.

D. Trend information

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

ITEM 6 - DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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

NAME	DIRECTOR	Year of	
Directors:	SINCE	Birth	POSITION

----------	-----	-----	--------
Michael Dorsman	1999	1965	Director
Nochi Dankner	2003	1954	Director

NAME Directors:	DIRECTOR SINCE	Year of Birth	POSITION
----------	-----	-----	--------
Avi Fischer	2004	1956	Director
Aviezer (Gezi) Kaplan	2001	1948	Director
Jacob Laskow	1999	1954	Director until June 8, 2003.
Miri Lent-Sharir	2000	1956	Director
Oren Lieder	2003	1948	Director
Zvi Livnat	2003	1953	Director
Isaac Manor	2003	1941	Director
Amos Mar-Haim	1984	1938	Director
Leon Recanati	1988	1948	Director
Shmuel Rotem	1979	1926	Vice Chairman until November 1, 20
Meir Shannie	2001	1945	Director until February 23, 2004.
Avi Yehezkel	2003	1958	Director
Yaacov Yerushalmi	1998	1942	Chairman of the Board since Janua the Company since June 1990 until

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

Mr. Michael Dorsman is a businessman, Chairman of the Board and CEO of D.B.P.L. Public Investments Ltd. and Papaya Investments Ltd. Mr. Dorsman holds 11.4% of the Company's shares directly.

Mr. Nochi Dankner is Chairman and Chief Executive Officer of IDB Holdings Corporation Ltd., Chairman of IDB Development Ltd., Discount Investments Ltd. and of Clal Industries and Investments Ltd. Serves or served as Chairman and Director in public and private companies of Ganden Group, IDB Group and Bank Hapoalim.

Mr. Avi Fischer is Co-CEO of Clal Industries and Investments Ltd. and Deputy CEO of IDB Holdings Corporation Ltd., director of IDB Development Ltd, Discount Investment Ltd. and several public and private companies of Ganden Group and IDB Group. Senior partner of Fischer, Behar, Chen & Co. Law Office.

Mr. Aviezer (Gezi) Kaplan is the CEO and a director of Tivall (1993) Ltd., Deputy Managing Director of Osem Group, Chairman of the Boards of Sabra Salad Food Industries (1985) Ltd., Ostiv Ltd., and Of Tov Products (2001) Ltd., and a director of Beit-Hashita Assis Food Industries Limited Partnership. He serves as an external director of the Company.

Ms. Miri Lent-Sharir is a businesswoman and an external director of the Company. Until November 2000, she was Assistant to the General Manager for Special Projects of Housing and Construction Holding Ltd. Until August 1998, she was the Deputy General Manager of Ampal American Israel Corporation and a director of companies in the Ampal Group.

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Mr. Oren Liedr is Executive Vice President and Chief Financial Officer of Discount Investments Ltd. Serves as director at various companies, including publicly-traded companies. Formerly served as Chief Financial Officer of Bezeq, the Israeli Telecom Company Ltd.

Mr. Zvi Livnat is Co-CEO of Clal Industries and Investments Ltd. and Deputy CEO of IDB Holdings Corporation, Vice President of Taavura Holdings Ltd., Director in IDB Development Ltd., Discount Investments Ltd., Clal Industries and Investments Ltd. and other public and private companies.

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

Mr. Amos Mar-Haim is Chairman of the Board of Atara Investments Company Ltd., Migdal Underwriting and Investment Banking Ltd., director of Al-Rov (Israel) Ltd., the Jerusalem Development Authority, Metrix Ltd., Moria Ltd., Keter Ltd., and Yissum Research and Development Co. Ltd., and Chairman of the Association of Public Companies until 2001. Until May 1999 he was Vice Chairman of Israel Company, Chairman of Zim Israel Navigation Co., Vice Chairman of Israel Chemicals Ltd., and Vice Chairman of Oil Refineries Ltd.

Mr. Leon Recanati is CEO and Chairman of Glenrock Israel Ltd., Ligum Ltd. and Gorli Ltd. Until May 2003 he was Chairman of the Board of Clal Industries and Investments Ltd., Chairman of the Board of Discount Investments Corporation Ltd., CEO (until February 2003) and Chairman of IDB Holding Corporation Ltd., and Chairman of IDB Development Ltd. Until the middle of 2000, he also acted as the Chairman of Clal (Israel) Ltd.

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

Mr. Yaacov Yerushalmi is Chairman of the Board and was the CEO of the Company until April 2003. In addition, he is the Chairman or Vice-Chairman of subsidiaries and associated companies of the Group.

Senior Management (as of May 31, 2004)

Name	Year of Birth	Position and Business Experience for past fiv

Yaacov Yerushalmi	1942	Chief Executive Officer from June 1990 until April 2 Board since January 1999.
Avi Patir	1948	Chief Executive Officer until February, 2004.

Name	Year of Birth	Position and Business Experience for past fiv
Israel Eldar	1945	Corporate Controller and responsible for risks and b management. A director of subsidiaries and affiliat Company.
Ofra Gorni	1953	Business Development Manager and a director of subsi affiliated companies of the Company.
Lea Katz	1950	Legal counsel and Corporate Secretary since August 2
Gabi Kenan	1944	Deputy General Manager. A director of subsidiaries companies of the Company.
Pinhas Rimon	1940	General manager of Packaging Paper and Recycling Div subsidiaries and affiliated companies of the Company
Gideon Liberman	1950	General Manager of Development and Infrastructure Di

Senior Management in Subsidiaries and Affiliated Companies (as of May 31, 2004)

Name	Position in the Company
Avi Brener	General Manager, Hogla-Kimberly Ltd.
Avner Solel	General Manager, Neusiedler Hadera Paper Ltd.
Doron Katzir	General Manager, Graffiti Office Supplies & Paper Marketing Ltd.
Rafi Alon	General Manager, T.M.M. Integrated Recycling Industries Ltd.
Doron Kempler	General Manager, Carmel Container Systems Ltd.

B. Compensation

The aggregate amount of remuneration paid to all directors and the above senior officers of the Company as a group for services provided by them to the Company during 2003 was approximately NIS

10,071,000 (approximately `$2,218,000). The aggregate amount set aside for pension, retirement or similar benefits for directors and officers as a group for services provided by them to the Company during 2003 was approximately NIS 896,000 (approximately $197,000).

Remuneration paid by the Company in 2003 to Mr. Yerushalmi, the Company's CEO and Chairman of the Board, for services provided by him to the Company during 2003, was NIS 2,178,000 (approximately $479,000).

Agreement with Mr. Yerushalmi

The general shareholders meeting which took place in 2003 approved the foregoing addition to the Chairman's employment agreement. :

The agreement regarding the employment of the Chairman will end on March 1, 2007 ("retirement date"). Each of the Company and the Chairman will have the right to terminate the employment agreement prior to the foregoing date by giving the other party a 180-day prior notice, provided that the Chairman may not give notice of termination of the employment agreement prior to March 1, 2005. If the Chairman's employment is terminated by the Company or if he resigns, the Chairman will have the right to receive (i) all rights relating to a managers' insurance policy maintained for him by the Company and (ii) all severance monies and other amounts paid for him by the Company to various funds. If the Chairman's employment is terminated by the Company or if he resigns as a result of a demotion in his responsibilities without his consent, the Chairman will have the right to continue receiving all payments and other benefits payable to him under the employment agreement until his retirement date.

In addition, upon the termination of employment of the Chairman he will have the right to receive a payment in an aggregate amount equal to one-month's salary for each year in which he was employed by the Company and an additional $300,000, as a bonus in respect of the establishment by him of strategic partnerships. All other terms of the Chairman's employment agreement as currently in effect shall remain unchanged.

On May 7, 2001, the Company's Board of Directors adopted an incentive plan, which was subsequently approved by the Company's shareholders, to remunerate the Company's Chairman of the Board of Directors. According to the plan, such remuneration will be equal to the increase in the value of 50,000 ordinary shares of the Company in the period from May 7, 2001 (share price - NIS 194.37) to May 7, 2008. The remuneration will be spread over the period commencing two years from the resolution of the Board of Directors, until the seventh anniversary of such resolution. As of December 31, 2003 one quarter of the remuneration is exercisable.

Remuneration of Directors

The remuneration of the directors (including the external directors) for 2003 was approved at the 2003 general meeting of shareholders. Pursuant to regulations under the Israeli Companies Law, each external director of the Company must receive the same annual compensation, which must be between NIS 28,022 and NIS 45,531, plus an additional fee for each meeting attended which must be between NIS 986 and NIS 1,751. The Board approved in 2000 that the remuneration of each director, including the external directors, be fixed at NIS 39,000 plus an additional NIS 1,500 for each meeting attended. The same amounts were approved by the Board in 2001. In 2002, the Board of Directors resolved that the remuneration of each director will be NIS 35,000 plus NIS 1,350 for each meeting attended (a decrease of 10% compared to 2001), subject to the approval of the Company's shareholders. In 2003 the Board of Directors resolved that the remuneration of each director will be the same as in the years 2000 and 2001, namely, NIS 39,000 plus an additional NIS 1,500 for each meeting attended. The remuneration was also approved by the General Meeting of Shareholders.

C. Board practices

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

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

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

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

External Directors

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

Audit Committee

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

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

Our Audit Committee complies with the applicable provisions of the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder."

The Company's Audit Committee members are: Amos Mar-Haim, Chairman, Miri Lent-Sharir, and Aviezer (Gezi) Kaplan.

D. Employees

As of April 30, 2004, the Company and its subsidiaries had 724 employees and the Group (including associated companies) had 3,133 employees, of whom 884 were engaged in the household paper activities, 291 were engaged in the printing and writing paper activities, 871 were engaged in the recycling activities, 571 were engaged in the corrugated board containers activities, 165 were engaged in the office supplies activities, 286 worked at the paper mills in Hadera and Tel Aviv and for other related subsidiaries and 65 were management and clerical personnel at the Company's headquarters in Hadera.

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

E. Share ownership

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

In 1998, 52,833 options were granted to senior officers under this plan. In 1999, 51,335 options were granted under this plan and in 2000 51,335 options were granted. For further information regarding the 1998 plan, see Note 6 of the Notes to the Consolidated Financial Statements.

A total of 35,990 shares were issued in March 2000, as a result of the exercise of 51,335 options from the first installment, which were allocated to employees within the framework of the 1998 stock option plan. In March 2001, 28,149 shares were issued as a result of the exercise of 46,002 stock options which were allocated to them within the framework of the 1998 stock option plan. In 2003, an additional 28,693 shares were issued as a result of the exercise of 56,663 stock options which were allocated to employees within the framework of the 1998 stock option plan. The unexercised balance of 1,498 options granted expired in 2003.

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

In 2003,1,550 options were exercised under the 2001 plan. 227 shares were issued following the exercise.

In August 2001, the Company's Board of Directors approved a stock option plan for employees of the Company and its subsidiaries. Under this plan, up to 125,000 options may be granted without consideration. Each option is exercisable to purchase one ordinary share of NIS 0.01 par value of the Company. In November 2001, 81,455 options were granted under the 2001 employee plan. For further

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information regarding the 2001 employee plan, see Note 6 of the Notes to the Consolidated Financial Statements.

In 2003, 57,962 options were exercised under the 2001 employee plan. 20,665 shares were issued following the exercise.

ITEM 7 - MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major shareholders

The following table sets forth, as of June 15, 2004, the number of Ordinary Shares of the Company owned beneficially by (i) all those persons who, to the Company's knowledge, were the beneficial owners of more than 5% of such outstanding shares, and (ii) all officers and directors of the Company as a group:

Name and Address: Principal Shareholders:	Amount Beneficially Owned Directly or Indirectly/1
Clal Industries and Investments Ltd. ("Clal"), 3 Azrieli Center, the Triangle Building, Tel Aviv, Israel	1,292,769/2/
Discount Investment Corporation Ltd. ("DIC"), 3 Azrieli Center, the Triangle Building, Tel Aviv, Israel	730,565/2/
Michael Dorsman, 20 Shlonski St., Tel Aviv, Israel	455,150
Bank Hapoalim Ltd. 62 Yehuda Halevi st. Tel Aviv, Israel (Through trust and provident funds)	213,489
All officers and directors as a group	/3/

/1/ Beneficial ownership is based on shared voting and dispositive power over the securities listed in the table.

/2/ IDB Holding Corporation Ltd. ("IDBH") is the parent of IDB Development Corporation Ltd. ("IDBD"), which, in turn, is the parent of DIC and Clal. IDBH, IDBD, Clal and DIC are public companies traded on the Tel Aviv Stock Exchange.

On May 19, 2003, private companies controlled by Oudi Recanati, Leon Y. Recanati, Judith Yovel Recanati and Elaine Recanati completed a sale of all of the shares of IDBH held by them, constituting approximately 51.7% of the outstanding share capital of IDBH, to a group comprised of: (i) Ganden Investments I.D.B. Ltd. ("Ganden"), a private Israeli company controlled by Nochi Dankner and his sister, Shelly Bergman, which, following this transaction, holds 31.02% of the equity of and voting power in IDBH; (ii) Manor Investments-IDB Ltd. ("Manor"), a private Israeli company controlled by Ruth Manor, which, following this transaction, holds 10.34% of the equity of and voting power in IDBH; and (iii) Avraham Livnat Investments (2002) Ltd. ("Livnat"), a private Israeli company controlled by Avraham Livnat, which, following this transaction, holds 10.34% of the equity of and voting power in IDBH. In addition, Shely Bergman owns approximately 4.75% of the equity and voting power of IDBH.

Ganden, Manor and Livnat, owning in the aggregate approximately 51.7% of the equity of and voting power in IDBH, entered into a Shareholders Agreement relating, among other things, to their joint control of IDBH, the term of which is until May 19, 2023.

Nochi Dankner is Chairman of IDBH, IDBD, Clal and DIC. Shelly Bergman, Isaac Manor (the husband of Ruth Manor), and Zvi Livnat (the son of Avraham Livnat) are directors of each of IDBH, IDBD, Clal and DIC.

/3/ The officers and directors of the Company own, in the aggregate, less than 1% of the Company's outstanding Ordinary Shares, excluding the shares beneficially owned by Michael Dorsman, Nochi Dankner, Isaac Manor and Zvi Livnat whose ownerships are described above.

On February 5, 1980, Clal entered into a Voting Agreement with DIC, pursuant to which Clal and DIC agreed to coordinate and pool their voting power in the Company in order to appoint an equal number of On February 5, 1980, Clal entered into a Voting Agreement wit DIC., pursuant to which Clal and DIC agreed to coordinate and pool their voting power in the Company in order to appoint equal of each party's nominees to the Board of Directors of the Company and in order to elect designees on their behalf to the main board committees of the Company. The parties have also agreed to vote en bloc at general meetings of the Company on the subject of dividend distributions. Finally, in the event that any party to the agreement decides to dispose of its Ordinary Shares, the agreement grants the other parties thereto a first refusal option with respect to such shares. The term of the agreement is for ten years, subject to extensions for additional ten year periods. This agreement has been extended through the year 2010.

Based on the foregoing and on the shareholdings and other relationships set forth in the preceding table and the footnotes thereto, Clal, DIC, IDBD, IDBH and Nochi Dankner, Shelly-Bergman, Isaac, Ruth and Dori Manor, and Avraham and Zvi Livnat may be deemed to constitute a group in control of the Company.

The Company estimates that as of April 30, 2004, 9.21% of its outstanding ordinary shares were held in the United States by 2,396 record holders.

All ordinary shares of the Company have equal voting rights.

B. Related Party Transactions

The information is included in the Company's attached Consolidated Financial Statements: For loans to associated companies, see Note 2 to the attached financial statements. For a capital note to an associated company, see Note 4c to the attached financial statements. For transactions and balances with related parties, see Note 12 to the attached financial statements.

For further information see also Note 9e to the financial statements attached.

C. Interests of Experts and Counsel

Not applicable to annual reports.

ITEM 8 - FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

See the financial statements included in Item 18.

B. Significant Changes

None.

ITEM 9 - THE OFFER AND LISTING

A. Offer and Listing Details

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

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

Last full five fiscal years

	American Stock Exchange		Tel Aviv Stock Exchang		
	High	Low	High	Low	High
	$		NIS		
Calendar Year					
2003	54.66	29.22	239.00	143.60	54.58
2002	40.50	25.10	178.00	116.10	40.10
2001	64.25	30.00	267.50	130.30	64.80
2000	83.5	55.31	347.00	224.90	86.10
1999	65.5	31.13	282.00	139.70	66.71

Quarters during last two full fiscal years and first quarter of 2004:

	American Stock Exchange		Tel Aviv Stock Exchang		
	High	Low	High	Low	High
	$		NIS		
2004 Quarter Ended					
March 31	60.73	53.01	267.10	234.90	60.33

2003 Quarter Ended	High	Low	High	Low	High
	$		NIS		
March 31	35.50	29.22	165.20	143.60	35.25
June 30	46.12	35.65	200.00	163.30	46.38
September 30	47.20	41.10	205.70	178.60	46.19
December 31	54.66	45.00	239.00	197.50	54.58

2002 Quarters Ended	High	Low	High	Low	High
	$		NIS		
March 31	40.50	32.00	178.00	149.30	40.10
June 30	32.10	26.30	149.20	125.20	31.30
September 30	28.60	25.10	133.60	116.10	28.60
December 31	33.30	26.50	155.20	125.30	33.50

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

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Last full six months prior to filing of this report:

American Stock Exchange Tel Aviv Stock Exchange					
	High	Low	High	Low	High

	$		NIS		
May 2004	53.88	51.30	245.70	235.70	53.94
April 2004	57.25	53.25	257.30	239.30	56.80
March 2004	56.20	53.01	249.00	234.90	55.53
February 2004	55.65	54.50	255.00	242.00	57.18
January 2004	60.73	53.13	267.10	242.70	60.33
December 2003	54.66	49.01	239.00	222.40	54.58

ITEM 10 - ADDITIONAL INFORMATION

A. Share Capital

Not applicable to Annual Reports.

B. Memorandum and Articles of Association

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

On June 20, 2001, the Company's shareholders approved a new version of the Articles of Association ("Articles").

Objects of the Company

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

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

Director's Personal Interest

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

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

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

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

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

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

There are no limitation requirements regarding age affecting directors' ability to serve as directors of the Company. The directors need not be shareholders of the Company in order to qualify as directors.

The Shares –Rights and Restrictions

All of the Company's shares are ordinary shares. Every ordinary share in the capital of the Company is of equal rights, for all intents and purposes, to every other ordinary share, including the right

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to dividends, to bonus shares and to participation in the surplus assets of the Company upon liquidation, proportionately to the par value of each share, without taking into consideration any premium paid in respect thereof, all the aforesaid subject to the provisions of the Articles.

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

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

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

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

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

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

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

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

Furthermore, any controlling shareholder, any shareholder who knows that it possesses the power to determine the outcome of a shareholder vote and any shareholder that, pursuant to the provisions of the Articles, has the power to appoint or to prevent the appointment of an officer in the Company or any other power toward he Company is under a duty to act in fairness toward the Company. The Israeli Companies Law does not describe the substance of this duty of fairness. These various shareholder duties may restrict the ability of a shareholder to act in what the shareholder perceives to be its own best interests.

Modification of Rights of Shares

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

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

Shareholders Meeting

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

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

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

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

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

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

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

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

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

Voting and Adopting Resolutions at General Meetings

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

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

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

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

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

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

Each ordinary share entitles the holder thereof to participate at a

General Meeting of the Company and to one vote at a poll.

Right of Non-Israeli Shareholders to Vote

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

Change of Control

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

For purposes of shareholders' approval, unless a court rules otherwise, the merger will not be deemed approved if a majority of the shares held by shareholders, other than the shareholders who are also shareholders in the other merging company whose shares are held by the other merging company, or by any person who holds 25% or more of the shares or the right to appoint 25% or more of the directors in the other merging company, vote against the merger. Upon the request of a creditor of either party to the proposed merger, a court may delay or prevent the merger if it concludes that there exists a reasonable concern that as a result of the merger, the surviving company will be unable to satisfy the obligations of any of the parties to the merger. In addition, a merger may not be completed unless at least 70 days have passed from the time that a proposal of the merger has been filed with the Israeli Registrar of Companies.

The Israeli Companies Law also provides that an acquisition of shares of a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 25% shareholder of the company and there is no existing 25% or more shareholder in the company. If there is no existing 50% or greater shareholder in the company, the Companies Law provides that an acquisition of shares of a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 45% shareholder of the company.

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

Under the Israeli Securities Act 5728-1968, any major shareholder who is the beneficial owner of more then 5% of the Company's equity capital or voting securities is required to report this fact to the Israeli Securities Authority.

C. Material Contracts

During the two years preceding the date of this annual report, the Company did not enter into any material contract.

D. Exchange Controls

Foreign Exchange Regulations

There are no Israeli governmental laws, decrees or regulations that restrict or that affect the export or import of capital, including but not limited to, foreign exchange controls on remittance of

dividends on the ordinary shares or on the conduct of the Group's operations, except as otherwise set forth in the paragraph below regarding taxation.

E. Taxation

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

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

Subject to the provisions of applicable tax treaties, dividend distributions from regular profits by the Company to a non-resident shareholder are subject to withholding tax of 25%. The portion of dividends paid out of profits earned by an Approved Enterprise of the Company is subject to withholding tax at the rate of 15%.

The same rates generally apply under the Israeli-U.S. Tax Treaty. However, when a U.S. tax resident corporation is the recipient of the dividend, the rate on a dividend out of regular (non-Approved Enterprise) profits may be reduced to 12.5% under the treaty, where the following conditions are met:

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

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

Otherwise, the usual rates apply.

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

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

Income Taxes and Capital Gains Applicable in Israel and to Non-Israeli Shareholders

The basic tax rate applicable to corporations is currently 36%. The maximum tax rate for individuals is 49%. These rates are subject to the provisions of any applicable bilateral double taxation treaty. Israeli law generally imposes a capital gains tax on the sale of securities and any other capital assets.

Effective January 1, 2003, the capital gains tax rate imposed, on both individuals and corporations upon sale of capital assets and non-traded securities, acquired after that date has been reduced to 25%; capital gains accrued from assets acquired before that date are subject to a blended tax rate based on the relative Periods of time before and after that date that the asset was held.

Effective January 1, 2003, capital gains from the sale of ordinary shares on the Tel Aviv Stock Exchange (or listed on a designated foreign stock market or traded in a foreign stock exchange), accrued by individuals (and certain corporations) whose income in this regard is not classified as business income, derived from January 1, 2003 and thereafter, will in general be liable to capital gains tax of up to 15%. To the extent that the holder of the ordinary shares claims a deduction of financing expenses, the gain will be subject to tax at a rate of 25%.

In addition, if the ordinary shares are traded on the Tel Aviv Stock Exchange (or listed on a designated foreign stock market), gains on the sale of ordinary shares held by non-Israeli tax resident investors will generally be exempt from Israeli capital gains tax.

Notwithstanding the foregoing, dealers (both individuals and corporation) in securities in Israel are taxed at regular tax rates applicable to business income.

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

F. Dividends and Paying Agents
Not applicable to Annual Reports.

G. Statement by Expert
Not applicable to Annual Reports.

H. Documents on display

A copy of each document (or a translation thereof to the extent not in English) concerning the Company that is referred to in this Annual Report on Form 20-F, is available for public view at our principal executive offices at American Israeli Paper Mills Ltd., 1 Meizer Street Industrial Zone, Hadera 38100, Israel. Copies of this Annual Report and the exhibits hereto may be inspected and copied at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, D.C. 20549 and at the SEC's regional office at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of the materials may be obtained from the Public Reference Room of the SEC at 450 Fifth Street, NW, Washington, D.C. 20549 at prescribed rates. The public may obtain information on the operation of the SEC's Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330.

ITEM 11 - QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Due to its operations, the Company is exposed to market risks, consisting primarily of changes in interest rates - on both short and long-term loans - changes in exchange rates (primarily NIS/$) and changes in raw material and energy prices, which are denominated primarily in foreign currency. These changes influence the Company's results.

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

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

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

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

The Company possesses CPI-linked long-term loans (notes and loans) in the total sum of NIS 240 million ($54.8 million), with the interest thereupon being no higher than the market interest rate. In the event that the inflation rate increases and is considerably high, this could lead to an additional financial expenses being recorded in the Company's financial statements as a result of a surplus of CPI-linked liabilities. At December 31, 2003, the Company was not involved in any forward transactions. In January 2004, the Company entered into a forward transaction, with a term of one year, to hedge a sum of NIS 200 million against a rise in the CPI, in order to hedge the said exposure.

The Company has only limited involvement with derivative financial instruments. The Company uses these instruments as hedges. The Company utilizes derivatives, mainly forward exchange contracts and currency options, to protect its dollar cash flows in respect of existing assets and liabilities or commitments that are to be affected by changes in exchange rates or in the Israeli CPI. As the counter-parties to these derivatives are Israeli banks, the Company considers the inherent credit risks remote.

Credit Risks

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

The financial statements include provisions for doubtful debts, based on the existing risks on the date of the statements.

The cash, cash equivalents and fixed-term deposits are by and large deposited with large Israeli banking institutions or foreign banks controlled by the said institutions.

Fair Value of Financial Instruments

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

The fair value of long-term loans and capital notes, included under investments in associated companies, aggregating adjusted NIS 44,637,000 and of a capital note to an associated company in the amount of adjusted NIS 32,770,000. Their value cannot be reliably determined prior to determining their repayment dates.

Quantitative Information Regarding Market Risk

The following are the balance-sheet components by linkage bases at December 31, 2003:

In NIS Million	Unlinked	CPI-linked	In foreign currency, or linked thereto (primarily $)
Assets			
Cash and cash equivalents	150.1		8.6
Short-term deposit	20.0		
Other accounts receivable	210.6	0.2	48.5
Inventories			
Investments in associated companies	12.2	10.6	21.9
Deferred taxes on income			
Fixed assets, net			
Deferred expenses, net of accrued amortization			
Total assets	392.9	10.8	79.0
Liabilities			
Credit from banks	144.6		
Loans from banks		0.4	
Accounts payable	146.1		11.6
Deferred taxes on income			
Notes		239.6	
Other liabilities	32.8		2.2
Shareholders' equity,			
Total liabilities and equity	323.5	240.0	13.8
Excess of monetary assets (liabilities) at			

December 31, 2003	69.4	(229.2)	65.2	

ITEM 12 - DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable to Annual Reports

ITEM 13 - DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

None.

ITEM 15 - CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's periodic filings with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer (CEO - the Company's senior executive officer) and Chief Financial Officer (CFO - the Company's senior financial officer), as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Furthermore, management necessarily was required to use its judgment in evaluating the cost to benefit relationship of possible disclosure controls and procedures. Within 90 days prior to the date of this report, the Company performed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. The evaluation was performed with the participation of senior management of each business segment and key corporate functions, and under the supervision of the CEO and CFO. Based on the evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls after the date the Company completed the evaluation.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

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

ITEM 16B. CODE OF ETHICS

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

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The Audit Committee maintains a policy of approving and recommending only those services to be performed by the Company's external auditors which are permitted under the Sarbanes-Oxley Act and the applicable rules of the SEC relating to auditor's independence, and which are otherwise consistent with and will encourage, and are remunerated at levels that accord with, the basic principles of auditor independence. The practice of the Audit Committee is to receive from the Company's management, a list of all services, including audit, audit-related, tax and other services, proposed to be provided during the

current fiscal year to the Company and its subsidiaries by Kesselman & Kesselman, an affiliate of PricewaterhouseCoopers. After reviewing and considering the services proposed to be provided during the current fiscal year and, where appropriate in order better to understand their nature, discussing them with management, the Audit Committee pre-approves such of the proposed services, with a specific pre-approved budget, as it considers appropriate in accordance with the above principles. Additional services from Kesselman & Kesselman and any increase in budgeted amounts will similarly be pre-approved during the year by the Audit Committee on a case-by-case basis.

All audit-related and non-audit-related services performed by Kesselman & Kesselman during 2003 were reported to, and the services proposed to be provided by them during 2004 pre-approved by, the Audit Committee in May 10, 2004, in accordance with the procedures outlined above.

The total fees paid by the Company to Kesselman & Kesselman for all services, described above, including audit services, for the years ended December 31, 2003 and 2002 were $125 in thousands and $160 in thousands, respectively.

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

Not applicable to Registrant.

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

Neither the Company nor any affiliated purchaser purchased any of the Company's equity securities during 2003.

PART III

ITEM 18 - FINANCIAL STATEMENTS

Report of Independent Auditors on Reconciliation of Israeli GAAP to U.S. GAAP

To the Shareholders of
American Israeli Paper Mills Ltd.

In connection with our audits of the consolidated balance sheets of American Israeli Paper Mills Ltd. ("the Company") as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2003 (the "Financial Statements"), which are incorporated in this Form 20-F, we have also audited the information included in the Reconciliation of Israeli GAAP to U.S. GAAP listed under Item 18 herein. Those financial statements and the Reconciliation are the responsibility of the Company's Board of directors and management. Our responsibility is to express an opinion on the financial statements and the Reconciliation based on our audit.

We did not audit the U.S.GAAP financial data of certain associated companies in which the Company's share in excess of profits over losses of which is a net amount of remeasured NIS 24.7 million in 2003 and re-measured NIS 26.7 million in 2002. The financial data of those companies were audited by other independent auditors whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based solely on the reports of the other independent auditors.

We conducted our audit in accordance with auditing standards generally accepted in Israel, and the standards of the Public Company Accounting Oversight Board (United States), which include examining, on a test basis, evidence supporting the amounts and disclosures in the attached report, in order to obtain reasonable assurance that there is no material misstatement, and to provide us with a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other independent auditors, the information set forth under Item 18 present fairly, in all material respects, in relation to the Financial Statements taken as a whole the financial position and the operating results of the Company in conformity with accounting principles generally accepted in the United States.

/s/ Kesselman & Kesselman
Kesselman & Kesselman
Certified Public Accountants (Isr.)

Tel-Aviv, Israel
March 10, 2004

The Company prepares its financial statements in accordance with Israeli GAAP. Israeli GAAP and U.S. GAAP vary in certain significant respects, as described below:

a. The functional currency of the Company

Through December 31, 1993, the financial statements of the Company, presented in NIS values adjusted for the changes in the general purchasing power of the Israeli currency based on the changes in the exchange rate of the dollar (see note 1b to the financial statements attached), were also used for the purposes of reporting in conformity with U.S. GAAP applicable to entities operating in hyper-inflationary economic environments, as prescribed by Statement No. 52 of the Financial Accounting Standards Board of the United States (FASB). Since the inflation rate in Israel has decreased considerably, the Company decided that, commencing in 1994, it would implement the rules relating to economies no longer considered hyper-inflationary, for reporting purposes, in accordance with U.S. GAAP.

Under those rules:

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

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

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

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

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

See also note 1q to the financial statements attached regarding new Israeli pronouncement that requires the discontinuance of adjustments for inflation as from January 1, 2004.

b. Deferred income taxes

Under Israeli GAAP, no deferred taxes are provided for in respect of certain long-lived (more than 20 years) assets, such as buildings and land. Under U.S. GAAP, in accordance with the provisions of FAS 109, income taxes are to be provided for any assets that have a different basis for financial reporting and income tax purposes.

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

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

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

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

c. Employee stock option plans

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

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

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

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Pro-forma disclosure

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

	Year ended December 31		
	2003	2002	2001
	In thousands, except for per share data		
Net income, as reported under U.S. GAAP	38,469	54,624	49,87
Add (deduct): stock based employee compensation expense (income), included in reported net income, net of related tax effect	8,132	(1,066)	(3,79
Deduct: stock based employee compensation expense determined under fair value method for all awards, net of related tax effects	(4,055)	(4,801)	(1,52
Pro forma net income	42,546	48,757	44,56
Earnings per share - under U.S. GAAP:			
Basic - as reported	9.77	13.94	12.7
Basic - pro forma	10.80	12.44	11.3
Diluted - as reported	9.69	13.89	12.6
Diluted - pro forma	10.72	12.40	11.3

A summary of the status of the Company's plans as of December 31, 2003, 2002, and 2001 , and changes during the years ended on those dates, is presented below:

	2003		2002	
	Number	Weighted average exercise Price NIS	Number	Weighted average exercise Price NIS

Options outstanding at beginning of year	333,916	147.27	333,916	184.52	
Changes during the year:					
Granted - below market value					
Exercised	(116,175)	116.37			
Expired	(1,498)	98.62			
Options outstanding at end of year	216,243	159.15	333,916	147.27	
Options exercisable at year-end	*70,518	179.53	58,161	99.67	
Weighted average fair value of options granted during the year					NI

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The quoted price of the Company's ordinary shares on December 31, 2003 was NIS 234.3 ($53.5).

* Based upon the Company's share market value as of December 31, 2003, this reflects potentially 17,547 shares regarding the options exercisable at year-end.

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

The following table summarizes information about options outstanding at December 31, 2003.

Options outstanding			
Range of Exercise Prices	Number outstanding at December 31, 2003	Average remaining contractual life	Number of options exercisable at December 31, 2003
NIS		Years	
93.07	48,575	2.5	
137.09	23,493	2.8	23,493
148.97	48,575	3.5	
200.73	47,025	1.5	47,025
200.73*	48,575*	4.5	
	216,243	3.0	70,518

* The exercise price of this batch will be ultimately determined in July 2004, (see Note 6b(2) to the financial statements attached). If the exercise price of this batch was determined in December 31, 2003, it

would have been NIS 200.73.

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d. Earnings per share ("EPS")

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

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

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

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

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

	2003	2002	2001
Weighted average number of shares used in the computation of basic earnings per share	3,938,035	3,918,710	3,911,67
Net additional shares from the assumed exercise of employee stock options	31,673	14,570	28,71
Weighted average number of shares used in the computation of diluted earnings per share	3,969,708	3,933,280	3,940,38

e. Investment in marketable equity securities accounted for by the equity method (associated company) - Carmel Container Systems (Carmel)

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

Under U.S. GAAP (APB 18 - "The Equity Method of Accounting for Investments in Common Stock") and SEC Staff Accounting Bulletin (SAB) No. 59 ("Accounting for Noncurrent Marketable Equity Securities"), a decline in value of investment in an associated company which is other than temporary is recognized as a realized loss, establishing a new carrying value for the investment. Factors considered in determining that a decline is other than temporary include, among other, the length of time and the extent to which the market value has been less than the carrying value of the investment. The relevant market value for determining the impairment loss is the market value at balance sheet date (it should be noted that the share price of Carmel rose by about 90% since December 31, 2003).

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

f. Statements of income presentation

Under Israeli GAAP, the Company included, in the statements of income for the year ended December 31, 2002 and 2003, under "other income (expenses)", in 2002 - loss from closure of facilities and disposal of assets and closing inventories and in 2003 - gain from sale of apartments.

Under U.S. GAAP, the loss from inventories should be classified as part of cost of sales and loss from closure of facilities, disposal of assets and sale of apartments should be classified as part of operating income.

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

g. Accounting for guarantees

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

All of the guarantees granted by the Company and its subsidiaries (see note 9 to the financial statements) were issued prior to December 31, 2002.

h. Supplemental disclosure on employee rights upon retirement

The Company and its subsidiaries expects to contribute in 2004 NIS 8,500 thousands to the provident funds and to the insurance companies in respect of its severance pay obligations.

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

1) Consolidated statement of income figures:

Ye

	2003
	(e
Net income, as reported according to Israeli GAAP	60,047
Effect of treatment of the following items in accordance with U.S. GAAP:	
Functional currency*	8,243

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	Ye
	2003
	(e
Deferred income taxes - net	(4,703)
Other then temporary impairment of an investment in an associated company	(16,986)
Applying APB 25 in respect of employee stock options:	
Gross amount	(12,705)
Deferred taxes	4,573
Net income under U.S. GAAP	38,469
Earnings per share:	
Under Israeli GAAP - net income per NIS 1 of par value of shares - Primary**	1,494
Under U.S. GAAP - per share:	
Basic	9.77
Diluted	9.69

* In 2002 and 2001 including exchange rate differences from the end of each of those years, to December 31, 2003.

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

2) Shareholders' equity:

Shareholders' equity according to Israeli GAAP	(

Effect of treatment of the following items in accordance with US GAAP:

Functional currency

Other then temporary impairment of an investment in an associated company

Deferred income taxes

Shareholders' equity under US GAAP (

3) Consolidated balance sheet figures:

	December 31		
	2003		
	Adjusted NIS	Re-measured NIS	Adjuste
	In thousands		
	As Reported Under Israeli GAAP	Under U.S. GAAP	As Reporte Israeli
Inventories	90,654	75,308	90,
Investment in associated companies	383,879	366,376	366,
Fixed assets - net	325,641	283,831	325,
Deferred taxes - net	(50,789)	(41,024)	(47,
Shareholders' equity **	(614,230)	(550,354)	(650,

** In 2003 the Company distributed dividends in the amount of NIS 100,989,000.

j. Statement of cash flows

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

The information to be included under US GAAP for the years ended December 31, 2001, 2002 and 2003 is presented below:

	2003	2

	Adjus	
	(In th	
Net cash provided by operating activities	53,895	8
Net cash used in investing activities	(32,261)	(4
Net cash provided by (used in) financing activities	125,517	(4
Effect of inflation on cash and cash equivalent	5,649	1
Increase (decrease) in cash and cash equivalents	152,800	
Balance of cash and cash equivalents at beginning of year	5,906	
Balance of cash and cash equivalents at end of year	158,706	

k. Reporting comprehensive Income

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

	Year Ended December 31	
	2003	2002
	Re-measured NIS in thousands	
Net income under U.S. GAAP	38,469	54,624
Differences from translation of foreign currency financial statements of an investee company	(2,506)	2,424
Comprehensive income	35,963	57,048

As of December 31, 2003 the accumulated other comprehensive income aggregates (82) re-measured NIS, in thousands.

l. Recently issued accounting pronouncement in the United States:

5) FIN 46

In January 2003, the FASB issued FASB Interpretation No. 46 "Consolidation of Variable Interest Entities" (FIN 46). Under this FIN entities are separated into two populations: (1) those for which voting interests are used to determine consolidation (this is the most common situation) and (2) those for which variable interests are used to determine consolidation. The FIN explains how to identify Variable Interest Entities (VIE) and how to determine when a business enterprise should include the assets, liabilities, no controlling interests, and results of activities of a VIE in its consolidated financial statements.

In December 2003, the FASB revised FIN 46 ("FIN 46-R") by amending some of its provision and providing for new effective dates.

The adoption of FIN 46 did not have a material effect on Company's consolidated financial statements. The Company believes that the expected adoption of FIN 46-R will not have a material effect on its consolidated financial statements.

FAS 132 (revised 2003)

In December 2003, the FASB issued SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88 and 106, and a revision of FASB Statement No. 132 ("FAS 132 (revised 2003)") ". This Statement revises employers' disclosures about pension plans and other postretirement benefit plans. It does not change the measurement or recognition of those plans. The new rules require additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans.

Part of the new disclosures provisions are effective for 2003 calendar year-end financial statements, and accordingly have been applied by the company in these financial statements. The rest of the provisions of this Statement, which have a later effective date, are currently being evaluated by the company.

Schedule - Valuation and Qualifying Accounts

Three Years Ended December 31, 2003

(Adjusted NIS in thousands)

Column A	Column B Balance at beginning of period	Column C Additions (reductions) charged to expenses	Column Deduct
Allowance for doubtful accounts:			
Year ended December 31, 2003	12,752	944	
Year ended December 31, 2002	11,538	1,230	
Year ended December 31, 2001	12,962	92	

Report of Independent Accountants on
Financial Statement Schedule

To the Board of Directors of
American Israeli Paper Mills Limited.

Our audits of the consolidated financial statements referred to in our report dated March 10, 2004, appearing in the 2003 annual report to the shareholders of American Israeli Paper Mills Limited also included an audit of Financial Statement Schedule - Valuation and Qualifying Accounts - listed in Item 18 on this Form 20-F. In our opinion, the Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with related consolidated financial statements.

/s/ Kesselman & Kesselman
Kesselman & Kesselman
Certified Public Accountants (Isr.)

Tel-Aviv, Israel
March 10, 2004

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ITEM 19 - EXHIBITS

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

(i) Consolidated Audited Financial Statements of the Company for the year ended December 31, 2003 (including reports of independent auditors of Kost, Forer, Gabbay and Kasierer, a member of Ernst & Young Global, for TMM Integrated Recycling Industries Ltd. and Barthelemi Holdings Ltd., of Bar-Lev, merrari, Geva & co. for EFFEH lanfill Ltd., of Mualem Glezer Inbar Junio & co. an affiliate of DFK International for M.M.M. Unaited Landfill Industries (1998) Ltd. and of Kost, Forer, Gabbay and Kasierer, a member of Ernst & Young Global, for Carmel Container Systems Ltd.).

(ii) Financial statements of Neusiedler Hadera Paper Ltd. for the year ended December 31, 2003.

(iii) Financial statements of Hogla-Kimberly Ltd. for the year ended December 31, 2003.

(iv) Report of independent accountants on Schedule on Valuation and Qualifying Accounts and Schedule.

(v) Report of Independent auditors on reconciliation to U.S. GAAP.

(b) Exhibits:

1.1*	Memorandum of Association
1.2**	Articles of Association
3.1***	Voting Agreement dated February 5, 1980 by and among Clal Industries Ltd., PEC Israel Economic Corporation and Discount Bank Investment Corporation Ltd.
8.1	List of subsidiaries
31.1	Certification of Active 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 toss.302 of the Sarbanes-Oxley Act.

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

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

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

** Previously filed as an exhibit to the Company's Annual Report on Form 20-F for the year ended December 31, 2000, file No. 1-4212, filed with the SEC in June 2001 and incorporated by reference herein.

*** Incorporated by reference to the exhibit number 3.1 in the Company's form 20-F for the year ended December 31, 1987.

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SIGNATURES

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

AMERICAN ISRAELI PAPER MILLS LIMITED

By: /s/ Lea Katz

Name: Lea Katz
Title: Corporate Secretary

Dated: June 24, 2004

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EXHIBIT INDEX

1.1* Memorandum of Association

1.2** Articles of Association

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AMERICAN ISRAELI PAPER MILLS LIMITED
2003 CONSOLIDATED FINANCIAL STATEMENTS

AMERICAN ISRAELI PAPER MILLS LIMITED
2003 CONSOLIDATED FINANCIAL STATEMENTS

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PricewaterhouseCoopers

Kesselman & Kesselman
Certified Public Accountants (Isr.)
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Telephone +972-3-7954555
Facsimile +972-3-7954556

REPORT OF INDEPENDENT AUDITORS

To the shareholders of
AMERICAN ISRAELI PAPER MILLS LIMITED

We have audited the consolidated balance sheets of American Israeli Paper Mills Limited (hereafter - the Company) and its subsidiaries as of December 31, 2003 and 2002 and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three 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 did not audit the financial statements of certain associated companies, the Company's interest in which as reflected in the balance sheets as of December 31, 2003 and 2002 is adjusted NIS 299.3 million and adjusted NIS 285.2 million, respectively, and the Company's share in excess of profits over losses of which is a net amount of adjusted NIS 28.2 million, adjusted NIS 10.2 million and adjusted NIS 19.0 million for the years ended December 31, 2003, 2002 and 2001, respectively. The financial statements of those companies were audited by other independent auditors whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based solely on the reports of the other independent auditors.

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

In our opinion, based on our audits and the reports of the other independent auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2003 and 2002 and the consolidated results of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted ("GAAP") in Israel. Furthermore, in our opinion, the financial statements referred to above have been prepared in accordance with the Israeli Securities (Preparation of Annual Financial Statements) Regulations, 1993.

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

Tel-Aviv, Israel
March 10, 2004

/s/ Kesselman & Kesselman

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AMERICAN ISRAELI PAPER MILLS LIMITED

CONSOLIDATED BALANCE SHEETS
IN ADJUSTED NEW ISRAELI SHEKELS

	Note	2003
		In
A s s e t s	9	
CURRENT ASSETS:	8	
Cash and cash equivalents	1o	158,706
Short-term deposit	10a	20,000
Accounts receivable:	10b	
Trade		140,996
Other		128,246
Inventories	10c	90,654
T o t a l current assets		538,602
INVESTMENT AND LOAN TERM RECEIVALES:		
Investments in associated companies	2;8	383,879
Deferred income taxes	7g	3,885
		387,764
FIXED ASSETS:	3	
Cost		953,656
L e s s - accumulated depreciation		628,015
		325,641
DEFERRED CHARGES,		
net of accumulated amortization	1h	1,267
T o t a l assets		1,253,274

---) Chairman of the Board of Directors
Yaki Yerushalmi

---) Director
Zvika Livnat

---) Controller

Israel Eldar

Date of approval of the financial statements: March 10, 2004.

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	Note	20
Liabilities and shareholders' equity		
CURRENT LIABILITIES:	8	
Credit from banks	10d	144,
Current maturities of long-term notes	4b	6,
Accounts payable and accruals:		
Trade		84,
Other	10e	73,
T o t a l current liabilities		309,
LONG-TERM LIABILITIES:		
Deferred income taxes	7g	61,
Loans and other liabilities (net of current maturities):	4;8	
Loans from banks		
Notes		233,
Other liabilities		35,
T o t a l long-term liabilities		329,
COMMITMENTS	9	
T o t a l liabilities		639,
SHAREHOLDERS' EQUITY:	6	
Share capital (ordinary shares of NIS 0.01 par value: authorized - 20,000,000 shares; issued and paid: December 31, 2003 and 2002 - 3,968,295 and 3,918,710 shares, respectively)		125,
Capital surplus		90,
Currency adjustments in respect of financial statements of associated companies		(1,
Retained earnings		400,
		614,
T o t a l liabilities and shareholders' equity		1,253,

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

AMERICAN ISRAELI PAPER MILLS LIMITED

CONSOLIDATED STATEMENTS OF INCOME
IN ADJUSTED NEW ISRAELI SHEKELS

	Note	2003
SALES - net	10f;14	465,092
COST OF SALES	10g	362,185
GROSS PROFIT		102,907
SELLING, MARKETING, ADMINISTRATIVE		
AND GENERAL EXPENSES:	10h	
Selling and marketing		31,324
Administrative and general		24,999
		56,323
INCOME FROM ORDINARY OPERATIONS		46,584
FINANCIAL INCOME (EXPENSES) - net	10j	(15,989)
OTHER INCOME (EXPENSES)	10i	1,609
INCOME BEFORE TAXES ON INCOME		32,204
TAXES ON INCOME	7	7,706
INCOME FROM OPERATIONS OF THE		
COMPANY AND ITS SUBSIDIARIES		24,498
SHARE IN PROFITS OF ASSOCIATED		
COMPANIES - net	2	35,549
NET INCOME FOR THE YEAR		60,047
NET INCOME PER NIS 1 OF PAR VALUE		
OF SHARES	1p;11	1,494

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

AMERICAN ISRAELI PAPER MILLS LIMITED

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
IN ADJUSTED NEW ISRAELI SHEKELS

	Share capital	Capital surplus	Currency adjustments respect of fin statements associated com
	In thousa		
BALANCE AT JANUARY 1, 2001	125,256	90,060	
CHANGES IN 2001:			
Net income			
Exercise of employee options into shares			
Currency adjustments in respect of financial statements of associated companies			(3,175)
BALANCE AT DECEMBER 31, 2001	125,256	90,060	(3,175)
CHANGES IN 2002:			
Net income			
Dividend paid			
Currency adjustments in respect of financial statements of associated companies			(307)
BALANCE AT DECEMBER 31, 2002	125,256	90,060	(3,482)
CHANGES IN 2003:			
Net income			
Dividend paid			
Exercise of employee options into shares	1		
Currency adjustments in respect of financial statements of associated companies			2,360
BALANCE AT DECEMBER 31, 2003	125,257	90,060	(1,122)

* Represents an amount less than adjusted NIS 1,000.

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

(Continued) - 1

AMERICAN ISRAELI PAPER MILLS LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS
IN ADJUSTED NEW ISRAELI SHEKELS

	2003
	I
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income for the year	60,047
Adjustments to reconcile net income to net cash provided by operating activities (*)	(7,396)
Net cash provided by operating activities	52,651
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of fixed assets	(29,247)
Short-term deposit	(20,000)
Associated companies:	
Granting of loans	(8,241)
Collection of loans	21,895
Proceeds from sale of fixed assets	3,332
Net cash used in investing activities	(32,261)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Notes issuance, net of issuance expenses of NIS 800,000	198,909
Consideration in respect of the exercise of options by employees	1
Repayment of long-term loans from banks and others	(762)
Redemption of notes	(6,770)
Dividend paid	(99,128)
Short-term credit from banks - net	40,606
Net cash provided by (used in) financing activities	132,856
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	153,246
BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5,460
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR	158,706

(Concluded) - 2

AMERICAN ISRAELI PAPER MILLS LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS
IN ADJUSTED NEW ISRAELI SHEKELS

	2003
(*) Adjustments to reconcile net income to net cash provided by operating activities:	
Income and expenses not involving cash flows:	
Share in profits of associated companies - net	(35,549)
Dividend received from associated company	16,391
Depreciation and amortization	28,247
Deferred income taxes - net	3,471
Capital losses (gains) on:	
Sale of fixed assets	(2,054)
Termination of activities and disposal of assets - net	
Gain on issuance of shares in an associated company to a third party - net	
Linkage and exchange differences on (erosion of) principal of long-term loans from banks - net	79
Linkage differences on (erosion of) principal of Notes	3,110
Erosion of (linkage differences on) principal of long-term loans to associated companies	(1,101)
Appreciation (erosion) of a long-term capital note granted to an associated company	2,477
	15,071
Changes in operating asset and liability items:	
Decrease (increase) in trade receivables	(9,260)
Decrease (increase) in other receivables	(8,935)
Decrease (increase) in inventories	(159)
Increase (decrease) in trade payables	(14,653)
Increase (decrease) in other payables and accruals	10,540
	(22,467)
	(7,396)
Supplementary cash flow information = cash paid during the year for:	
Taxes on income	11,553
Interest	11,335

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

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AMERICAN ISRAELI PAPER MILLS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies, applied on a consistent basis, are as follows. As to the adoption for the first time in 2003 of the accounting for impairment of assets, see g. below:

a. General:

1) Activities of the Group

American Israeli Paper Mills Limited (hereafter - the Company) and its subsidiaries and associated companies (hereafter - the Group) are engaged in the production and sale of paper and paper products, including paper recycling activities and handling solid waste. Certain companies are engaged in the marketing of office supplies and in the sale of products produced by others (some of which are not paper or paper products). Most of the Group's sales are made to the local market (Israel). As to information by operating segments, see note 14.

2) Use of estimates in the preparation of financial statements

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

3) Definitions:

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

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

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

b. Adjusted financial statements:

1) The Company and its subsidiaries maintain their accounts in nominal new Israeli shekels ("NIS") and in U.S. dollars (hereafter - dollar). All the figures in the financial statements are presented in values adjusted for the changes in the exchange rate of the dollar (rather than the changes in the Israeli consumer price index; hereafter - Israeli CPI), as permitted by Opinion 36 of the Institute of Certified Public Accountants in Israel (hereafter - the Israeli Institute), for companies whose securities are traded on a foreign stock exchange; the Company's shares are traded on the American Stock Exchange ("AMEX"). As to the discontinuance of adjusting financial statements for the effects of inflation, with effect from January 1, 2004, see q. below.

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

The adjusted NIS data are the product of the data in dollar terms multiplied by the representative exchange rate of the dollar at December 31, 2003 - $1 = NIS 4.379 (see also note 8b).

2) Non-monetary balance sheet items (mainly fixed assets, inventories and deferred charges, and shareholders' equity items originating in cash flow from shareholders) have been adjusted on the basis of the changes in the exchange rate of the dollar since the related transactions were carried out. The income statement components relating to these non-monetary balance sheet items have been adjusted on the same basis as the related balance sheet items.

Investments in some of the associated companies (the activities of which are an integral part of the Company's activities) and the Company's share in their operating results have been determined based on their financial statements, which are adjusted on the basis of changes in the exchange rate of the dollar. As to associated companies the financial statements of which are adjusted on the basis of the changes in the Israeli CPI, see (4) below.

The components of the statements of income (except financing) relating to transactions carried out in the reported year - sales, purchases, labor costs, etc. - have been adjusted on the basis of the exchange rates in effect on transaction dates.

Financial income and expenses represent such income and expenses in real terms and the erosion of balances of monetary items during the year.

3) The amounts of non-monetary items do not necessarily represent realizable value or any other economic value, but only their original historical values adjusted on basis of the changes in the exchange rate of the dollar. In these financial statements, the term "cost" signifies cost in adjusted NIS.

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

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

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

c. Principles of consolidation:

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

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

d. Inventories

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

e. Investments in associated companies:

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

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

3) With effect from the interim financial statements for the 3-month period ended March 31, 2003, the Company reviews whether any events have occurred or changes in circumstances have taken place, which might indicate that there has been an impairment of its investments in associated companies - see g. below.

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

f. Fixed assets:

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

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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

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

g. Impairment in value of Long-Lived Assets

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

Accordingly, commencing with the interim financial statements for the 3-month period ended March 31, 2003, the Company assesses - at each balance sheet date - whether any events have occurred or changes in circumstances have taken place, which might indicate that there has been an impairment of one or more of the above assets. When such indicators of impairment are present, the Company evaluates whether the carrying value of the asset .

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

Through December 31, 2002, the Company and its subsidiaries applied the provisions for assessing and recording impairment of assets, prescribed by the U.S. standard, FAS 121. The adoption of Standard 15 for the first time has not had any effect on the Company and its subsidiaries.

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

h. Deferred charges

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

i. Deferred income taxes:

1) Deferred taxes are computed in respect of differences between the amounts presented in these statements and those taken into account for tax purposes. As to the main factors in respect of which deferred taxes have been included - see note 7g. Deferred tax balances are computed at the tax rate expected to be in effect at time of release to income from the deferred tax accounts. The amount of deferred taxes presented in the income statements reflects changes in the above balances during the reporting years.

2) Taxes which would apply in the event of disposal of investments in subsidiaries and associated companies have not been taken into account in computing the deferred taxes, as the Company intends to hold these investments, not to realize them.

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

j. Revenue recognition

Revenue from sale of products to the local market, net of discounts granted, is recognized upon shipment to the customer (which represents the point at which the title transfers). Revenue from sale of products for export, net of discounts, is recognized as the products are delivered to the customer in the target country.

k. Shipping and handling fees costs

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

l. Advertising expenses

Advertising expenses are charged to income as incurred (as to the amount of the expenses, see note 10h).

m. Allowance for doubtful accounts

The allowance is determined mainly in respect of specific debts doubtful of collection (see note 13b).

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

n. Derivative financial instruments

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

o. Cash equivalents

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

p. Net income per NIS 1 of par value of shares

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

q. Recently issued pronouncement

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

Since the Company's financial statements are drawn up in NIS adjusted for the changes in the dollar (as allowed by section 29(b) of Opinion 36 of the Israeli Institute), and based on the provisions in paragraph 4 to Israeli Accounting Standard No. 13, with effect from January 1, 2004, the Company will no longer be able to measure its operations in dollars, and will have to resume measuring its operations in NIS. The inflation-adjusted NIS amounts as of December 31, 2003, as presented in these financial statements, will be the base for the nominal-historical financial reporting as of January 1, 2004.

The implementation of Standard No. 12 will mainly affect the financial income and expenses items.

NOTE 2 - INVESTMENTS IN ASSOCIATED COMPANIES:

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

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

NOTE 2 - INVESTMENTS IN ASSOCIATED COMPANIES (continued):

b. Composed as follows:

	Dece
	2003
	Adjus in th
Cost:	
Shares	54,241
Excess of cost of investment - net	2,086
L e s s - accumulated amortization	(3,068)
Gain on issuance of shares of an associated company to a third party	40,241
Currency adjustments	(1,122)
Share in profits accumulated since acquisition - net	246,864
	339,242
Long-term loans and capital notes (December 31, 2002 - net of current maturities)*	44,637
	383,879

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

	Dec
	2003
	Adju in t
Linked to the dollar	21,897
Linked to the Israeli CPI	10,553
Unlinked capital note	12,187
	44,637

L e s s - current maturities	
	44,637

These loans and capital notes do not bear interest.

As of December 31, 2003, the repayment dates of the balance of the loans and capital notes have not yet been determined.

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

NOTE 2 - INVESTMENTS IN ASSOCIATED COMPANIES (continued):

c. The changes in the investments during 2003 are as follows:

	Adjusted N in thousan
Balance at beginning of year	366,156
Changes during the year:	
Share in profits of associated companies - net	35,549
Dividend received from an associated company	(16,391)
Currency adjustments	2,360
Decrease in balance of long-term loans and capital notes - net	(3,795)
Balance at end of year	383,879

d. Neusiedler Hadera Paper Ltd. (hereafter - N.H.P.)

N.H.P. is held to the extent of 49.9% by the Company and also by Neusiedler AG (hereafter - Neusiedler), under an agreement dated November 21, 1999. According to said agreement, N.H.P. purchased the Group's activities in the field of printing and writing paper, and issued to Neusiedler 50.1% of its shares. As part of the said agreement, Neusiedler was granted an option (commencing 3 years from the signing of the agreement) to sell to the Company its holdings in N.H.P., at a price which is 20% lower than the value (as defined in the agreement). The understanding between the parties is that the option would only be exercised under continued extraordinary circumstances that preclude the operation of N.H.P. in Israel. The Company believes that the likelihood of such circumstances is very remote.

e. Investment in Carmel Container Systems Limited (hereafter - Carmel)

The investment in shares includes, as of December 31, 2003 and 2002, an investment of adjusted NIS 29,475,000 and adjusted NIS 28,717,000, respectively, investment in Carmel, which is held to the extent of 26.25%. Carmel's shares are traded in the United

States on the "AMEX" Stock Exchange. The market value of the Company's holding in these shares as of December 31, 2003 and 2002 is adjusted NIS 9,656,000.

The financial statements of Carmel are drawn up on the basis of historical cost, adjusted for the changes in the general purchasing power of Israeli currency measured on the basis of the Israeli CPI. For purposes of inclusion in these financial statements, Carmel's financial statements were adjusted on the basis of the changes in the exchange rate of the dollar.

NOTE 2 - INVESTMENTS IN ASSOCIATED COMPANIES (continued):

The Company's management believes that the low market value of these shares is not representative of the economic value, as the trade in Carmel's shares is very weak. At the beginning of 2003, the Company used the services of an outside appraiser in determining the value in use to the Company.

The Company's management believes, based on the abovementioned and current developments in 2003, that the investment should not be written down.

f. Investment in T.M.M Integrated Recycling Industries Ltd. (hereafter - T.M.M.)

In 2000, the Company and Compagnie Generale D'Entreprises Automobiles (hereafter - CGEA), an international French group in the field of environmental services - through a jointly held company (Barthelemi Holdings Ltd., in which the Company holds 33.9% interest; hereafter - Barthelemi) - acquired shares of T.M.M. from its controlling shareholders.

In addition, T.M.M was merged with Amnir Industries and Environmental Services Ltd. (in which the Company and CGEA held 49% and 51%, respectively; hereafter - Amnir Environment) in such a manner that Amnir Environment became a wholly-owned subsidiary of T.M.M.

In August 2003, Barthelemi acquired approximately 7% of the share capital of T.M.M off the stock exchange.

As of December 31, 2003, the Company's share in T.M.M. (directly and through Barthelemi) aggregates 41.6%.

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

The amount invested in shares includes adjusted NIS 15,759,000 (December 31, 2002 - adjusted NIS 15,567,000), which was directly invested in T.M.M. (17.8%), the shares of which are traded on the Tel Aviv Stock Exchange; the market value of these shares aggregates adjusted NIS 13,713,000 as of December 31, 2003 (December 31, 2002 - adjusted NIS 7,300,000).

The Company's management examined the value of its investment in T.M.M. for impairment which is not temporary in nature. At the beginning of 2003, the Company used the services of an outside appraiser in determining the value in use to the Company.

The Company's management believes, based on the abovementioned and current developments in 2003, that the investment should not be written down.

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

NOTE 3 - FIXED ASSETS:

a. Composition of assets, grouped by major classifications, and changes therein during 2003, are as follows:

	Cost			
	Balance at beginning of year	Additions during the year	Retirements during the year	Balance at end of year
	Adjusted NIS in thousands			
Land and buildings on the land	182,205	3,534	64	185,675
Machinery and equipment	643,549	11,619	1,962	653,206
Vehicles	33,102	2,886	4,128	31,860
Office furniture and equipment (including computers)	64,185	1,384		65,569
Payments on account of machinery and equipment	7,522	9,824		17,346
	930,563	29,247	6,154	953,656

	Accumulated depreciation			
	Balance at beginning of year	Additions during the year	Retirements during the year	Balance at end of year
	Adjusted NIS in thousands			
Land and buildings on the land	100,760	3,477		104,237
Machinery and equipment	432,181	18,873	1,528	449,526
Vehicles	23,003	2,702	3,348	22,357

Office furniture and equipment (including computers)	48,782	3,113		51,895
Payments on account of machinery and equipment				
	-------	------	-----	-------
	604,726	28,165	4,876	628,015
	=======	======	=====	=======

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

NOTE 3 - FIXED ASSETS (continued):

b.

	December 31	
	2003	200
	Adjusted NIS in thousands	
The item is net of investment grants in respect of investments in "approved enterprises" (see notes 7a and 9a):		
Cost	490	4
Accumulated depreciation	459	4

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

d. As of December 31, 2003 and 2002, the cost of fixed assets includes borrowing costs of adjusted NIS 1,007,000 capitalized to the cost of machinery and equipment.

e. Depreciation expenses amounted to adjusted NIS 28,165,000, adjusted NIS 26,726,000 and adjusted NIS 29,278,000, for the years ended December 31, 2003, 2002 and 2001, respectively.

f. As to pledges on assets - see note 9a.

NOTE 4 - LONG-TERM LOANS AND OTHER LONG-TERM LIABILITIES:

a. Loans from banks:

Composed as follows:

December 31

	2003	2002
	Adjusted NIS in thousands	
Linked to the Israeli CPI*	372	1,056
L e s s - current maturities	372	701
	-,-	355

* The weighted average annual interest rate as of December 31, 2003 is 4.9%.

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

NOTE 4 - LONG-TERM LOANS AND OTHER LONG-TERM LIABILITIES (continued):

b. Notes

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

	December 31		
	2003		2002
	Adjusted NIS in thousands		
	Series II	Series I	
Balance	200,000	39,629	43,580
L e s s - current maturities		6,590	6,214
	200,000	33,039	37,366

(1) Series I - May 1992

The balance of the notes as of December 31, 2003 is redeemable in six installments, due in June of each of the years 2004-2009, each installment amounting to 6.66% of the original par value of the notes, which is adjusted NIS 98,925,000; the unpaid balance of the notes bears annual interest of 3.8%, payable each June. The notes - principal and interest - are linked to the Israeli CPI of February 1992.

(2) Series II - December 2003

In December 2003, the Company made a private issuance to institutional investors of notes with a par value of NIS 200 million. The notes are redeemable in seven equal annual installments, due in December of each of the years 2007-2013. The unpaid balance of the notes bears annual interest of 5.65%, payable in annual installments at December of each year. The notes - principal and interest -

are linked to the Israeli CPI of November 2003.

c. Other liabilities:

	December 31	
	2003	2002
	Adjusted NIS in thousands	
Capital note to an associated company (1)	32,770	30,293
Other liability (2)	2,243	2,243
	35,013	32,536

(1) The capital note is unlinked and interest free. No repayment date has been fixed, but the associated company does not intend to demand the repayment of the capital note before January 1, 2005.

(2) The loan was received from a supplier in 2000, to finance acquisition of machinery and equipment in the amount of adjusted NIS 2,409,000. The loan is linked to the dollar. No repayment date has yet been fixed. The Company believes that the repayment is not probable before January 1, 2005.

NOTE 5 - EMPLOYEE RIGHTS UPON RETIREMENT:

a. Israeli labor laws and agreements require the company and its subsidiaries to pay severance pay to employees dismissed or leaving their employ under certain circumstances, computed on the basis of the number of years of service and, generally, the latest pay rate (one month's pay for each year of service) or a pension upon retirement.

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

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

b. The expenses relating to employee rights upon retirement, which reflect the amounts that were deposited during the reported years with provident funds, pension funds and various insurance policies, are adjusted NIS 8,515,000, adjusted NIS 5,786,000 and adjusted NIS 6,315,000 in 2003, 2002, and 2001, respectively.

NOTE 6 - SHAREHOLDERS' EQUITY:

a. Share capital

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

	Authorized	December 31 2003	December 31 2002
		Issued and paid	
Number of shares	20,000,000	3,968,295	3,918,710
Amount in NIS	200,000	39,683	39,187

The shares are traded on stock exchanges in Tel-Aviv and in the U.S. The quoted prices per share, as of December 31, 2003 are NIS 239 and $ 53.5 (NIS 234.3), respectively.

b. Employee stock option plans:

1) The 1998 plan for senior officers in the Group

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

NOTE 6 - SHAREHOLDERS' EQUITY (continued):

In 2000, 1999 and 1998, 51,330, 51,335 and 52,833 options, respectively, were granted under the 1998 plan for senior officers (including 10,667 options in 2000 and 1999 and 10,666 options in 1998, to an employee who is an interested party). All together, 155,498 options were granted.

The exercise price of the options granted as above, was fixed at NIS 134.38. The exercise price is linked to the dollar and is subject to adjustments in respect of the distribution of dividends by the Company.

Each batch can be exercised within three years after two years from the date of grant.

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

The ordinary shares issued upon exercise of the options conferred upon their holders the same rights as all other ordinary shares, upon issuance.

In 2003, 2001 and 2000, 56,663, 46,002 and 51,335 options, respectively, were exercised under the 1998 plan for senior officers. 28,693, 28,149 and 35,990 shares of NIS 0.01 were issued following the exercise, respectively. The unexercised balance of 1,498 options granted expired in 2003.

The above plan was carried out according to the principles set out in Section 102 of the Income Tax Ordinance, which stipulates, inter-alia, the terms for recognition of the expense to the Company and for determining the employees' tax liability in respect of the profits attributed thereto as benefits arising from the above plan.

The aforementioned expense is recognized in the tax year that the benefit is credited to the employee.

NOTE 6 - SHAREHOLDERS' EQUITY (continued):

b. Employee stock option plans (continued):

2) The 2001 plan for senior officers in the Group

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

The exercise price of the options granted as above was set at NIS 217.00, linked to the CPI, on the basis of the CPI as of April 2, 2001. The exercise price for each batch is determined as the lesser of the aforementioned exercise price or the average price of the Company's shares as quoted on the Tel-Aviv Stock Exchange (hereafter - the Stock Exchange) during thirty trading days preceding to the effective date of each batch, less 10%. As stipulated by the 2001 plan for senior officers, the exercise price is to be adjusted, following dividend distributions. Accordingly, the exercise price as of December 31, 2003 is adjusted NIS 200.73 for the first batch, adjusted NIS 93.07 for the second batch and adjusted NIS 148.97 for the third batch and adjusted NIS 200.73 for the fourth batch.

The quoted price of the Company's shares on the Tel Aviv Stock Exchange close to the time of the board of directors' resolution to grant the options, was NIS 204.00. Prior to the granting of the options, the price was NIS 185.8.

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

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

The ordinary shares issued upon exercise of the options will confer upon their holders the same rights as all other ordinary shares, upon issuance.

In 2003, 1,550 options were exercised under the 2001 plan for senior officers. 227 shares of NIS 0.01 were issued following the exercise. The unexercised balance of the options granted is 192,750.

NOTE 6 - SHAREHOLDERS' EQUITY (continued):

The above plan is carried out according to the principles set out in Section 102 of the Income Tax Ordinance, which stipulates, inter-alia, the terms for recognition of the expense to the Company and for determining the employees' tax liability in respect of the profits attributed thereto as benefits arising from the above plan.

The aforementioned expense will be recognized in the tax year that the benefit is credited to the employee.

3) The 2001 employee plan

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

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

The exercise price of all the options granted as above was set at NIS 160.99, linked to the CPI, on the basis of the CPI as of August 29, 2001. This price represents the average price of the Company's shares as quoted on the Tel-Aviv Stock Exchange during thirty trading days prior to the date of the board of directors' approval, less 10%. As stipulated by the 2001 employee plan, the exercise price has been adjusted, following a dividend distribution and is adjusted NIS 137.09 as of December 31, 2003.

The quoted price of the Company's shares on the Tel Aviv Stock Exchange close to the time of the board of directors' resolution to grant the options, was NIS 171.20. Prior to the granting of the options, the price was NIS 138.80.

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

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

The ordinary shares issued upon exercise of the options will confer upon their holders the same rights as all other ordinary shares, upon issuance.

NOTE 6 - SHAREHOLDERS' EQUITY (continued):

In 2003, 57,962 options were exercised under the 2001 employee plan. 20,665 shares of NIS 0.01 were issued following the exercise. The unexercised balance of the options granted is 23,493.

The above plan is carried out according to the principles set out in Section 102 of the Income Tax Ordinance, which stipulates, inter-alia, the terms for recognition of the expense to the Company and for determining the employees' tax liability in respect of the profits attributed thereto as benefits arising from the above plan.

The aforementioned expense will be recognized in the tax year that the benefit is credited to the employee.

NOTE 7 - TAXES ON INCOME:

a. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (hereafter - the law)

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

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

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

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

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

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

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

NOTE 7 - TAXES ON INCOME (continued):

b. Measurement of results for tax purposes under the Income Tax (Inflationary Adjustments) Law, 1985 (hereafter - the inflationary adjustments law)

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

As stated in note 1b, the financial statements are drawn up in NIS adjusted on the basis of the changes in the exchange rate of the dollar. The difference between the change in the Israeli CPI and the change in the exchange rate of the dollar - on an annual and cumulative basis - creates differences between the taxable income and the income reflected in the financial statements.

c. The Law for the Encouragement of Industry (Taxation), 1969

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

The Company files consolidated tax returns with certain subsidiaries.

d. Tax rates applicable to income not derived from "approved enterprises"

Income not eligible for the approved enterprise benefits mentioned in a. above is taxed at the regular rate - 36%.

e. Reform of the Israeli tax system

In 2003, the provisions of the Amendment to the Income Tax Ordinance (No. 132), 2002 (hereafter - the tax reform law) came into effect. The tax reform law comprehensively reforms certain parts of the Israeli tax system. Certain provisions of the tax reform law and anticipated supplementary provisions will only be applied from later dates.

In accordance with the provisions of the tax reform law, as from January 1, 2003, capital gains will be taxed at a reduced rate of 25%, instead of the regular rate of 36% at which they were taxed until the aforementioned date; with regard to the sale of assets acquired prior to January 1, 2003, the reduced tax rate will be applicable only for the gain allocated to capital gains earned after the implementation of that law, which will be calculated as prescribed by the tax reform law. Furthermore, the tax reform law stipulates that carryforward capital losses may be utilized against capital gains without any time restriction (the time limitation for the utilization has been removed in respect of capital losses which arose in the tax year 1996 and thereafter).

f. Carryforward tax losses

Carryforward tax losses of certain subsidiaries are adjusted NIS 14,002,000 and adjusted NIS 12,198,000 as of December 31, 2003 and 2002, respectively. Under the inflationary adjustments law, carryforward losses are linked to the Israeli CPI, and may be utilized indefinitely.

NOTE 7 - TAXES ON INCOME (continued):

g. Deferred income taxes

The composition of the deferred taxes, and the changes therein during 2003 and 2002, are as follows:

	Among current assets (1)	Among non-current assets (2)
	Adjusted NIS i	
Balance at January 1, 2002	(9,261)	
Changes in 2002 - amounts carried to income	(1,687)	
Balance at December 31, 2002	(10,948)	
Changes in 2003:		
Reclassification	3,885	(3,885)
Amounts carried to income	(64)	
Balance at December 31, 2003	(7,127)	(3,885)

(1) In respect of inventories and provisions for doubtful accounts, vacation and recreation pay and carryforward tax losses.

(2) In respect of carryforward tax losses.

(3) Mainly in respect of depreciable fixed assets.

The deferred taxes are computed at the rate of 36%.

h. Taxes on income included in the income statements:

1) As follows*:

	2003
	Adjusted
For the reported year:	
Current	4,235
Deferred, see g. above	3,471
	7,706
For prior years - current	
	7,706

* The tax expenses, for all reported years, originate in Israel.

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

NOTE 7 - TAXES ON INCOME (continued):

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

	2003		2002	
	%	Adjusted NIS in thousands	%	Adjuste NIS in thousand
Income before taxes on income, as reported in the statements of income	100.0	32,204	100.0	30,525
Theoretical tax on the above amount	36.0	11,593	36.0	10,989
Tax benefits arising from reduced tax rate for approved enterprises	(1.5)	(487)	(1.0)	(305)
	34.5	11,106	35.0	10,684
Increase in taxes resulting from computation of deferred taxes at a rate which is different from the theoretical rate				
Tax deduction in respect of options exercised by employees according to section 102 of the Israeli Income Tax Ordinance	(5.0)	(1,607)	(6.2)	(1,883)
Other - net	(5.6)	(1,793)	(1.3)	(396)
Taxes on income for the reported year	23.9	7,706	27.5	8,405

i. Tax assessments

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

NOTE 8 - LINKAGE TERMS OF MONETARY BALANCES:

a. As follows:

	December 31, 2003			
	In, or linked to, foreign currency (mainly dollar)	Linked to the Israeli CPI	Unlinked	I (m
	Adjusted NIS in thousands			
Assets:				
Current assets:				
Cash and cash equivalents	8,561		150,145	
Short-term deposit			20,000	
Receivables	48,457	215	210,560	
Investments in associated companies - long-term loans (2002 - including current maturities)	21,897	10,553	12,187	
	78,915	10,768	392,892	
Liabilities:				
Current liabilities:				
Short-term credit from banks			144,617	
Accounts payables and accruals	11,579		146,033	
Long-term liabilities (including current maturities):				
Loans from banks		372		
Notes		239,629		
Other liabilities	2,243		32,770	
	13,822	240,001	323,420	

As to exposures relating to fluctuations in foreign currency exchange rates and the use of derivatives for hedging purposes - see note 13a.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 8 - LINKAGE TERMS OF MONETARY BALANCES (continued):

b. Data regarding the exchange rate and the Israeli CPI:

	Exchange rate of one dollar	CPI*
	NIS	Points
At end of year:		
2003	4.379	178.6
2002	4.737	182.0
2001	4.416	170.9
2000	4.041	168.5
Change in the year:		
2003	(7.6%)	(1.9%)
2002	7.3%	6.5%
2001	9.3%	1.4%

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

NOTE 9 - COMMITMENTS AND LIABILITIES SECURED BY PLEDGES:

a. In respect of investment grants

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

The abovementioned subsidiaries have registered floating charges on all their assets in favor of the State of Israel as security for compliance with the terms of the investment grants received. In respect of the grant received by the associated company, the Company has provided a guarantee, with another associated company, for the repayment of the grant. As of December 31, 2003, the guarantee amounts to adjusted NIS 491,000.

b. In 1996, an associated company received a grant amounting to adjusted NIS 2,067,000 from the Fund for Preparation for Exposure of the Ministry of Industry and Trade. With respect to this grant, the Company has provided a bank guarantee of adjusted NIS 2,018,000 in favor of the State of Israel.

c. The Company has provided guarantees of adjusted NIS 2,189,000 in favor of an associated company, in connection with the latter's participation in a tender. If the associated company does not win the tender, the guarantee will become null and void.

d. A subsidiary has provided a guarantee of adjusted NIS 1,291,000 to a bank in respect of a loan extended to an associated company.

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

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

e. On May 7, 2001, the Company's board of directors resolved to carry out a plan, which was approved by the shareholders' meeting, to remunerate the Company's chairman of the board of directors. According to the plan, a remuneration will be granted, equal to the increase in the value of 50,000 shares of the Company in the period from May 7, 2001 (share price - NIS 194.37, linked to the terms of the plan) to May 7, 2008. The remuneration will be spread over the period commencing two years from the resolution of the board of directors, until the end of seven years from said resolution. As of December 31, 2003 one quarter of the remuneration is exercisable. A liability was included in the financial statements in respect of the above plan, under current liabilities.

NOTE 10 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION:

Balance sheets:

a. Short-term deposit

The deposit is for a period of one year, unlinked, and bears annual interest (payable monthly) at the rate of 5.5%.

	December 31	
	2003	2002
	Adjusted NIS in thousands	
b. Receivables:		
1) Trade:		
Open accounts	128,021	119,927
Checks collectible	12,975	11,809
	140,996	131,736
The item is:		
Net of allowance for doubtful accounts	13,696	12,752
Includes associated companies	26,594	19,863
2) Other:		
Employees and employee institutions	3,060	2,336
Associated companies (2002 - including current maturities)	89,691	96,047
Prepaid expenses	2,883	3,427
Advances to suppliers	9,365	7,214
Deferred income taxes, see note 7g	7,127	10,948
Income tax authority	12,005	6,235
Interest receivable	257	19
Sundry	3,858	5,664
	128,246	131,890

c. Inventories:

For industrial activities:		
Finished goods	14,819	13,168
Raw materials and supplies	10,426	10,387
	25,245	23,555
For commercial activities - purchased products	18,817	20,810
	44,062	44,365
Maintenance and sundry stores	46,592	46,130
	90,654	90,495

NOTE 10 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

d. Credit from banks:

1) As follows:

	December 31	
	2003	2002
	Adjusted NIS in thousands	
Short-term credit	144,617	104,010
Current maturities of long-term loans, see note 4a	372	701
	144,989	104,711

2) Classified by currency of repayment, linkage terms and interest rates, the amounts of short-term credit from banks are as follows:

	Weighted average interest rate at December 31,	December 31	
	2003	2003	2002
	%	Adjusted NIS in thousands	
	-		
Unlinked	6.0	144,617	79,138

In dollars		24,872
	144,617	104,010

e. Accounts payable and accruals - other:

	December 31	
	2003	2002
	Adjusted NIS in thousands	
Payroll and related expenses	37,324	30,628
Institutions in respect of employees	12,944	11,320
Customs and value added tax authorities	728	1,262
Associated company	521	469
Accrued interest	2,127	953
Accrued expenses	7,825	5,728
Sundry	11,541	12,110
	73,010	62,470

NOTE 10 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

Statements of income:

	2003	2002	2001
	Adjusted NIS in thousands		
f. Sales - net (1):			
Industrial activities (2)	326,825	310,628	312,751
Commercial activities	138,267	145,147	156,958
	465,092	455,775	469,709
(1) Including sales to associated companies	115,505	104,864	114,345
(2) Including sales to export	44,175	40,645	26,044
g. Cost of sales:			
Industrial activities:			
Materials consumed	72,292	61,649	69,267
Payroll and related expenses	85,419	78,903	93,195
Depreciation	22,739	21,182	22,807
Other manufacturing costs	80,709	77,765	89,330

Decrease (increase) in inventory of finished goods	(1,651)	12,585	(7,019
	259,508	252,084	267,580
Commercial activities - cost of products sold	102,677	111,687	116,244
	362,185	363,771	383,824
Including purchases from associated companies	26,374	29,423	32,036

h. Selling, marketing, administrative and general expenses:

Selling and marketing:			
Payroll and related expenses	15,225	14,692	16,986
Packaging, transport and shipping	5,719	5,689	5,842
Advertising	872		
Commissions	2,733	1,605	902
Depreciation	1,595	1,659	1,410
Other	6,052	5,522	5,906
	31,324	29,167	31,918
Administrative and general:			
Payroll and related expenses	36,360	31,927	38,166
Office supplies, rent and maintenance	1,938	1,750	2,526
Professional fees	486	1,010	1,174
Depreciation	2,814	3,884	4,865
Doubtful accounts and bad debts	944	1,791	766
Other	5,858	10,148	8,830
	48,400	50,510	56,327
Less - rent and participation from associated companies	23,401	24,128	22,886
	24,999	26,382	33,441

NOTE 10 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

	2003	2002
	Adjusted NIS in thou	
i. Other income (expenses):		
From the sale of apartments (1)	1,609	
From termination of an activity and		

disposal of assets(2)		(2,942)
From the issuance of shares of an associated company to a third party		
	1,609	(2,942)

1) In 2003, the Company sold apartments that it previously held for the use of its employees.

2) In 2002, the Company terminated operations at some of its sites, as follows:

   a) At the Molett site in Nahariya, the operation of the old household paper machine was terminated, following the introduction of a new tissue machine by Hogla-Kimberly Ltd., an associated company. Subsequently, the old paper machine was sold to a third party (overseas).

   b) In order to comply with the requirements of the Ministry of Environment, the operation of the old paper machines at the Shafir site in Tel-Aviv were terminated. The termination included dismissal of employees, sale of maintenance stores, sale of the machines to a third party (overseas) and other related costs (including closing inventories).

   c) The Company sold real estate that it owned in Ashdod.

   The effects of the restructuring resulting from the termination of the operations are as follows:

	2002
	Adjusted NIS in thousands
Severance pay expenses	(2,334)
Other expenses, net of sale proceeds	(4,475)
Gain on sale of real estate in Ashdod	3,867
	(2,942)

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

NOTE 10 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

	2003	2002	2
	Adjusted NIS in thousan		
j. Financial income (expenses) - net*:			
Expenses:			
In respect of long-term loans - net	1,607		
In respect of notes - including amortization of deferred charges	5,031	1,291	
Erosion of operating monetary balances, net of related hedges		2,289	1
In respect of short-term balances - net (2002 -net of borrowing costs capitalized to the cost of fixed assets)	16,917	1,506	
	23,555	5,086	1
Income:			
In respect of long-term loans - net		2,098	2
In respect of notes - including amortization of deferred charges			1
In respect of increase in value of operating monetary balances, net of related hedges	7,566		
In respect of short-term balances - net			2
	7,566	2,098	6
	(15,989)	(2,988)	5
* Including financial income (expenses) in respect of loans to associated companies	(1,376)	2,207	2

NOTE 11 - NET INCOME PER NIS 1 OF PAR VALUE OF SHARES:

a. The weighted average par value of shares used in computation of per share data is as follows:

	NIS
Year ended December 31:	
2003	40,197
2002	39,557
2001	39,474

b. In the reported years, plans for granting stock options to employees in the Group were taken into account in computing per share data, having regard to the quoted price of the Company's share at the end of each year.

NOTE 12 - INTERESTED PARTIES - TRANSACTIONS AND BALANCES:

a. Transactions:

1) Income (expenses):

	2003	2002	2001
	Adjusted NIS in thousands		
Sales	38,715	36,030	35,469
Costs and expenses	(7,009)	(6,038)	(14,373)

The amounts presented above represent transactions that the Company carried out in the ordinary course of business with interested parties (companies which are held by the Company's principal shareholder), at terms and prices similar to those applicable to non-affiliated customers and suppliers.

2) Benefits to interested parties:

	2003	2002	2001
Payroll to interested parties employed by the Company - adjusted NIS in thousands	*3,364	2,000	1,699
Number of people to whom the benefits relate	2	1	1
Remuneration of directors who are not employed by the Company - adjusted NIS in thousands	444	324	477
Number of people to whom the benefits relate	13	9	11

* In 2003, includes the Chief Executive Officer (hereafter - CEO) payroll (who was appointed in April 2003), in addition to the payroll of the Chairman of the Board of Directors (who served earlier as the CEO).

3) In 2003, 2001 and 2000, an interested party employed by the Company exercised 15,999, 5,334 and 10,666 options, respectively, granted to him under the 1998 plan for senior officers, into 8,529, 3,263 and 7,476 shares, respectively, of NIS 0.01 par value each, upon payment of their par value.

4) As to the plan for the remuneration of the Company's Chairman of the Board of Directors - see note 9e.

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

NOTE 12 - INTERESTED PARTIES - TRANSACTIONS AND BALANCES (continued):

b. Balances with interested parties:

	December 31	
	2003	2002
	Adjusted NIS in thousands	
Accounts receivable - commercial activity*	10,440	8,942
Accounts payables and accruals	2,430	88

* There were no significant changes in the balance during the year.

NOTE 13 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

a. Derivative financial instruments

The Company has only limited involvement with derivative financial instruments. The Company uses these instruments as hedges. The Company utilizes derivatives, mainly forward exchange contracts and currency options, to protect its dollar cash flows in respect of existing assets and liabilities. As the counter-parties to these derivatives are Israeli banks, the Company considers the inherent credit risks remote. As at December 31, 2003 and 2002, there are no balances in respect of transactions in derivative financial instruments.

In January 2004, the Company entered into a forward transaction for a period of one year, in order to hedge an amount of adjusted NIS 200 million against increases in the Israeli CPI.

b. Credit risks

The Company and its subsidiaries' cash and cash equivalents and the short-term deposit as of December 31, 2003 are deposited mainly with major Israeli banks or with foreign banks controlled by those Israeli banks. The Company and its subsidiaries considers the credit risks in respect of these balances to be remote.

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

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

NOTE 13 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued):

c. Fair value of financial instruments

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

The Company does not disclose the fair value of long-term loans and capital notes included under investments in associated companies as of December 31, 2003, aggregating adjusted NIS 44,637,000 (see note 2b) and of a capital note to an associated company in the amount of adjusted NIS 32,770,000 (see note 4c(1)), since their value cannot be reliably determined so long as they have no repayment dates.

NOTE 14 - SEGMENT INFORMATION:

a. Activities of the Company and its subsidiaries:

1) Manufacturing and marketing of paper and paper products (packaging and household paper), including collection and recycling of paper waste. The manufacturing of paper relies mainly on paper waste as raw material.

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

Most of the Group's sales are to the local market (Israel) and of its assets are located in Israel.

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

NOTE 14 - SEGMENT INFORMATION (continued):

b. Business segment data:

	Paper and recycling			Marke
	2003	2002	2001	2003
	Adjusted NIS in thousan			

Sales - net(1)	332,124	314,636	316,375	132,968
Income (loss) from ordinary operations	46,282	37,488	21,646	302
Financial income (expenses), net				
Other income (expenses)				
Income before taxes on income				
Segment assets (at end of year)	497,811	482,833	478,144	59,480
Unallocated assets (at end of year) (2)				
Consolidated total assets (at end of year)				
Segment liabilities (at end of year)	58,906	66,325	58,034	25,696
Unallocated liabilities (at end of year)				
Consolidated total liabilities (at end of year)				
Depreciation and amortization	25,523	24,422	27,068	2,724

(1) Represents sales to external customers.

(2) Including investments in associated companies.

	Total		
	2003	2002	2001
	Adjusted NIS in thousands		
Sales - net(1)	465,092	455,775	469,709
Income (loss) from ordinary operations	46,584	36,455	20,526
Financial income (expenses), net	(15,989)	(2,988)	5,102
Other income (expenses)	1,609	(2,942)	1,095
Income before taxes on income	32,204	30,525	26,723
Segment assets (at end of year)	557,291	548,067	545,918
Unallocated assets (at end of year) (2)	695,983	504,056	506,224
Consolidated total assets (at end of year)	1,253,274	1,052,123	1,052,142
Segment liabilities (at end of year)	84,602	99,255	88,075
Unallocated liabilities (at end of year)	554,442	301,918	329,594
Consolidated total liabilities (at end of year)	639,044	401,173	417,669
Depreciation and amortization	28,247	26,809	29,363

(1) Represents sales to external customers.

(2) Including investments in associated companies.

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Schedule

AMERICAN ISRAELI PAPER MILLS LIMITED

Details of Subsidiaries and Associated Companies
At December 31, 2003

	Percentage of direct and indirect holding in shares conferring equity and voting rights
	%
Main subsidiaries:	
Amnir Recycling Industries Limited	100.00
Graffiti Office Supplies and Paper Marketing Ltd.	100.00
Attar Marketing Office Supplies Ltd.	100.00
American Israeli Paper Mills Paper Industry (1995) Ltd.	100.00
Main associated companies:	
Hogla-Kimberly Ltd.	49.90
Subsidiaries of Hogla-Kimberly Ltd.:	
Hogla-Kimberly Marketing Limited	49.90
Molett Marketing Limited	49.90
Shikma Ltd.	49.90
Ovisan Sihhi Bez Sanai Ve Ticavet A.S	49.90
Hogla-Kimberly Holdings A.S	49.90
H-K Overseas (Holland) B.V	49.90
Neusiedler Hadera Paper Ltd.	49.90
Subsidiaries of Neusiedler Hadera Paper Ltd.:	
Grafinir Paper Marketing Ltd.	49.90
Yavnir (1999) Ltd.	49.90
Neusiedler Hadera Paper Marketing (1999) Ltd.	49.90
Mitrani Paper Marketing 2000 (1998) Ltd.	49.90
Carmel Container Systems Limited	26.25
C.D. Packaging Systems Limited*	63.20
Barthelemi Holdings Ltd.	33.91
T.M.M. Integrated Recycling Industries Ltd.**	41.60

* C.D. Packaging Systems Limited is partly held through Carmel Container Systems Limited (an associated company); the holding in voting shares of C.D. Packaging Systems Limited is 63.05%.

** T.M.M Integrated Recycling Industries Ltd. is partly held directly and partly through Barthelemi Holdings Ltd.

[AIPM LOGO]

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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.

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NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)

2003 ANNUAL REPORT

NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)

2003 ANNUAL REPORT

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REPORT OF INDEPENDENT AUDITORS

To the shareholders of NEUSIEDLER HADERA PAPER LTD.

We have audited the financial statements of 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 2002 and the related statements of income (loss), changes in shareholders' equity and cash flows for each of the three 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, including those prescribed by the Israeli Auditors (Mode of Performance) Regulations, 1973, and the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits 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 Company and consolidated - as of December 31, 2003 and 2002 and the results of operations, the changes in shareholders' equity and the cash flows - of the

Company and consolidated - for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted 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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NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)

BALANCE SHEETS
IN ADJUSTED NEW ISRAELI SHEKELS

	NOTE	CONSOLIDATED DECEMBER 31 2003	2002
		IN THOUSA	
ASSETS			
CURRENT ASSETS:	8		
Cash and cash equivalents	11	31,678	49,089
Accounts receivable:	10a		
Trade		147,748	154,995
American Israeli Paper Mills Limited and its subsidiaries - net	1a(3)		
Subsidiaries			
Other		11,296	12,796
Inventories	10b	89,231	79,698
Total current assets		279,953	296,578
INVESTMENT IN INVESTEE COMPANIES	2		
FIXED ASSETS:	3		
Cost		132,692	124,815
Less - accumulated depreciation		25,381	17,993
		107,311	106,822
GOODWILL, net of accumulated amortization		4,423	5,049

Total assets	391,687	408,449
	=======	=======

Date of approval of the financial statements: March 10, 2004

/s/ GUNTHER HASSLER	)	
GUNTHER HASSLER	)	CHAIRMAN OF THE BOARD OF DIRECTORS
/s/ YAKI YERUSHALM	)	
YAKI YERUSHALMI	)	VICE CHAIRMAN OF THE BOARD OF DIRECTORS
/s/ ELIAZ AMAR	)	
ELIAZ AMAR	)	CHIEF FINANCIAL OFFICER

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	NOTE	CONSOLIDATED DECEMBER 31 2003	2002
			IN T
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:	8		
Credit from banks	10c	15,108	14,670
Current maturities of long-term capital note	5		17,516
Accounts payable and accruals:	10d		
Trade - open accounts		104,097	76,650
American Israeli Paper Mills Limited and its subsidiaries - net	1a(3)	52,968	54,685
Subsidiaries			
Other		12,682	19,933
		--------	-------
Total current liabilities		184,855	183,454
		-------	-------
LONG-TERM LIABILITIES:			
Loans from bank	4	51,725	71,837
Capital notes from shareholders (2002 - net of current maturities)	5	43,790	70,064
Deferred income taxes	7e	29,247	19,557
Excess of losses of subsidiaries over the investments therein	2		

Liability for employee rights upon retirement	6	145	131
Total long-term liabilities		124,907	161,589
COMMITMENTS	9		
Total liabilities		309,762	345,043
SHAREHOLDERS' EQUITY:			
Share capital (ordinary shares of NIS 1 par value: authorized - 38,000 shares; issued and paid - 1,000 shares)		1	1
Capital surplus		43,352	43,352
Retained earnings		38,572	20,053
		81,925	63,406
Total liabilities and shareholders' equity		391,687	408,449

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

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NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)

STATEMENTS OF INCOME (LOSS)
IN ADJUSTED NEW ISRAELI SHEKELS

		CONSOLIDATED			
	NOTE	2003	2002	2001	2
				IN THOUSANDS	
SALES - net	10e	642,140	575,607	557,576	462
COST OF SALES	10f	556,890	*489,962	*505,476	391
GROSS PROFIT		85,250	85,645	52,100	71
SELLING, MARKETING, ADMINISTRATIVE AND GENERAL EXPENSES:	10g				
Selling and marketing		42,892	*42,481	*40,418	32
Administrative and general		8,640	10,321	9,671	6
		51,532	52,802	50,089	38
INCOME (LOSS) FROM ORDINARY OPERATIONS		33,718	32,843	2,011	32
FINANCIAL EXPENSES - net	10h	4,681	5,232	13,115	2

INCOME (LOSS) BEFORE TAXES ON INCOME		29,037	27,611	(11,104)	30
TAXES ON INCOME (TAX BENEFIT)	7	10,518	11,534	(3,272)	10
INCOME (LOSS) AFTER TAXES ON INCOME		18,519	16,077	(7,832)	19
SHARE IN PROFITS (LOSSES) OF INVESTEE COMPANIES, net	2			(369)	(1
NET INCOME (LOSS) FOR THE YEAR		18,519	16,077	(8,201)	18
				ADJUSTED NIS	
NET INCOME (LOSS) PER NIS 1 OF PAR VALUE OF SHARES	1m	18,519	16,077	(8,201)	18

* Reclassified.

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

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NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
IN ADJUSTED NEW ISRAELI SHEKELS

	SHARE CAPITAL		
	NUMBER OF SHARES	AMOUNT	CAPITAL SURPLUS
		IN THO	
BALANCE AT JANUARY 1, 2001	1,000	1	43,352
CHANGES DURING 2001 - loss			
BALANCE AT DECEMBER 31, 2001	1,000	1	43,352
CHANGES DURING 2002 - net income			
BALANCE AT DECEMBER 31, 2002	1,000	1	43,352
CHANGES DURING 2003 - net income			

BALANCE AT DECEMBER 31, 2003	1,000	1	43,352

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

(Continued) - 1

NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)
STATEMENTS OF CASH FLOWS
IN ADJUSTED NEW ISRAELI SHEKELS

	CONSOLIDATED			
	2003	2002	2001	2
			IN THOUSANDS	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss) for the year	18,519	16,077	(8,201)	1
Adjustments to reconcile net income (loss) to net cash provided by operating activities (a)	37,698	31,659	55,377	2
Net cash provided by operating activities	56,217	47,736	47,176	4
CASH FLOWS FROM INVESTING ACTIVITIES:				
Acquisition of a subsidiary consolidated for the first time (b)			(2,208)	
Purchase of fixed assets	(9,339)	(16,305)	(12,746)	(
Proceeds from sale of fixed assets	635	800	101	
Net cash used in investing activities	(8,704)	(15,505)	(14,853)	(
CASH FLOWS FROM FINANCING ACTIVITIES:				
Repayment of long-term loans	(21,116)	(7,266)		(2
Repayment of long-term capital notes from shareholders	(43,790)			(4
Short-term credit from banks - net	(18)	(4,147)	(5,257)	
Net cash used in financing activities	(64,924)	(11,413)	(5,257)	(6
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(17,411)	20,818	27,066	(2

BALANCE OF CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	49,089	28,271	1,205	4
BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR	31,678	49,089	28,271	2

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(Continued) - 2

NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)
STATEMENTS OF CASH FLOWS
IN ADJUSTED ISRAELI SHEKELS

	CONSOLIDATED		
	2003	2002	2001
	IN THOUSANDS (EXCEPT PER		
(A) ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Income and expenses not involving cash flows:			
Share in losses (profits) of investee companies - net			369
Depreciation and amortization	8,626	8,077	6,501
Deferred income taxes - net	10,438	11,483	(2,538)
Liability for employee rights upon retirement	14	5	(6)
Capital losses (gains) on sale of fixed assets - net	215	84	189
Linkage differences on (erosion of) long-term bank loans	1,460	(134)	(2,138)
Erosion of (linkage differences on) long-term loans to investee company			112
	20,753	19,515	2,489
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable:			
Trade	7,247	(696)	22,674
American Israeli Paper Mills Limited and its subsidiaries - net			
Subsidiaries			
Other	752	9,025	(1,678)

Decrease (increase) in inventories	(9,533)	13,010	61,105	
Increase (decrease) in accounts payable and accruals:				
Trade	27,447	6,043	(3,953)	
American Israeli Paper Mills Limited and its subsidiaries - net	(1,717)	(18,799)	(18,479)	(
Subsidiaries				
Other	(7,251)	3,561	(6,781)	
	16,945	12,144	52,888	
	37,698	31,659	55,377	

(Concluded) - 3

NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)
STATEMENTS OF CASH FLOWS
IN ADJUSTED ISRAELI SHEKELS

(b) ACQUISITION OF A SUBSIDIARY CONSOLIDATED FOR THE FIRST TIME: Fair value of assets and liabilities acquired, at acquisition date:
   Working capital deficiency (excluding cash and cash equivalents) - net
   Fixed assets
   Liability for employee rights upon retirement
   Deferred income taxes - net
Investment in the associated company at acquisition date*
Goodwill arising on acquisition**

Less - amount recorded against debit balance of the former shareholder, see supplementary information (2) below

*   See note 2a(2).
** Including goodwill balance at acquisition date.

	CONSOLIDATED			
	2003	2002	2001	2003
			IN THOUSANDS	
SUPPLEMENTARY CASH FLOW INFORMATION:				
Interest paid	3,757	3,582	4,664	3,757
Income taxes paid - net	(480)	164	666	

SUPPLEMENTARY INFORMATION ON INVESTING AND FINANCING ACTIVITIES NOT INVOLVING CASH FLOWS:

1) In July 2001, the long-term shareholders' loans were converted into capital notes. This conversion is not reflected among financing activities.

2) On April 1, 2001 the Company increased its holdings in the associated company, from 33.3% to 100%. Part of the consideration - adjusted NIS 1,278,000 - which was recorded against debit balance of the former shareholder (which is included among the current account of subsidiaries as of December 31, 2001), is not reflected among investing activities.

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

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NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies, applied on a consistent basis, are as follows. As to the adoption for the first time in 2003 of the accounting for impairment of assets, see k. below.

a. GENERAL:

1) Incorporation and operations

Neusiedler Hadera Paper Ltd. (hereafter - the Company) was incorporated and commenced operations on January 1, 2000. The Company and its subsidiaries (hereafter - the Group), are engaged in the production and sale of paper and paper products - mainly in Israel, see also note 13.

Effective as of January 1, 2003, as part of a change in the organizational structure of the Group, all marketing and selling activities were transferred to one subsidiary with three logistics sites. In the past, the Group's operations in marketing were executed by four subsidiaries. Accordingly, those subsidiaries' employees are now employed by the Company and its inventories were transferred to the remaining subsidiary.

Those subsidiaries continued operating in 2003,mainly for collecting old debts.

As to agreements with AIPM (see (3) below), see note 11a(2).

2) Use of estimates in the preparation of financial statements

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

3) Definitions:

The ultimate parent company - Anglo American Plc.

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

The associated company - Miterani Paper Marketing 2000 (1998) Ltd..

Investee companies - subsidiaries and the associated company.

Shareholders - Neusiedler AG and American Israeli Paper Mills Limited (hereafter - AIPM) which hold 50.1% and 49.9% of the Company's share capital, respectively.

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

Affiliated company - companies in which AIPM exerts material influence. Material influence is deemed to exist when the percentage of holding in said company is 20% or more, unless there are circumstances that contradict this assumption.

Goodwill - the difference between the cost of investment in an investee company and the Company's share in the fair value of its net underlying assets at time of acquisition, net of applicable taxes.

B. ADJUSTED FINANCIAL STATEMENTS:

1) The Company and its subsidiaries maintain their accounts in nominal new Israeli shekels ("NIS") and in U.S. dollars ("dollars"). All figures in the financial statements are presented in NIS adjusted for the changes in the exchange rate of the dollar (rather than the changes in the Israeli consumer price index; hereafter - Israeli CPI).

As for discontinuance of adjusting financial statements for the effects of inflation, with effect from January 1, 2004, see also o. hereafter.

The adjusted NIS data are the product of the data in dollar terms, multiplied by the representative exchange rate of the dollar at December 31, 2003 - $1 = NIS 4.379 (see also note 8b).

Condensed nominal Israeli currency data of the Company are presented in note 14.

2) Non-monetary balance sheet items have been adjusted on the basis of the changes in the exchange rate of the dollar since the related transactions were carried out. The income statement components relating to these non-monetary balance sheet items have been adjusted on the same basis as the related balance sheet items.

The investment in the associated company and the Company's share in its operating results have been determined based on its financial statements, adjusted on the basis of the changes in the exchange rate of the dollar. Income statement components (except financing) relating to transactions carried out in the reported year - sales, purchases, labour costs, etc. - have been adjusted on the basis of the exchange rates in effect on transaction dates.

Financial income and expenses represent such income and expenses in real terms and the erosion of balances of monetary items during the year.

3) The amounts of non-monetary items do not necessarily represent realization value or any other economic value, but only their original historical values adjusted on the basis of the changes in the exchange rate of the dollar. In these financial statements, the term "cost" signifies cost in adjusted NIS.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

c. PRINCIPLES OF CONSOLIDATION:

1) The consolidated financial statements include the accounts of the Company and its subsidiaries. A list of the

subsidiaries is presented in the appendix to the financial statements.

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

3) As to goodwill, see e(2) below.

d. INVENTORIES

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

e. INVESTMENTS IN INVESTEE COMPANIES:

1) The investments in these companies (in the financial statements of the Company) are accounted for by the equity method.

2) Goodwill is amortized in equal annual installments, over a period of 10 years, commencing in the year of acquisition.

f. FIXED ASSETS:

1) Fixed assets are stated at cost.

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

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

Leasehold improvements are amortized by the straight-line method over the expected term of the lease, which is shorter than the estimated useful life of the improvements.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

g. DEFERRED INCOME TAXES:

1) Deferred taxes are computed in respect of differences between the amounts presented in these statements and those taken into account for tax purposes. As to the main factors in respect of which deferred taxes have been included - see note 7e. Deferred tax balances are computed at the tax rate

expected to be in effect at time of release to income from the deferred tax accounts. The amount of deferred taxes presented in the income statements reflects changes in the above balances during the reported years.

2) Taxes which would apply in the event of disposal of investments in the investee companies have not been taken into account in computing the deferred taxes, as the Company intends to hold these investments, not to realize them.

h. ALLOWANCE FOR DOUBTFUL ACCOUNTS

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

i. REVENUE RECOGNITION

Revenue from sale of products, net of discounts granted, is recognized upon shipment (date of transfer of title). Revenue from sale of products for export, net of discounts granted, is recognized upon shipment from port.

j. DERIVATIVES FINANCIAL INSTRUMENTS

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

Gains and losses related to derivatives that are hedging firm commitments are deferred, and ultimately recognized in income as part of the measurement of the results of the underlying hedged transactions.

k. IMPAIRMENT IN VALUE OF LONG-LIVED ASSETS

In February 2003, Accounting Standard No. 15 of the Israeli Accounting Standards Board - (hereafter - IASB) "Impairment of Assets", became effective. This standard requires a periodic review to evaluate the need for a provision for the impairment of the company's non-monetary assets - fixed assets and identifiable intangibles, including goodwill, as well as investments in associated companies.

Accordingly, commencing with the interim financial statements for the 3-month period ended March 31, 2003, the company assesses - at each balance sheet date - whether any events have occurred or changes in circumstances have taken place, which might indicate that there has been an impairment of one or more of the above assets. When such indicators of impairment are present, the company evaluates whether the carrying value of the asset in the company's accounts can be recovered from the cash flows anticipated from that asset.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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

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

Through December 31, 2002, the Group applied the provisions for assessing and recording impairment of assets, prescribed by the U.S. standard, FAS 121. The adoption of this standard has not had any effect on the Group.

l. CASH EQUIVALENTS

The Group considers all highly liquid investments, which include short-term bank deposits (up to three months from date of deposit) that are not restricted as to withdrawal or use, to be cash equivalents.

m. NET INCOME (LOSS) PER NIS 1 OF PAR VALUE OF SHARES

Net income (loss) per NIS 1 of par value of shares is computed in accordance with Opinion 55 of the Israeli Institute.

The par value of shares used in computation of per share data is NIS 1,000.

n. ADVERTISING EXPENSES

Advertising expenses are charged to income as incurred (as to the amount of the expenses, see note 10g).

o. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS:

In October 2001, the IASB issued Israel Accounting Standard No. 12 - Discontinuance of Adjusting Financial Statements for Inflation, which provided for the discontinuance of adjusting financial statements, as of January 1, 2003. In December 2002, Accounting Standard No. 17 was issued that postponed the date from which Accounting Standard No. 12 is to be applied until January 1, 2004. The inflation-adjusted amounts as of December 31, 2003, as presented in these financial statements, will be the base for the financial reporting in the following periods.

The Company is currently assessing the effect, if any, of the adoption of this standard, thus, it expects the implementation of Standard No. 12 will mainly affect financing income and expenses items.

(An Israeli Corporation)

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 - INVESTMENTS IN INVESTEE COMPANIES:

A. COMPOSED AS FOLLOWS:

	THE COMPANY	
	DECEMBER 31	
	2003	2002
	ADJUSTED NIS IN THOUSANDS	
Shares:		
Cost	4,338	4,338
Share in accumulated losses	(2,476)	(1,216)
	1,862	3,122
Long-term loan (1)	2,478	2,325
	4,340	5,447

The investment is presented in the balance sheets as follows:

Among investments	6,932	7,505
Among long-term liabilities	(2,592)	(2,058)
	4,340	5,447

(1) The loan is linked to the Israeli CPI and is interest free. Repayment date has not yet been fixed.

(2) On April 1, 2001, the Company increased its holdings in the associated company and reached control and ownership of 100%.

B. The changes in the investments during 2003 are as follows:

	THE COMPANY
	ADJUSTED NIS IN THOUSANDS
Balance at beginning of year	5,447
Changes during the year:	
Share in losses, net	(1,260)
Erosion of long-term loans	153
Balance at end of year	4,340

NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 3 - FIXED ASSETS

Composition of assets, grouped by major classifications, and changes therein during 2003, are as follows:

	COST			
		CHANGES DURING THE YEAR		
	BALANCE AT BEGINNING OF YEAR	ADDITIONS	RETIREMENTS	BALANCE AT END OF YEAR
	ADJUSTED NIS IN THOUSANDS			
CONSOLIDATED:				
Machinery and equipment	111,743	7,620	820	118,543
Vehicles	2,421	6	642	1,785
Office furniture and equipment (including computers)	2,426	367		2,793
Leasehold improvements	3,668	56		3,724
Payments on account of machinery and equipment	4,557	1,290		5,847
	124,815	9,339	1,462	132,692
THE COMPANY:				
Machinery and equipment	110,130	7,620	508	117,242
Vehicles	81	6	16	71
Office furniture and equipment (including computers)	1,462	367		1,829
Leasehold improvements	2,595	56		2,651
Payments on account of machinery and equipment	4,534	1,290		5,824
	118,802	9,339	524	127,617

ACCUMULATED DEPRECIATION

CHANGES DURING THE YEAR

	BALANCE AT BEGINNING OF YEAR	ADDITIONS	RETIREMENTS	BALANCE AT END OF YEAR
	ADJUSTED NIS IN THOUSANDS			ADJUSTED NIS IN THOUSANDS
CONSOLIDATED:				
Machinery and equipment	15,058	6,883	238	21,703
Vehicles	1,214	375	374	1,215
Office furniture and equipment (including computers)	682	354		1,036
Leasehold improvements	1,039	388		1,427
Payments on account of machinery and equipment				
	17,993	8,000	612	25,381
THE COMPANY:				
Machinery and equipment	14,463	6,721	151	21,033
Vehicles	38	11	11	38
Office furniture and equipment (including computers)	333	257		590
Leasehold improvements	777	263		1,040
Payments on account of machinery and equipment				
	15,611	7,252	162	22,701

NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 4 - LOANS FROM BANK:

	WEIGHTED AVERAGE INTEREST RATES	CONSOLIDATED A COMPANY
		DECEMBER 3
		2003
		ADJUSTED

	%	IN THOUSA
a) Composed as follows:		
Linked to the dollar	3.08	44,755
Linked to the Israeli CPI	6.55	22,078
		66,833
Less - current maturities		15,108
		51,725

b) The non-current portion of the loans matures as follows:	
Second year	15,297
Third year	15,497
Fourth year	11,332
Fifth year	3,655
Sixth year and thereafter	5,944
	51,725

c) The Company is required, inter alia, to fulfill certain operational conditions and to maintain certain financial ratios. If the Company defaults on the covenants, the banks are entitled to demand early repayment of the loans - in whole or in part. The Company believes that it is in compliance with all covenants stipulated by the banks.

d) As to a "negative pledge agreement" signed by the Company, see note 9c.

NOTE 5 - CAPITAL NOTES

The capital notes, from shareholders, are linked to the dollar and bear no interest. Repayment date have not been fixed. In 2003, the Company paid the shareholders an aggregate amount of NIS 43,790,000 in respect of capital notes.

NOTE 6 - EMPLOYEE RIGHTS UPON RETIREMENT:

a. Israeli labor laws and agreements require the Group to pay severance pay to employees dismissed or leaving their employ under certain circumstances, computed on the basis of the number of years of service and, generally, the latest pay rate (one month's pay for each year of service) or of a pension upon retirement.

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

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

The liability presented in the balance sheets represents the severance pay liability in respect of temporary employees.

b. The expenses relating to employee rights upon retirement, which reflect the amounts that were deposited during the reported years with provident funds, pension funds and various insurance policies in respect of permanent employees, and severance payments made in respect of temporary employees, together amount to adjusted NIS 3,827,000, adjusted NIS 2,356,000 and adjusted NIS 2,497,000 in 2003, 2002 and 2001 respectively.

NOTE 7 - TAXES ON INCOME:

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

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

As stated in note 1b, the financial statements are drawn up in NIS adjusted on the basis of the changes in the exchange rate of the dollar. The difference between the change in the Israeli CPI and the change in the exchange rate of the dollar - on an annual and cumulative basis - creates differences between the taxable income and the income reflected in the financial statements.

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

The Company is an "industrial company" as defined by this law. As such, it is entitled to claim, and has in fact claimed, depreciation at accelerated rates on equipment used in industrial activity as stipulated by regulations published under the inflationary adjustments law.

NOTE 7 - TAXES ON INCOME (continued):

c. REFORM OF THE ISRAELI TAX SYSTEM

In 2003, the provisions of the Amendment to the Income Tax Ordinance (No. 132), 2002 (hereafter - the tax reform law) came into effect. The tax reform law comprehensively reforms certain parts of the Israeli tax system. Certain provisions of the tax reform law and anticipated supplementary provisions will only be applied from later dates.

In accordance with the provisions of the tax reform law, as from January 1, 2003, capital gains will be taxed at a reduced rate of 25%, instead of the regular rate of 36% at which they were taxed until the aforementioned date; with regard to the sale of assets acquired prior to January 1, 2003, the reduced tax rate will be applicable only for the gain allocated to capital gains earned after the implementation of that law, which will be calculated, as prescribed by the tax reform law.

Furthermore, the tax reform law stipulates that carryforward capital losses may be utilized against capital gains, without any time restriction (the time limitation for the utilization has been removed in respect of capital losses which arose in the tax year 1996 and thereafter).

d. CARRYFORWARD TAX LOSSES

Carryforward tax losses of the Group and the Company are adjusted NIS 14,997,000 and 14,528,000 at December 31, 2003, respectively. (December 31, 2002 - adjusted NIS 39,037,000). Under the inflationary adjustments law, the carryforward losses are linked to the Israeli CPI.

NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 7 - TAXES ON INCOME (continued):

e. Deferred income taxes:

1) Composition of the deferred taxes, and the changes therein during 2003 and 2002, are as follows:

		PROVISIONS FOR EMPLOYEE RIGHTS		
DEPRECIABLE FIXED ASSETS	INVENTORIES	SEVERANCE PAY	VACATION AND RECREATION PAY	ALL DO AC
ADJUSTED NIS IN THOUSANDS				

CONSOLIDATED:					
Balance at January 1, 2002	(18,879)	(1,379)	44	1,636	1
Changes in 2002 - amounts carried to income	(8,214)	1,274	4	(226)	
Balance at December 31, 2002	(27,093)	(105)	48	1,410	1
Changes in 2003 - amounts carried to income	(2,206)	649	4	108	
Balance at December 31, 2003	(29,299)	544	52	1,518	1

NEUSIEDLER HADERA PAPER LTD.
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NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 7 - TAXES ON INCOME (continued):

e. Deferred income taxes (continued):

	DEPRECIABLE FIXED ASSETS	INVENTORIES	PROVISIONS FOR EMPLOYEE RIGHTS: SEVERANCE PAY	PROVISIONS FOR EMPLOYEE RIGHTS: VACATION AND RECREATION PAY	IN C
	ADJUSTED NIS IN THOUSANDS				
THE COMPANY:					
Balance January 1, 2002	(18,879)	(1,113)	27	1,354	1
Changes in 2002 - amounts carried to income	(8,214)	1,074	7	(169)	(
Balance at December 31, 2002	(27,093)	(39)	34	1,185	1
Changes in 2003 - amounts carried to income	(2,206)	403	18	333	(
Balance at December 31, 2003	(29,299)	364	52	1,518	

The deferred taxes are computed at the rate of 36%.

NEUSIEDLER HADERA PAPER LTD.
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NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 7 - TAXES ON INCOME (continued):

e. Deferred income taxes (continued):

2) Deferred taxes are presented in the balance sheets, as follows:

	CONSOLIDATED			THE COMP	
	AMONG CURRENT ASSETS(1)	AS A NON-CURRENT LIABILITY(2)	TOTAL	AMONG CURRENT ASSETS(1)	AS A NON-CURRE LIABILIT
	ADJUSTED NIS IN THOUSANDS			ADJUSTED NIS I	
Balance at January 1, 2002	1,533	(259)	1,274	241	(2,208
Changes in 2002	7,815	(19,298)	(11,483)	7,473	(17,366
Balance at December 31, 2002	9,348	(19,557)	(10,209)	7,714	(19,574
Changes in 2003	(748)	(9,690)	(10,438)	(602)	(9,673
Balance at December 31, 2003	8,600	(29,247)	(20,647)	7,112	(29,247

(1) In respect of inventories, allowance for doubtful accounts, carryforward tax losses, vacation and recreation pay.

(2) In respect of depreciable fixed assets, severance pay and carryforward tax losses.

(3) The deferred taxes are computed at the rate of 36%.

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NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 7 - TAXES ON INCOME (continued):

f. Taxes on income included in the statements of income (loss):

1) As follows:

CONSOLIDATED			THE COMPANY	
2003	2002	2001	2003	2002
ADJUSTED NIS IN THOUSANDS				

For the reported year:					
Current	80	51			(93)
Deferred, see d above	10,438	10,220	(1,761)	10,275	9,893
	10,518	10,271	(1,761)	10,275	9,800
For previous years:					
Current			(733)		
Deferred		1,263	(778)		
	10,518	11,534	(3,272)	10,275	9,800

NEUSIEDLER HADERA PAPER LTD.

(An Israeli Corporation)
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 7 - TAXES ON INCOME (continued):

f. Taxes on income included in the statements of income (loss) (continued):

2) Following is a reconciliation of the theoretical tax amount, assuming all income (loss) is taxed at the regular rate, and the actual tax amount:

	CONSOLIDATED				
	2003		2002		
	%	ADJUSTED NIS IN THOUSANDS	%	ADJUSTED NIS IN THOUSANDS	
Income (loss) before taxes on income, as reported in the statements of income (loss)	100.0	29,037	100.0	27,611	(1
Theoretical tax (tax benefit) on the above amount	36.0	10,453	36.0	9,940	(
Changes in taxes resulting from:					
Differences between Israeli CPI Adjusted tax returns and dollar-adjusted financial statements - net (see a above)	0.2	65	0.7	186	
Other - net			0.5	145	
Taxes on income (tax benefit) for the reported year	36.2	10,518	37.2	10,271	(

	THE COMPANY			
	2003		2002	
	%	ADJUSTED NIS IN THOUSANDS	%	ADJUSTED NIS IN THOUSANDS
Income (loss) before taxes on income, as reported in the statements of income (loss)	100.0	30,054	100.0	26,815
Theoretical tax (tax benefit) on the above amount	36.0	10,819	36.0	9,653
Changes in taxes resulting from:				
Differences between Israeli CPI Adjusted tax returns and dollar-adjusted financial statements - net (see a above)	1.8	(544)	0.3	78
Other - net			0.3	69
Taxes on income (tax benefit) for the reported year	34.2	10,275	36.6	9,800

g. Tax assessments

The Company and its subsidiaries have not been assessed for tax purposes since incorporation.

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NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 8 - LINKAGE TERMS OF MONETARY BALANCES:

a. As follows:

	CONSOLIDATED	
	DECEMBER 31, 2003	
	IN, OR LINKED TO, FOREIGN CURRENCY (MAINLY THE DOLLAR)	LINKED TO THE ISRAELI CPI
	ADJUSTED NIS IN THOUSANDS	
Assets:		
Current assets:		

Cash and cash equivalents	24,492	
Accounts receivable:		
Trade	34,213	
Other		
	-------	------
Long-term loan to subsidiary		
	58,705	
	=======	
Liabilities:		
Current liabilities -		
accounts payable and accruals:		
Trade	85,386	
AIPM and its subsidiaries - net		
Other	2,881	
Long-term liabilities:		
Loans from bank (including current maturities)	44,755	22,078
Capital notes from shareholders (including current maturities)	43,790	
	--------	------
	176,812	22,078
	========	======

	THE COMPANY	
	DECEMBER 31, 2003	
	IN, OR LINKED TO, FOREIGN CURRENCY (MAINLY THE DOLLAR)	LINKED TO THE ISRAELI CPI
	ADJUSTED NIS IN THOUSANDS	
Assets:		
Current assets:		
Cash and cash equivalents	12,896	
Accounts receivable:		
AIPM and its subsidiaries - net		
Other		
Long-term loan to subsidiary		2,478
	-------	-----
	12,896	2,478
	=======	=====
Liabilities:		
Current liabilities -		
accounts payable and accruals:	37,826	
AIPM and its subsidiaries - net		
Subsidiaries	2,881	
Other		
Long-term liabilities:	44,755	22,078
Loans from bank (including current maturities)		
Capital notes from shareholders (including current maturities)	43,790	
	-------	-----
	129,252	22,078
	=======	=====

NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 8 - LINKAGE TERMS OF MONETARY BALANCES (continued):

b. Data regarding the exchange rate and the Israeli CPI:

	EXCHANGE RATE OF ONE DOLLAR	CPI*
	NIS	POINTS
At end of year:		
2003	NIS 4.379	178.6
2002	NIS 4.737	182.0
2001	NIS 4.416	170.9
2000	NIS 4.041	168.5
Increase (decrease) during the year:		
2003	(7.6%)	(1.9%)
2002	7.3%	6.5%
2001	9.3%	1.4%

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

NOTE 9 - COMMITMENTS AND LIABILITIES SECURED BY PLEDGES:

a. The subsidiaries entered into operating lease agreements for the buildings they use. The agreements are for periods ending through 2008. The projected annual rental payments for the next four years, based on rates in effect as of December 31, 2003, approximate adjusted NIS 1,579,000.

b. As to a lease agreement relating to the Company, see note 11a(2).

c. To secure bank loans and credits (the balance of which at December 31, 2003 is adjusted NIS 66,833,000), the Company signed a "negative pledge agreement," under which it is committed not to pledge its assets (of all kinds), excluding fixed pledges relating to assets financed by others.

NOTE 10 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION:

Balance sheets:

a. Accounts receivable:

	CONSOLIDATED DECEMBER 31		THE COMPANY DECEMBER 31	
	2003	2002	2003	2002
	ADJUSTED NIS IN THOUSANDS			

1) Trade:				
Composed as follows:				
Open accounts	111,796	119,080		2,811
Cheques receivable	35,952	35,915		
	147,748	154,995		2,811
The item includes (is net of):				
Neusiedler AG, see note 1a(3)	18,957	34,200		
= ==				
Affiliated company		2,811		2,811
Allowance for doubtful accounts	3,630	4,106		

NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 10 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

	CONSOLIDATED		THE COM
	DECEMBER 31		DECEMB
	2003	2002	2003
	ADJUSTED NIS IN THOUSA		
2) Other:			
Institutions	201	716	
Customs and value added tax (VAT) authorities*			4,922
Prepaid expenses	990	504	329
Advances to suppliers	736	451	569
Amounts accrued in respect of forward transactions, see note 12c		505	
Deferred income taxes, see note 7e	8,600	9,348	7,112
Sundry	769	1,272	526
	11,296	12,796	13,458

* Consolidated VAT returns are filed by the Group

b. Inventories:

For industrial activities:

Finished goods and goods in process	32,584	38,317	31,262

Raw materials and supplies	31,389	28,034	31,388
	63,973	66,351	62,650
For commercial activities - purchased products	25,258	13,347	
	89,231	79,698	62,650
The item is net of provision for obsolescence	906	1,375	530

c. Credit from banks:

Composed as follows:

Short-term credit		18	
Current maturities of loans from bank, see note 4	15,108	14,652	15,108
	15,108	14,670	15,108
Unutilized credit lines	87,580	87,765	87,580

In 2003 and 2002, the Company and its subsidiaries entered into an agreement for a bank credit facility, pursuant to which the Company and its subsidiaries may, from time to time, borrow an aggregate principal amount of up to adjusted NIS 87,580,000. Under the terms of the agreement, the credit facility has no time limit.

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NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 10 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

d. Accounts payable and accruals:

1) Trade:

	CONSOLIDATED	
	DECEMBER 31	
	2003	2002
	ADJUSTED NIS	
The item includes:		
Neusiedler AG	7,803	1,502
Affiliated company	1,733	3,943

2) Other:

Payroll and related expenses	1,914	1,594
Provision for vacation and recreation pay	4,226	3,897
Customs and value added tax (VAT) authorities*	368	1,008
Interest payable	2,882	3,416
Advances from customers	258	5,032
Neusiedler AG	552	1,901
Sundry	2,482	3,085
	12,682	19,933

* Consolidated VAT returns are filed by the Group.

Statements of income (loss):

	CONSOLIDATED			
	2003	2002	2001	2003
	ADJUSTED NIS IN THOUSA			
e. Sales - net (1):				
Industrial activities (2)	455,927	424,195	406,035	462,65
Commercial activities	186,213	151,412	151,541	
	642,140	575,607	557,576	462,65
(1) Including sales to:				
Investee companies			13,991	462,65
Shareholders and its subsidiaries	170,811	154,765	119,516	
Affiliated company	320	832	1,278	
(2) Including export, see note 13	157,303	149,260	126,059	

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NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 10 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

	CONSOLIDATED			
	2003	2002	2001	2
	ADJUSTED NIS IN THO			
f. Cost of sales:				
Industrial activities:				
Materials consumed	271,334	251,070	253,333	27
Payroll and related expenses	30,482	**25,608	**29,373	3
Energy costs	43,166	36,539	34,335	4
Depreciation	7,243	6,464	5,131	
Other manufacturing costs and expenses (including rent)	34,758	**29,181	**33,580	3
Decrease (increase) in inventories of finished goods and goods in process in process	(7,269)	18,975	*30,719	
	379,714	367,837	386,471	39
Commercial activities - cost of products sold	177,176	122,125	119,005	
	556,890	489,962	505,476	39

* After deduction of adjusted NIS 8,625,000 - amounts refunded from insura

** Reclassified.

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NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 10 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

	CONSOLIDATED		
	2003	2002	2001
	ADJUSTED NIS IN T		
g. Selling, marketing, administrative and general expenses:			
Selling and marketing:			
Payroll and related expenses	16,913	*18,190	*18,922
Packaging and shipping	17,460	14,740	11,709

Office and warehouse rent and maintenance	4,144	*6,148	*6,094
Equipment and vehicle maintenance	1,178	1,427	2,098
Advertising	180	153	245
Commissions	1,865	176	298
Subsistence and travel	337	311	153
Depreciation	670	880	789
Other	145	456	110
	42,892	42,481	40,418
Administrative and general:			
Payroll and related expenses	3,821	3,310	3,841
Office supplies, rent and maintenance	1,496	2,339	1,843
Professional fees and and maintenance fee	1,594	2,227	2,189
Depreciation and amortization	652	733	581
Doubtful accounts and bad debts	679	1,475	955
Other	398	237	262
	8,640	10,321	9,671

* Reclassified.

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NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 10 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

	CONSOLIDATED		
	2003	2002	2001
	ADJUSTED NIS IN T		
h. Financial income expenses) - net:			
Expenses:			
In respect of long-term loans	3,254	4,208	5,771
Erosion of operating monetary balances, net of related hedges		634	4,946
In respect of interest			

and exchange differences on customer's balances - net	3,770	1,147	875
In respect of short-term balances - net			1,253
Other			270
	(7,024)	(5,989)	(13,115)
Income:			
In respect of increase in value of cash balances relating to operating activity			
Erosion of operating monetary balances, net of related hedges	350		
In respect of short-term balances - net	1,993	473	
Other		284	
	2,343	757	
	(4,681)	(5,232)	(13,115)

NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 11 - "INTERESTED PARTIES" - TRANSACTIONS AND BALANCES:

a. Transactions - expenses (income):

1) As follows:

	CONSOLIDATED			THE COM	
	2003	2002	2001	2003	200
	ADJUSTED NIS IN THOUSANDS				
Sales	(171,131)	(155,599)	(120,795)		
Costs and expenses	73,414	71,750	79,072	73,112	66
Financial - net	13,759	(3,722)	(3,681)	858	

2) The Company leases its premises from AIPM and uses services (including electricity, water, maintenance and professional

services) rendered under agreements which are renewed every year. The expenses in respect of the above agreements are presented in (1) above.

3) The transactions as above represent transactions carried out in the ordinary course of business, at terms and prices as with non-affiliated customers and suppliers.

b. Balances with interested parties:

	CONSOLIDATED	
	DECEMBER 31	
	2003	2002
		ADJUSTED NI
Current assets - accounts receivable	18,957	37,011
Current liabilities - accounts payable and accruals	62,504	62,578
Capital notes and current maturities of long-term capital notes	43,790	87,580

NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 12 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

a. Derivative financial instruments

The Company has only limited involvement with derivative financial instruments. The Company uses these instruments as hedges. The Company utilizes derivatives, mainly forward exchange contracts to protect its dollar cash flows in respect of existing assets and liabilities. As the counter-parties of these derivatives are Israeli banks, the Company considers the interest credit risks remote. As of December 31, 2003 there are no balances in respect of transactions in derivatives financial instruments.

b. Credit risks

The Group's cash and cash equivalents are deposited mainly with major Israeli banks.

Most of the Group's sales are made in Israel and Europe, to a large number of customers. The exposure to credit risks relating to trade receivables is limited due to the relatively large number of customers. The Group performs ongoing credit evaluations of its debtors and requires collaterals when appropriate. An appropriate allowance for doubtful accounts is included in the financial statements.

c. Fair value of financial instruments

The financial instruments of the Group consist mainly of non-derivative assets and liabilities (which include working capital items, long-term loans to investee companies, long-term loans received and capital notes) and of some derivatives (see a. above).

In view of their nature, the fair value of the financial instruments included in working capital of the Group is usually identical or close to their carrying value. The fair value of the long-term loans also approximates the carrying value, since they bear interest at rates close to the prevailing market rates.

The Company does not disclose the fair value of capital notes from shareholders, included under current liabilities and long-term liabilities aggregating adjusted NIS 43,790 in thousands (see note 5), since their value cannot be reliably determined prior to determining their repayment dates.

The fair value and the carrying value of derivatives at December 31, 2002, is approximately adjusted NIS 505,000, and generally reflects the estimated amounts that the Group would receive or pay to terminate the contracts at the reporting dates.

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NOTE 13 - BUSINESS AND GEOGRAPHICAL SEGMENTS

Following are data regarding the distribution of the Group's consolidated sales by geographical market, regardless of where the goods were produced:

	2003	2002	2001
	ADJUSTED NIS IN THOUSANDS		
Europe	139,791	129,416	110,005
Israel	484,837	426,347	431,516
Other	17,512	19,844	16,054
	642,140	575,607	557,575

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NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 14 - NOMINAL DATA OF THE COMPANY:

a. Balance sheet data:

	2003
A S S E T S	
Current assets:	
Cash and cash equivalents	20,0
Accounts receivable:	
Trade	
American Israeli Paper Mills Limited and its subsidiaries - net	134,6
Subsidiaries	
Other	6,3
Inventories	63,6
	224,6
Investments in investee companies	6,5
Fixed assets:	
Cost	123,5
L e s s - accumulated depreciation	21,7
	101,8
	333,0
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Credit from banks	15,1
Current maturities of long-term capital loans	
Accounts payable and accruals:	
Trade	53,3
Subsidiaries	52,6
Other	12,0
	133,2
Long-term liabilities:	
Loans from bank	51,7
Capital notes from shareholders (net of current maturities)	43,7
Excess of losses of subsidiaries over the investments therein	3,7
Liability for employee rights upon retirement	1
	99,3
T o t a l liabilities	232,6

Shareholders' equity, see c. below:	
Share capital	
Capital surplus	41,1
Retained earnings	59,3
	100,4
	333,0

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NEUSIEDLER HADERA PAPER LTD.

(An Israeli Corporation)
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 14 - NOMINAL DATA OF THE COMPANY (continued):

b. Operating results data:

	NOMINAL N	
	2003	
Sales - net	480,764	
Cost of sales	406,930	*
Gross profit	73,834	
Selling, marketing, administrative and general expenses:		
Selling and marketing	33,455	
Administrative and general	9,173	
	42,628	
Income from ordinary operations	31,206	
Financial income (expenses) - net	(3,152)	
Income (loss) before taxes on income	34,358	
Tax benefit, see d. below		
Income (loss) after taxes on income	34,358	
Share in losses of investee companies, net	34	
Net income (loss) for the year - nominal	34,324	

* Reclassified.

c. Changes in shareholders' equity:

	NOMINAL NIS I	
	SHARE CAPITAL	CAPITAL SURPLUS
Balance at January 1, 2001	1	41,125
Changes during 2001 - loss		
Balance at January 1, 2001	1	41,125
Changes during 2002 - net income		
Balance at December 31, 2002	1	41,125
Changes during 2003 - net income		
Balance at December 31, 2003	1	41,125

d. For practical reasons, no deferred taxes are created in the nominal accounts.

APPENDIX

NEUSIEDLER HADERA PAPER LTD.
DETAILS OF INVESTEE COMPANIES
AT DECEMBER 31, 2003

	PERCENTAGE OF HOLDING IN SHARES CONFERRING PROFIT AND VOTING RIGHTS
	%
SUBSIDIARIES:	
Grafinir Paper Marketing Ltd.	100.00
Yavnir (1999) Ltd.	100.00
Neusiedler Hadera Paper Marketing (1999) Ltd.	100.00
Miterani Paper Marketing 2000 (1998) Ltd.	100.00

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HOGLA-KIMBERLY LTD.
FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2003

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INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF
HOGLA-KIMBERLY LTD.

We have audited the accompanying balance sheets of HOGLA-KIMBERLY LTD. ("the Company") as of December 31, 2003 and 2002, and the consolidated balance sheets as of those dates, and the related statements of operations, changes in shareholders' equity and cash flows - of the Company and on a consolidated basis - 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 audit.

The statements of operations, changes in shareholders' equity and cash flows - of the Company and on a consolidated basis - for the year ended December 31, 2001 were audited by other auditors whose report, dated March 4, 2002, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with generally accepted auditing standards in the United States and 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, 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 and on a consolidated basis - as of December 31, 2003 and 2002, and the results of operations, changes in shareholders' equity and cash flows - of the Company and on a consolidated basis - for each of the two years in the period then ended, in accordance with generally accepted accounting principles in Israel. In addition, in our opinion, the financial statements referred to above are prepared in accordance with the Israeli Securities Regulations (Preparation of Annual Financial Statements), 1993.

Accounting principles generally accepted in Israel vary in certain significant respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of the financial position and results of operations as of the dates and for the years presented to the extent summarized in Note 25.

As explained in Note 2A, the financial statements 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 8, 2004

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HOGLA-KIMBERLY LTD.
BALANCE SHEETS
(Adjusted for changes in the U.S. dollar vis-a-vis the NIS)

		CONSOLIDATED	
		DECEMBER 31,	
	NOTE	2003	2002
		NIS IN THOUSANDS	
CURRENT ASSETS			
Cash and cash equivalents	3	37,340	21,330
Current maturities of long-term bank deposits	7	7,882	9,195
Trade receivables	4	229,979	182,568
Other receivables	5	14,222	10,574
Inventories	6	92,664	86,427
		382,087	310,094
LONG-TERM INVESTMENTS			
Long-term deposits	7	70,064	77,946
Capital note of shareholder	8	32,770	30,294

	Note		
Investments in Subsidiaries	9	-	-
		102,834	108,240
FIXED ASSETS	10		
Cost		479,744	464,144
Less - accumulated depreciation		210,176	193,428
		269,568	270,716
OTHER ASSETS - GOODWILL	9B	29,073	31,841
		783,562	720,891
CURRENT LIABILITIES			
Short-term bank credit		1,087	-
Current maturities of long-term bank loans	13	15,147	24,960
Trade payables	11	139,555	127,629
Other payables and accrued expenses	12	37,632	32,502
		193,421	185,091
LONG-TERM LIABILITIES			
Long-term bank loans	13	96,338	82,326
Deferred taxes	22	29,428	19,644
		125,766	101,970
COMMITMENTS AND CONTINGENT LIABILITIES	15		
MINORITY INTEREST		51,394	44,259
SHAREHOLDERS' EQUITY			
Share capital	16	28,788	28,788
Capital reserves		156,799	156,799
Retained earnings		227,394	171,141
Dividend declared after balance sheet date		-	32,843
		412,981	389,571
		783,562	720,891

T. DAVIS	Y. YERUSHALMI	A. MAGID	
Chairman of the Board of Directors	Vice-Chairman of the Board of Directors	Financial Manager	Ma

Approval date of the financial statements: March 8, 2004.
The accompanying notes are an integral part of the financial statements.

HOGLA-KIMBERLY LTD.
STATEMENTS OF OPERATIONS
(Adjusted for changes in the U.S. dollar vis-a-vis the NIS)

		CONSOLIDATED			YEA
		YEAR ENDED DECEMBER 31,			
	NOTE	2003	2002	2001	2003
		NIS IN THOUSANDS			
Net sales	17	868,671	766,549	821,264	377,117
Cost of sales	18	621,014	554,763	559,173	322,558
GROSS PROFIT		247,657	211,786	262,091	54,559
Selling expenses	19	130,670	(*)123,955	(*) 131,133	7,538
General and administrative expenses	20	39,046	(*)29,941	(*) 33,379	4,381
OPERATING PROFIT		77,941	57,890	97,579	42,640
Financing income (expenses), net	21	5,517	(13,425)	(17,420)	(12,268
Other income (expenses), net		496	78	(550)	238
INCOME BEFORE INCOME TAXES		83,954	44,543	79,609	30,610
Income taxes	22	20,566	19,232	36,477	11,775
INCOME AFTER INCOME TAXES		63,388	25,311	43,132	18,835
Equity in net earnings (losses) of Subsidiaries		-	-	-	37,418
Minority interest in earnings of Subsidiary		(7,135)	(2,599)	(1,531)	
NET INCOME FOR THE YEAR		56,253	22,712	41,601	56,253
EARNINGS PER SHARE (IN NIS)		6.81	2.75	5.03	6.81
NUMBER OF SHARES USED IN COMPUTATION		8,263,473	8,263,473	8,263,473	8,263,473

(*) Reclassified.

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

HOGLA-KIMBERLY LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Adjusted for changes in the U.S. dollar vis-a-vis the NIS)

	SHARE CAPITAL	CAPITAL RESERVES	RETAINED EARNINGS	BA
			NIS IN THOUSANDS	
BALANCE - JANUARY 1, 2001	28,788	156,799	183,461	
CHANGES DURING 2001:				
Dividend declared after balance-sheet date			(43,790)	
Net income for the year			41,601	
BALANCE - DECEMBER 31, 2001	28,788	156,799	181,272	
CHANGES DURING 2002:				
Dividend declared after balance-sheet date			(32,843)	
Net income for the year			22,712	
BALANCE - DECEMBER 31, 2002	28,788	156,799	171,141	
CHANGES DURING 2003:				
Dividend paid				
Net income for the year			56,253	
BALANCE - DECEMBER 31, 2003	28,788	156,799	227,394	

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

HOGLA-KIMBERLY LTD.

STATEMENTS OF CASH FLOWS
(Adjusted for changes in the U.S. dollar vis-a-vis the NIS)

	CONSOLIDATED			
	YEAR ENDED DECEMBER 31,			
	2003	2002	2001	200
	NIS IN THOUSANDS			
CASH FLOWS - OPERATING ACTIVITIES				
Net income	56,253	22,712	41,601	56,
Adjustments to reconcile net income to net cash provided by operating activities (Appendix A)	4,190	14,324	18,657	7,
NET CASH PROVIDED BY OPERATING ACTIVITIES	60,443	37,036	60,258	63,
CASH FLOWS - INVESTING ACTIVITIES				
Investment in short-term bank deposit	-	-	(57,069)	
Withdrawal of short-term bank deposit	-	57,069	-	
Investment in long-term bank deposits	-	-	(13,575)	
Withdrawal of long-term bank deposits	9,195	8,759	-	9,1
Acquisition of fixed assets	(26,953)	(76,523)	(47,729)	(20,
Proceeds from sale of fixed assets	1,092	456	1,321	
NET CASH USED IN INVESTING ACTIVITIES	(16,666)	(10,239)	(117,052)	(10,
CASH FLOWS - FINANCING ACTIVITIES				
Dividend paid	(32,843)	(43,790)	-	(32,
Long-term loans received	28,949	11,386	13,575	
Repayment of long-term loans	(24,960)	-	-	
Short-term bank credit	1,087	-	-	1,
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(27,767)	(32,404)	13,575	(31,
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	16,010	(5,607)	(43,219)	20,
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	21,330	26,937	70,156	10,
CASH AND CASH EQUIVALENTS - END OF YEAR	37,340	21,330	26,937	31,

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

HOGLA-KIMBERLY LTD.
APPENDICES TO STATEMENTS OF CASH FLOWS
(Adjusted for changes in the U.S. dollar vis-a-vis the NIS)

	CONSOLIDATED			
	YEAR ENDED DECEMBER 31,			YE
	2003	2002	2001	2003
	NIS IN THOUSANDS			
A. ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
INCOME AND EXPENSES ITEMS NOT INVOLVING CASH FLOWS:				
Minority interest in earnings of Subsidiary	7,135	2,599	1,531	
Equity in net losses (earnings) of Subsidiaries	-	-	-	(37,41
Depreciation and amortization	25,213	22,086	21,262	14,78
Deferred taxes, net	8,251	1,072	3,028	10,41
Loss (gain) from sale of fixed assets	(482)	81	(373)	(20
Effect of exchange rate differences, net	(2,266)	2,202	3,015	(2,47
CHANGES IN ASSETS AND LIABILITIES:				
Decrease (increase) in trade receivables	(47,933)	(14,411)	(2,026)	(4,93
Decrease (increase) in other receivables	(2,115)	4,860	(7,055)	(1,43
Decrease (increase) in inventories	(6,237)	(16,362)	9,927	(16,24
Increase (decrease) in trade payables	27,544	18,343	(1,057)	13,62
Net change in balances with related parties	(10,050)	7,731	3,411	42,06
Increase (decrease) in other payables and accrued expenses	5,130	(13,877)	(13,006)	(11,00
	4,190	14,324	18,657	7,18
B. NON-CASH ACTIVITIES				
Dividend declared			43,790	
Acquisition of fixed assets on credit	8,661	13,707	2,382	8,46

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

HOGLA-KIMBERLY LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - GENERAL

A. DESCRIPTION

Hogla Kimberly Ltd. ("the Company") and its Subsidiaries are engaged principally in the production and marketing of paper and hygienic products. The Company's results of operations are affected by transactions with shareholders and affiliated companies (see Note 23).

The Company is presently owned by Kimberly Clark Corp. ("KC" or the "Parent Company") (50.1%) and American-Israeli Paper Mills Ltd. ("AIPM") (49.9%).

B. DEFINITIONS:

THE COMPANY	-	Hogla-Kimberly Ltd.
THE GROUP	-	the Company and its Subsidiaries, a list of whom is provided in Note 9D.
SUBSIDIARIES	-	companies in which the Company exercises over 50% ownership and control, directly or indirectly, and whose financial statements are fully consolidated with those of the Company.
RELATED PARTIES	-	as defined by Opinion No. 29 of the Institute of Certified Public Accountants in Israel.
INTERESTED PARTIES	-	as defined in the Israeli Securities Regulations (Presentation of Financial Statements), 1993.
CONTROLLING SHAREHOLDER	-	as defined in the Israeli Securities Regulations (Presentation of Transactions between a Corporation and its Controlling Shareholder in the Financial Statements), 1996.
NIS	-	New Israeli Shekel.
CPI	-	the Israeli consumer price index.
DOLLAR	-	the U.S. dollar.

C. USE OF ESTIMATES

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The following are the principal accounting policies applied in the preparation of the financial statements in a manner consistent with previous years:

A. ADJUSTED FINANCIAL STATEMENTS

(1) GENERAL

In accordance with pronouncements of the Institute of Certified Public Accountants in Israel, the financial statements, including comparative figures for previous years, are presented on the basis of nominal historical cost adjusted for changes in the exchange rate of the U.S. dollar in relation to the NIS.

The adjusted amounts of non-monetary items presented in the financial statements reflect their cost adjusted for changes in the exchange rate of the U.S. dollar vis-a-vis the NIS, and do not necessarily reflect realization or current economic value of these items.

The term "cost" in these financial statements refers to adjusted cost, unless otherwise indicated. The term "NIS" refers to adjusted NIS, unless otherwise stated.

The Company's condensed financial statements in nominal values, on the basis of which the adjusted financial statements were prepared, are presented in Note 26.

(2) PRINCIPLES OF ADJUSTMENT

a. BALANCE SHEET ITEMS

Non-monetary items (items whose balances reflect historical value at acquisition or upon establishment) have been adjusted in accordance with the changes in the exchange rate of the U.S. dollar from the date of acquisition/establishment through December 31, 2003.

Investments in Subsidiaries and minority interest were determined based on the dollar adjusted financial statements of these companies.

Monetary items (items whose balance sheet amounts represent current or realization value at the balance sheet date) are presented in the December 31, 2003 balance sheet at their nominal value as of that date.

b. STATEMENT OF OPERATIONS ITEMS

Income and expenses reflecting transactions, other than financial income and expenses, were adjusted for changes in the exchange rate of the U.S. dollar from the date of the transaction to the balance sheet date.

Income and expenses arising from non-monetary items (mainly depreciation, amortization, deferred taxes and changes in inventory) were adjusted in a manner corresponding to the adjustment of the related balance sheet items.

Financing income (expenses), net reflect income and expenses in real terms and include exchange rate differences derived from monetary items.

The Company's share and the minority interest in the results of Subsidiaries were determined based on the dollar adjusted financial statements of these companies.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

A. ADJUSTED FINANCIAL STATEMENTS (cont.)

(2) PRINCIPLES OF ADJUSTMENT (cont.)

c. ADJUSTMENT AND TRANSLATION OF FOREIGN SUBSIDIARIES FINANCIAL STATEMENTS

The financial statements of Subsidiaries operating abroad, which act as an integral operation of the Group, are prepared in U.S. dollars and translated into NIS based on the exchange rate of the U.S. dollar on the balance sheet date.

B. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include consolidation of the consolidated financial statements of all Subsidiaries. Material inter-company balances and transactions of and between Subsidiaries have been fully eliminated.

The data included in the consolidated financial statements is based on audited financial statements of the Subsidiaries included therein.

The excess cost of an investment in a Subsidiary in Turkey over the net book value upon acquisition of that Subsidiary is allocated to fixed assets and is amortized at the rate applicable to those assets, or upon their realization. The unallocated excess cost reflects goodwill, which is presented in the balance sheet as "other assets" and amortized by the straight-line method over 15 years due to the unique economic conditions relating to that Subsidiary and the expected economic benefit period from its acquisition.

C. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include bank deposits, available for immediate withdrawal, as well as unrestricted short-term deposits with maturities of less than three months from the date of deposit.

D. ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance for doubtful accounts is generally computed as percentage from the relevant balances, on the basis of historical experience, with the addition of a specific provision in respect of accounts, which on management estimate are doubtful of collection.

E. INVENTORIES

Inventories are presented at the lower of cost or market, with cost determined as follows:

Finished products	-	Based on actual production cost.
Raw, auxiliary materials and other	-	Based on moving-average basis.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

F. INVESTMENTS IN SUBSIDIARIES

Investments in Subsidiaries are presented using the equity method based on their audited financial statements. In relation to excess cost of investment in Subsidiary in Turkey, see B above.

G. FIXED ASSETS

Fixed assets are presented at cost less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method at rates considered adequate to depreciate the assets over their estimated useful lives. Amortization of leasehold improvements is computed over the shorter of the term of the lease, including any option period, where the Company intends to exercise such option, or their useful life.

The annual depreciation and amortization rates are: %

-

Buildings	2.5-4
Leasehold improvements	10-25
Machinery and equipment	5-10
Motor vehicles	15-20
Office furniture and equipment	10-33

IMPAIRMENT OF LONG-LIVED ASSETS

Management reviews long-lived assets on a periodic basis, as well as when such a review is required based upon relevant circumstances, to determine whether events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. According to the Israeli Accounting Standards Board's Standard No.15, "Impairment of Assets", an asset's recoverable value is the higher of the asset's net selling price and the asset's value in use, the latter being equal to the asset's discounted expected cash flows. If applicable, an impairment loss is recorded at the amount in which the carrying amount of the asset exceeds its recoverable value. The adoption of Standard No. 15, which came effective commencing January 1, 2003, had no impact on the Group's financial position and results of operations.

H. OTHER ASSETS - GOODWILL

Goodwill derived from the acquisition of Subsidiary in Turkey is amortized based on the straight line method over 15 years (see also B above). Impairment examinations and recognition are performed and determined based on the accounting policy outlined in G above.

I. DEFERRED INCOME TAXES

The Group records deferred taxes in respect of temporary differences between the carrying values of assets and liabilities in the financial statements and their values for tax purposes, including depreciation differences on leased property and fixed assets. The Group records deferred-tax assets in respect of temporary difference as well as in respect of carry-forward tax losses so long as it is probable that those assets will be realized in the foreseeable future. The deferred taxes are computed by the tax rates expected to be in effect at realization, as they are known at the balance sheet date.

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HOGLA-KIMBERLY LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

I. DEFERRED INCOME TAXES (cont.)

The computation of deferred taxes has not taken into account taxes that would have been applicable in case of future realization of investments in Subsidiaries, since the Group does not contemplate such realization in the foreseeable future.

Moreover, the computation also excludes deferred taxes in respect of dividends distribution within the Group for cases in which such dividend distributions are expected to be tax-exempt.

J. DIVIDENDS

Dividends proposed or declared subsequent to the balance-sheet date, but prior to the financial statements approval date, are presented as a separate component of shareholders' equity.

K. REVENUE RECOGNITION

Revenues are recognized upon shipment, when title has been transferred and collectibility is reasonably assured.

Revenues are net of sales incentives, primarily: bonuses granted to chains as a percentage of their purchases (target bonus); volume discounts; and coupons distributed to customers entitling price discounts.

An accrual for estimated returns and sales incentives, computed primarily on the basis of historical experience, is recorded at the time revenues are recognized and deducted from revenues.

L. EARNINGS PER SHARE

Earnings per share are computed based on the weighted average number of paid up capital shares during the year.

M. EXCHANGE RATES AND LINKAGE BASIS

(1) Balances in foreign currency or linked thereto are included in the financial statements based on the representative exchange rates, as published by the Bank of Israel, that were prevailing at the balance sheet date.

(2) Following are the changes in the representative exchange rate of the U.S. dollar vis-a-vis the NIS and the Turkish Lira, and in the CPI:

AS OF	REPRESENTATIVE EXCHANGE RATE OF THE DOLLAR (NIS PER $1)	TURKISH LIRA EXC RATE WITH THE DOLLAR (TL'000 PER $
December 31, 2003	4.379	1,393
December 31, 2002	4.737	1,640
December 31, 2001	4.416	1,447
INCREASE (DECREASE) DURING THE YEAR ENDED:	%	%
December 31, 2003	(7.6)	(15.0)
December 31, 2002	7.3	13.3
December 31, 2001	9.3	115.3

(3) Exchange-rate differences are charged to operations as incurred.

HOGLA-KIMBERLY LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

N. RECLASSIFICATION

Certain amounts in prior years' financial statements have been reclassified in order to conform to the 2003 presentation.

O. SUPPLIER DISCOUNTS

Ongoing discounts granted by suppliers, as well as year end discounts, in respect of which no commitments to meet given targets are required by the Group, are included in the financial statements upon the execution of purchases that grant the Group said discounts. Supplier discounts contingent upon the Group's fulfillment of certain targets, such as meeting a minimal annual volume (in quantities or amount), or an increase in purchases over previous periods, are included in the financial statements in proportion to Group's purchases from suppliers during the reported period, which advance the Group towards the stated targets, only if it is expected that those targets will be reached and the discounts can reasonably be estimated. The estimate of meeting the targets is based, inter-alia, on historical experience, Group's relationships established with the suppliers and the estimated volume of purchases during the remaining reported period.

P. RECENT ACCOUNTING STANDARDS - CESSATION OF FINANCIAL STATEMENTS ADJUSTMENT, AND EFFECT OF CHANGES IN EXCHANGE RATES

In October 2001, the Israeli Accounting Standards Board issued Standard No. 12, Cessation of Financial Statements Adjustment. According to this Standard, as amended by Standard No. 17 in November 2002, the adjustment of financial statements for inflation or exchange rate of foreign currency will cease for reporting periods commencing January 1, 2004. Through December 31, 2003, the Group prepared dollar-linked financial statements, in accordance with the pronouncements of the Institute of Certified Public Accountants in Israel. The adjusted amounts presented in the December 31, 2003 balance-sheet will serve as the opening nominal balances as of January 1, 2004.

In October 2001, the Israeli Accounting Standards Board issued Standard No. 13, Effect of Changes in Foreign Currency Exchange Rates. This Standard addresses the translation of transactions denominated in foreign currency, as well as the translation of financial statements of a foreign operation, for inclusion in the financial statements of the reporting company. Standard No. 13, as amended by Standard No. 17 in November 2002, will become effective for reporting periods subsequent to December 31, 2003.

The implementation of Standards No. 12 and 13 will mainly affect financing income and expenses items.

HOGLA-KIMBERLY LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - CASH AND CASH EQUIVALENTS

	CONSOLIDATED		COMPANY	
	DECEMBER 31,			
	2003	2002	2003	2002
	NIS IN THOUSANDS		NIS IN THOUSANDS	
In NIS	527	597	520	596
In foreign currencies (primarily the U.S. dollar)	36,813	20,733	31,125	10,236
	37,340	21,330	31,645	10,832

NOTE 4 - TRADE RECEIVABLES

	CONSOLIDATED		COMPANY	
	DECEMBER 31,			
	2003	2002	2003	20
	NIS IN THOUSANDS		NIS IN THOUSAN	
COMPOSITION:				
Domestic				
Open accounts	154,617	133,529	-	
Checks receivable	34,421	29,827	-	
Related parties	348	359	60,820	33,
	189,386	163,715	60,820	33,
Foreign				
Open accounts	47,697	23,016	5,699	
Related parties	206	717	8,191	7,
	237,289	187,448	74,710	41,
Less - allowance for doubtful accounts	7,310	4,880	42	
	229,979	182,568	74,668	41,

The Company's products are marketed principally by its Subsidiaries.

NOTE 5 - OTHER RECEIVABLES

	CONSOLIDATED		COMPANY	
	DECEMBER 31,			
	2003	2002	2003	2002
	NIS IN THOUSANDS		NIS IN THOUSANDS	
Deferred taxes (Note 22D)	5,518	3,985	1,769	2,040
Prepaid expenses	2,908	3,021	1,570	1,373
Advances to suppliers	3,074	837	2,128	837
Value added taxes	236	-	-	-
Income tax advances, net	1,467	1,226	878	-
Loans to supplier and employees	477	1,077	262	915
Other	542	428	1,272	1,554
	14,222	10,574	7,879	6,719

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HOGLA-KIMBERLY LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - INVENTORIES

	CONSOLIDATED		COMPANY	
	DECEMBER 31,			
	2003	2002	2003	2002
	NIS IN THOUSANDS		NIS IN THOUSANDS	
Raw and auxiliary materials	48,482	36,708	34,293	22,428
Finished goods	29,087	38,546	10,969	9,786
Spare parts and other	15,095	11,173	13,277	10,078
	92,664	86,427	58,539	42,292

NOTE 7 - LONG-TERM DEPOSITS

	INTEREST RATE	CONSOLIDATED		
		DECEMBER 31,		
		2003	2002	20
	% (*)	NIS IN THOUSANDS		

A. COMPOSITION				
Linked to the U.S. dollar	1.16-2.69	77,946	87,141	7,
Less - current maturities		7,882	9,195	7,
		70,064	77,946	

(*) Annual average interest rate as of December 31, 2003.

HOGLA-KIMBERLY LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - LONG-TERM DEPOSITS (cont.)

B. The balance of the long-term deposits as of December 31, 2003 is repayable as follows:

	NIS IN THOUSANDS
2004 - current maturities	7,882
Thereafter - see D below	70,064
	77,946

C. The deposits are held as collateral for long-term loans received by Subsidiaries (see Note 15C).

D. The deposit is linked to the U.S. dollar and bears interest at a rate of 0.994% as of December 31, 2003. The deposit is subject to re-deposit every two years.

NOTE 8 - CAPITAL NOTE OF SHAREHOLDER

The capital note of AIPM, denominated in NIS, is not linked and does not bear interest. Repayment date will be mutually agreed upon. The erosion or increase in value of the capital note was charged to capital reserves until March 31, 2000 (the date on which AIPM ceased to be the controlling shareholder).

NOTE 9 - INVESTMENTS IN SUBSIDIARIES

	COMPANY	
	DECEMBER 31,	
	2003	20
	NIS IN THOUSANDS	
A. COMPOSITION		

Cost of shares	972	
Equity in post-acquisition earnings, net	190,860	153
Capital notes (*)	4,205	4
	196,037	158

(*) The non-interest bearing capital notes, denominated in U.S. dollar, are considered part of the Company's investments in the Subsidiaries. Repayment dates have not yet been determined. For purpose of the adjusted financial statements (see Note 2A), the capital notes are treated as a non-monetary item.

HOGLA-KIMBERLY LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 9 - INVESTMENTS IN SUBSIDIARIES (cont.)

	CONSOLIDATED	
	DECEMBER 31,	
	2003	20
	NIS IN THOUSANDS	
B. GOODWILL:		
Cost	41,532	41
Less - accumulated amortization	12,459	9
	29,073	31

C. INVESTMENT IN OVISAN

As of December 31, 2003, the Group's investment in the Turkish Subsidiary amounted to NIS 66,933 thousand (including goodwill in the net amount of NIS 29,073 thousand).

D. CONSOLIDATED SUBSIDIARIES

The consolidated financial statements as of December 31, 2003, include the financial statements of the following Subsidiaries:

OWNERSHIP AND CONTROL AS OF DECEMBER 31, 2003

		%
Rakefet Marketing and Trade Services Ltd. ("Rakefet")	(*)	79.7
Subsidiaries of Rakefet:		
Hogla-Kimberly Marketing Ltd. ("Marketing")	(**)	99.5
Shikma Ltd. ("Shikma")	(**)	99.0
Mollet Marketing Ltd. ("Mollet")		100.0
H-K Overseas (Holland) B.V		100.0
Subsidiaries of H-K Overseas (Holland) B.V.:		
Ovisan Sihhi Bez Sanai ve Ticaret Anonim Sirketi ("Ovisan")		100.0
Hogla-Kimberly Holding Anonim Sirketi		100.0

(*) The remaining ownership and control of Rakefet are held by AIPM group (10.1%) and by KC (10.2%).

(**) The remaining ownership and control of Marketing and Shikma are held by the Company.

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HOGLA-KIMBERLY LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 10 - FIXED ASSETS

CONSOLIDATED	BUILDINGS (1)	LEASEHOLD IMPROVEMENTS	MACHINERY AND EQUIPMENT	MOTOR VEHICLES	OFFI FURNIT AND EQUIP
			NIS IN THOUSANDS		
COST:					
Balance - January 1, 2003	54,619	8,941	367,463	21,168	11,
Changes during 2003:					
Additions	250	517	19,452	588	1,
Dispositions	-	(190)	(2,297)	(2,708)	(1,
Balance - December 31, 2003	54,869	9,268	384,618	19,048	11,
ACCUMULATED DEPRECIATION:					
Balance - January 1, 2003	14,855	4,771	150,568	14,651	8,
Changes during 2003:					
Additions	530	514	17,947	2,749	
Dispositions	-	(188)	(2,024)	(2,417)	(1,
Balance - December 31, 2003	15,385	5,097	166,491	14,983	8,
NET BOOK VALUE:					
December 31, 2003	39,484	4,171	218,127	4,065	3,
December 31, 2002	39,764	4,170	216,895	6,517	3,

COMPANY					
COST:					
Balance - January 1, 2003	25,209	5,893	330,217	3,688	3,
Changes during 2003:					
Additions	-	219	14,631	53	
Dispositions	-	-	(1,759)	(582)	
Balance - December 31, 2003	25,209	6,112	343,089	3,159	3,
ACCUMULATED DEPRECIATION:					
Balance - January 1, 2003	11,812	3,518	130,439	3,492	2,
Changes during 2003:					
Additions	-	215	14,189	153	
Dispositions	-	-	(1,696)	(569)	
Balance - December 31, 2003	11,812	3,733	142,932	3,076	2,
NET BOOK VALUE:					
December 31, 2003	13,397	2,379	200,157	83	
December 31, 2002	13,397	2,375	199,778	196	

(1) Buildings include industrial buildings on lands leased by the Company from AIPM (until 2004).

(2) The major fixed assets of the Group are located in Israel.

HOGLA-KIMBERLY LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 11 - TRADE PAYABLES

	CONSOLIDATED		COMPANY	
	DECEMBER 31,			
	2003	2002	2003	2002
	NIS IN THOUSANDS		NIS IN THOUSANDS	
In Israeli currency				
Open accounts	78,509	66,279	34,206	30,159
Related parties	13,682	10,840	114,455	46,310
In foreign currency				
Open accounts	37,294	26,509	20,804	15,953
Related parties	10,070	24,001	5,115	3,148
	139,555	127,629	174,580	95,570

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NOTE 12 - OTHER PAYABLES AND ACCRUED EXPENSES

	CONSOLIDATED		COMPANY	
	DECEMBER 31,			
	2003	2002	2003	2002
	NIS IN THOUSANDS		NIS IN THOUSANDS	
Accrued income taxes, net of advances	8,663	9,042	-	9,817
Accrued payroll and related expenses	20,531	19,925	10,474	11,713
Value Added Tax	4,779	547	-	-
Advances from customers	1,085	1,610	32	30
Other	2,574	1,378	139	88
	37,632	32,502	10,645	21,648

NOTE 13 - LONG-TERM BANK LOANS

	INTEREST RATE	CONSOLIDATED DECEMBER 31,	
	% (*)	2003	2002
		NIS IN THOUSANDS	
A. COMPOSITION			
In U.S. dollar (**)	1.74	108,858	107,286
In Euro	3.75	2,627	-
Less - current maturities		15,147	24,960
		96,338	82,326

(*) Annual average interest rate as of December 31, 2003

(**) As of December 31, 2003, NIS 38,794 thousand bear interest based on Libor plus 1.55%.

B. MATURITIES (NIS in thousands)

2004 - current maturities	15,147
2005	26,274
Thereafter - see C below	70,064
	111,485

C. Subject to renewal every two years - see Note 7D.

D. Liens - see Note 15C.

HOGLA-KIMBERLY LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 14 - SEVERANCE PAY

Obligations of the Group for severance pay to its employees are covered by current payments to pension and severance funds. Accumulated amounts in the pension and severance funds are not under the control or administration of the Group, and accordingly, neither those amounts nor the corresponding accruals are reflected in the financial statements.

NOTE 15 - COMMITMENTS AND CONTINGENT LIABILITIES

A. COMMITMENTS

(1) The Group is obligated to pay royalties to a shareholder - see Note 23B.

(2) The Company and its Subsidiaries lease certain of their facilities under operating leases for varying periods with renewal options. Future minimum lease rentals as of December 31, 2003 are as follows:

	CONSOLIDATED	COMPANY
	NIS IN THOUSANDS	
2004	13,918	6,477
2005	6,430	-
2006	6,430	-
2007	6,430	-
2008 and thereafter	28,936	-
	62,144	6,477

B. GUARANTEES

(1) The Company is contingently liable in respect of a guarantee securing bank loans provided to a Subsidiary, the balance of which as of December 31, 2003 amounted to NIS 33,280 thousand.

(2) As part of their normal course of business, the Subsidiaries provided third parties with bank guarantees for contract performance, the balance of which as of December 31, 2003 amounted to NIS 2,022 thousand.

C. LIENS

As a collateral for long-term loans given to Subsidiaries, the Group recorded a lien on its bank deposits, in the amount of NIS 77,946 thousand as of December 31, 2003.

D. LEGAL ISSUES

In December 2003, certain customers filed a class action complaint against the Company, alleging that the Company reduced the number of items in each certain product packages. The Company has filed a detailed defense motion, presenting its arguments for denying the lawsuit from being recognized as a class action. As of the approval date of the financial statements, court hearings have not yet begun. Based on the opinion of the Company's legal counsel for this matter, due to the very preliminary stage of the proceedings, management is unable, at this stage, to estimate the possible outcome of the lawsuit. However, based on the legal counsels, management believes that the Company has valid arguments to oppose the lawsuit and reasonable basis for denying it from being recognized as a class action.

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HOGLA-KIMBERLY LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 16 - SHARE CAPITAL

A. As of December 31, 2003 and 2002, share capital is composed of ordinary shares of NIS 1.00 par value each. Authorized - 11,000,000 shares; issued and paid up - 8,263,473 shares.

B. Holders of ordinary shares are entitled to participate equally in the payment of cash dividends and bonus share (stock dividend) distributions and, in the event of the liquidation of the Company, in the distribution of assets after satisfaction of liabilities to creditors. Each ordinary share is entitled to one vote on all matters to be voted on by shareholders.

NOTE 17 - NET SALES

	CONSOLIDATED	
	YEAR ENDED DECEMBER 31,	
	2003	2002
	%	%
A. SALES TO MAJOR CUSTOMERS		
Customer A	8.9	11.1
Customer B	10.1	11.8
	NIS	NIS
	IN THOUSANDS	
B. SALES FROM COMMERCIAL OPERATIONS	376,974	311,360
C. FOREIGN SALES (PRINCIPALLY TURKEY)	106,935	80,184

NOTE 18 - COST OF SALES

	CONSOLIDATED			
	YEAR ENDED DECEMBER 31,			
	2003	2002	2001	2003
	NIS IN THOUSANDS			
Purchases (*)	446,008	425,365	441,782	178,33
Salaries and related expenses	67,516	55,999	57,349	56,81
Manufacturing expenses	79,810	55,834	51,245	73,28
Depreciation	18,221	14,207	12,764	15,30
	611,555	551,405	563,140	323,74
Change in finished goods inventory	9,459	3,358	(3,967)	(1,18
	621,014	554,763	559,173	322,55

(*) The purchases of the Company are related to manufacturing operations. Consolidated purchases in excess of Company purchases relate principally to commercial operations.

HOGLA-KIMBERLY LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 19 - SELLING EXPENSES

	CONSOLIDATED			COMPANY	
	YEAR ENDED DECEMBER 31,			YEAR ENDED DEC	
	2003	2002	2001	2003	2002
	NIS IN THOUSANDS			NIS IN THO	
Salaries and related expenses	46,887	(*)39,656	(*)43,049	-	16
Maintenance and transportation expenses	26,596	24,332	22,966	5,810	3,868
Advertising and sales promotion	30,371	38,591	41,337	86	46
Commissions to distributors	4,571	2,007	3,644	-	453
Royalties to a shareholder	15,642	12,220	12,158	1,500	673
Depreciation	3,778	4,188	4,741	142	317
Other	2,825	2,961	3,238	-	-
	130,670	(*)123,955	(*)131,133	7,538	5,373

(*) Reclassified

NOTE 20 - GENERAL AND ADMINISTRATIVE EXPENSES

	CONSOLIDAD			COMPANY		
	YEAR ENDED DECEMBER 31,			YEAR ENDED DECEMBER 3		
	2003	2002	2001	2003	2002	
	NIS IN THOUSANDS			NIS IN THO		
Salaries and related expenses	18,283	(*)13,481	(*)15,913	2,567	2,423	2
Administrative and computer services	6,287	6,210	7,380	1,190	1,188	1
Services provided by Shareholder	1,161	1,161	1,180	215	736	
Office maintenance	5,376	2,990	2,961	207	228	
Depreciation	718	588	751	2	4	
Goodwill amortization	2,768	2,768	2,768	-	-	
Other	4,453	2,743	2,426	200	789	1
	39,046	(*)29,941	(*)33,379	4,381	5,368	6

(*) Reclassified.

NOTE 21 - FINANCING INCOME (EXPENSES), NET

	CONSOLIDATED			
	YEAR ENDED DECEMBER 31,			YE
	2003	2002	2001	2003
	NIS IN THOUSANDS			NIS
Long-term loans	(2,111)	(2,794)	(4,821)	-
Exchange rate differences derived from capital note	2,476	(2,202)	(3,015)	2,476
Long-term and short-term deposits	1,357	1,804	8,504	486

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HOGLA-KIMBERLY LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 22 - INCOME TAXES

A. The Company and its Israeli Subsidiaries are subject to the Income Tax Law (Inflationary Adjustments), 1985. Non-Israeli Subsidiaries are subject to income tax provisions of their home country. The Company is an industrial company in conformity with the Law for the Encouragement of Industry (Taxes), 1965. The principal benefit that the Company is entitled to under this law is accelerated depreciation rates and reduced tax rates.

During 2002, the Company's program for the establishment of a new facility for manufacturing paper was granted Approved Enterprise status in accordance with the Law for the Encouragement of Capital Investments, 1959, under "alternative benefits" track. The approval program is for total investments of approximately NIS 80 million. According to the terms of the program, income derived from the Approved Enterprise will be tax-exempt for a period of 10 years commencing in the year in which the program is substantially completed. Distribution of dividends from tax exempt profits of the Approved Enterprise will be subject to income tax at a rate equal to the income tax rate of the Approved Enterprise had the Company not elected the alternative benefits track. The Company completed the investments relating to the new facility and commenced its operations during 2003.

	CONSOLIDATED			CO	
	YEAR ENDED DECEMBER 31,			YEAR ENDED	
	2003	2002	2001	2003	2
B. COMPOSITION	NIS IN THOUSANDS			NIS IN TH	
Current taxes	10,878	18,904	34,150	-	15
Taxes in respect of prior years	1,437	(744)	(701)	1,358	
Deferred taxes	8,251	1,072	3,028	10,417	1
	20,566	19,232	36,477	11,775	16

HOGLA-KIMBERLY LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 22 - INCOME TAXES (cont.)

C. RECONCILIATION OF THE STATUTORY TAX RATE TO THE EFFECTIVE TAX RATE:

CONSOLIDATED

	YEAR ENDED DECEMBER 31,			YEA
	2003	2002	2001	2003
	NIS IN THOUSANDS			N
Income before income taxes	83,954	44,543	79,609	30,610
Tax computed by statutory tax rate (36%)	30,223	16,035	28,659	11,020
TAX INCREMENTS (SAVINGS)DUE TO:				
Reduced tax rate (mainly for approved enterprise(	(1,185)	(1,397)	(2,882)	(918)
Non-deductible expenses	1,874	(*)1,840	(*)2,586	434
Non-taxable income	(65)	(*)(2,198)	(*)(3,348)	-
Unrecorded deferred taxes in connection with tax loss carry forward	-	(*)1,074	(*)2,397	-
Utilization of prior years unrecorded deferred taxes in connection with tax loss carry forward	(3,471)	-	-	-
Unrecorded deferred taxes in connection with submitting consolidated tax returns	-	-	-	2,053
Differences arising from basis of measurement (**)	(7,629)	3,883	7,449	(1,753)
Income taxes for prior years	1,437	(744)	(701)	1,358
Other differences, net	(618)	739	2,317	(419)
	20,566	19,232	36,477	11,775

(*) Reclassified.

(**) U.S. dollar for financial reporting purposes vis-a-vis the Consumer Price Index in Israel and the Turkish Lira for tax purposes.

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HOGLA-KIMBERLY LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 22 - INCOME TAXES (cont.)

D. DEFERRED INCOME TAXES

	CONSOLIDATED	CO
	YEAR ENDED DECEMBER 31,	YEAR ENDED

	2003	2002	2001	2003
	NIS IN THOUSANDS			NIS
Balance as of beginning of year	15,659	14,587	11,559	14,552
Changes during the year	8,251	1,072	3,028	10,417
Balance as of end of year	23,910	15,659	14,587	24,969

	CONSOLIDATED	
	DECEMBER 3	
	2003	2002
	NIS IN THOUSANDS	
DEFERRED TAXES ARE PRESENTED IN THE BALANCE SHEETS AS FOLLOWS:		
Long-term liabilities (in respect of depreciable assets)	29,428	19,644
Other receivables and prepayments (in respect of temporary differences) - Note 5	(5,518)	(3,985)
	23,910	15,659

Deferred taxes are computed at rates between 32% and 36%.

E. The Company and one of its subsidiaries, are "Industrial Companies" as defined in the Israeli Law for the Encouragement of Industry (Taxes)-1969. Based on this Law, the Company and that subsidiary file consolidated tax returns.

F. The Company and its Israeli Subsidiaries possess final tax assessments through 2001.

NOTE 23 - RELATED PARTIES AND INTERESTED PARTIES

A. BALANCES WITH RELATED PARTIES

	CONSOLIDATED	
	DECEMBER	
	2003	2002

	NIS IN THOUSANDS	
Trade receivables (*)	554	1,076
Capital note - shareholder	32,770	30,294
Capital notes - Subsidiaries	-	-
Trade payables (*)	23,752	34,841

(*) Company - excludes Subsidiaries

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HOGLA-KIMBERLY LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 23 - RELATED PARTIES AND INTERESTED PARTIES (cont.)

B. TRANSACTIONS WITH RELATED PARTIES AND SUBSIDIARIES

	CONSOLIDATED			
	YEAR ENDED DECEMBER 31,			
	2003	2002	2001	20
	NIS IN THOUSANDS			
Sales to related parties	6,103	17,646	23,026	4,16
Sales to Subsidiaries	-	-	-	358,76
Cost of sales	169,469	224,682	207,087	61,70
Royalties	15,642	12,220	12,158	1,50
Other selling expenses (*)	-	2,413	3,578	
General and administrative expenses (*)	8,201	7,380	8,435	1,42
Financing income, net (*)	3,314	2,076	2,339	2,52

(*) Company - excludes Subsidiaries

(**) The sales to and purchases from related parties are in the ordinary course of business at market prices and customary credit terms.

NOTE 24 - DISCLOSURE AND PRESENTATION OF FINANCIAL INSTRUMENTS

A. CREDIT RISK

The revenues of the Group's principal Subsidiaries are derived from two major customers and a large number of smaller customers. Management regularly monitors the balance of trade receivables and the financial statements include an allowance for doubtful accounts based on management's estimation. Taking the aforementioned into consideration, the exposure to credit risk from trade receivables is immaterial.

Cash and cash equivalents and long-term deposits (including amounts in foreign currency) are deposited with major banks in Israel and abroad. Therefore, it is not expected that such banks will fail to meet their obligations.

B. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of financial instruments (cash and cash equivalents, deposits, receivables, trade and other payables) did not materially differ from their fair value, unless stated otherwise.

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HOGLA-KIMBERLY LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 25 - RECONCILIATION TO US GAAP

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles applicable in Israel (Israeli GAAP). The following describes the effects on the Company's financial statements had the Company prepared its financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP).

A. BALANCE SHEETS

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 regard to the goodwill associated with the acquisition of Ovisan (see Note 9B) and the other GAAP differences outlined in B. below:

	As of December 31, 2003		
	AS REPORTED	ADJUSTMENT	AS PER US GAAP
	NIS IN THOUSANDS		
Other assets - Goodwill	29,073	5,536	34,609
Shareholders' equity	412,981	(3,003)	409,978

	As of December 31, 2003		
	AS REPORTED	ADJUSTMENT	AS PER US GAAP
	NIS IN THOUSANDS		
Other assets - Goodwill	31,841	2,768	34,609
Shareholders' equity	389,571	13,060	402,631

B. STATEMENTS OF OPERATIONS

	CONSOLIDATED AND COMPANY		
	YEAR ENDED DECEMBER 31,		
	2003	2002	2001
	NIS IN THOUSANDS		
Net income under Israeli GAAP	56,253	22,712	41,60
Effect of material differences between Israeli GAAP and US GAAP:			
Change in basis of measurement from adjusted NIS to nominal NIS	(5,694)	19,321	19,60
Amortization of goodwill	2,768	2,768	
Deferred taxes	(4,458)	(1,016)	(48
Net income under US GAAP	48,869	43,785	60,71

HOGLA-KIMBERLY LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 25 - RECONCILIATION TO US GAAP (cont.)

C. CHANGES IN SHAREHOLDERS' EQUITY IN ACCORDANCE WITH US GAAP

	NIS IN THOUSANDS
Shareholders' equity under US GAAP as of January 1, 2003	402,631
Dividend	(36,499)
Translation adjustments	(5,023)
Net income for the year under US GAAP	48,869
Shareholders' equity under US GAAP as of December 31, 2003	409,978

NOTE 26 - COMPANY'S FINANCIAL STATEMENTS IN NOMINAL VALUES

A. BALANCE SHEETS

	COMPANY	
	DECEMBER 31,	
	2003	2002
CURRENT ASSETS	NIS IN THOUSANDS	
Cash and cash equivalents	31,645	11,718
Current maturities of long-term bank deposits	7,882	9,947
Trade receivables	74,668	44,542
Other receivables	6,139	5,085
Inventories	58,539	45,749
	178,873	117,041
LONG-TERM INVESTMENTS		
Long-term deposit	-	8,527
Capital note from shareholder	32,770	32,770
Investments in Subsidiaries	189,340	159,658
	222,110	200,955
FIXED ASSETS, NET	203,572	200,933
	604,555	518,929
CURRENT LIABILITIES		
Short-term bank credit	1,087	-
Trade payables	174,580	103,384
Other payables and accrued expenses	10,645	23,418
	186,312	126,802
SHAREHOLDERS' EQUITY	418,243	392,127
	604,555	518,929

NOTE 26 - COMPANY'S FINANCIAL STATEMENTS IN NOMINAL VALUES (cont.)

B. STATEMENT OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	2003	2002	2001
	NIS IN THOUSANDS		
Net sales	387,019	308,566	318,000
Cost of sales	334,764	245,936	229,517
GROSS PROFIT	52,255	62,630	88,483
Selling expenses	7,827	6,038	5,151
General and administrative expenses	4,327	5,762	6,035
OPERATING PROFIT	40,101	50,830	77,297
Financing income (expenses), net	(5,995)	3,676	8,283
Other income, net	255	254	515
INCOME BEFORE INCOME TAXES	34,361	54,760	86,095
Income taxes	1,428	16,344	25,154
INCOME AFTER INCOME TAXES	32,933	38,416	60,941
Equity in net earnings of Subsidiaries	29,682	8,881	1,080
NET INCOME FOR THE YEAR	62,615	47,297	62,021

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HOGLA-KIMBERLY LTD.
NOTES TO FINANCIAL STATEMENTS

NOTE 26 - COMPANY'S FINANCIAL STATEMENTS IN NOMINAL VALUES (cont.)

C. STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

SHARE CAPITAL RETAINED

	CAPITAL	RESERVES	EARNINGS
			NIS IN THOUSA
BALANCE - JANUARY 1, 2001	8,263	132,127	189,116
CHANGES DURING 2001:			
Dividend declared			(44,160)
Net income for the year			62,021
BALANCE - DECEMBER 31, 2001	8,263	132,127	206,977
CHANGES DURING 2002:			
Dividend declared after balance-sheet date			(35,528)
Exchange rate differences of prior year declared dividend			(2,537)
Net income for the year			47,297
BALANCE - DECEMBER 31, 2002	8,263	132,127	216,209
CHANGES DURING 2003:			
Dividend paid			
Exchange rate differences of prior year declared dividend			(971)
Net income for the year			62,615
BALANCE - DECEMBER 31, 2003	8,263	132,127	277,853

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders of

CARMEL CONTAINER SYSTEMS LTD.

We have audited the accompanying consolidated balance sheets of Carmel Container Systems Ltd. ("the Company") and its subsidiaries as of December 31, 2002 and 2003, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of subsidiaries whose assets included in the consolidation constitute approximately 10% and 10% of total consolidated assets as of December 31, 2002 and 2003, respectively, and whose revenues included in the consolidation constitute approximately 29%, 9% and 9% of total consolidated revenues for the years ended December 31, 2001, 2002 and 2003, respectively. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those subsidiaries is based on the report of the other auditors. The financial statements for the year ended December 31, 2001 of one of the subsidiaries referred to above whose revenues included in the consolidation constitute approximately 9% of total consolidated revenues for the years ended December 31, 2001, were audited by Luboshitz Kasierer, a member of Andersen Worldwide, who issued an unqualified opinion in their report dated January 28, 2002. Andersen Worldwide has ceased operating as a member of the Securities and Exchange Commission Practice Section of the American Institute of Certified Public Accountants.

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

In our opinion, based on our audit and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2002 and 2003, and the consolidated results of their operations and cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in Israel, which differ in certain respects from accounting principles generally accepted in the United States (see Note 21 to the consolidated financial statements).

/s/ KOST FORER GABBAY & KASIERER

Tel-Aviv, Israel — KOST FORER GABBAY & KASIERER

March 9, 2004 — A Member of Ernst & Young Global

Kost Forer Gabbay & Kasierer is a member practice of Ernst & Young Global

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AUDITORS' REPORT

To the Shareholders of

TMM INTEGRATED RECYCLING INDUSTRIES LTD.

We have audited the balance sheets of TMM Integrated Recycling Industries Ltd. ("the Company") as of December 31, 2003 and 2002 and the consolidated balance sheets as of such dates and the related statements of operations, changes in shareholders' equity, and cash flows - of the Company and consolidated - for each of the two years in the period ended December 31, 2003 (not presented separately herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of the Company and consolidated for the year ended December 31, 2001 were audited by other auditors whose report dated March 4, 2002, expressed an unqualified opinion on those statements.

We did not audit the financial statements of certain subsidiaries, whose assets included in consolidation constitute approximately 4% and 8.4% of total consolidated assets as of December 31, 2003 and 2002, respectively, and whose revenues included in consolidation constitute approximately 7% and 11% of total consolidated revenues for each of the years ended on those dates, respectively. Furthermore, we did not audit the financial statements of an affiliate, the investment in which on the equity basis of accounting totaled approximately NIS 19,829 thousand as of December 31, 2003 and the Company's share in its losses totaled approximately NIS 14 thousand for the year then ended. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) and in Israel, including those prescribed by the Auditors' Regulations (Auditor's 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, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position - of the Company and consolidated - as of December 31, 2003 and 2002, and the results of operations and cash flows - of the Company and consolidated - for each of the two years in the period ended December 31, 2003, in conformity with generally accepted accounting principles in Israel. Furthermore, in our opinion, the financial statements referred to above are prepared in accordance with the Securities Regulations (Preparation of Annual Financial Statements), 1993.

As explained in Note 2a, the financial statements referred to above are presented in values adjusted for the changes in the general purchasing power of the Israeli currency, in accordance with pronouncements of the Institute of Certified Public Accountants in Israel.

/s/ KOST FORER GABBAY & KASIERER
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

Tel-Aviv, Israel
March 3, 2004

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REPORT OF INDEPENDENT AUDITORS ON RECONCILIATION

OF ISRAELI GAAP TO U.S. GAAP

T.M.M. Integrated Recycling Industries Ltd.
Tel Aviv

We have audited the consolidated financial statements of T.M.M. Integrated Recycling Industries Ltd. ("the Company") as of December 31, 2003 and 2002, and for each of the two years in the period ended December 31, 2003, (not presented separately herein) and have issued our report thereon dated March 3, 2004 (included elsewhere in this Form 20-F). Our audits also included the Reconciliations of Israeli GAAP to U.S. GAAP for each of the two years in the period ended December 31, 2003 (not presented separately herein). These Reconciliations are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. We did not audit the financial statements of certain subsidiaries, whose assets included in consolidation constitute approximately 4% and 8.4% of total consolidated assets as of December 31, 2003 and 2002, respectively, and whose revenues included in consolidation constitute approximately 7% and 11% of total consolidated revenues for each of the years ended on those dates, respectively. Furthermore, we did not audit the financial statements of an affiliate, the investment in which on the equity basis of accounting totaled approximately NIS 19,829 thousand as of December 31, 2003 and the Company's share in its losses totaled approximately NIS 14 thousand for the year then ended. We have been furnished with the reports of other auditors with respect to the Reconciliations of the aforementioned subsidiaries and affiliate.

In our opinion, based on our audits and the reports of other auditors, the Reconciliations referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ KOST FORER GABBAY & KASIERER
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

Tel-Aviv, Israel
March 3, 2004

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
T.M.M. Integrated Recycling Industries Ltd.

We have audited the accompanying balance sheets of T.M.M. Integrated Recycling Industries Ltd. ("the Company") as of December 31, 2001 and 2000 and the consolidated balance sheets as of those dates, and the statements of operations, changes in shareholders' equity and cash flows - of the Company and on a consolidated basis - for each of the years then ended. 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.

The Company's financial statements as of December 31, 1999 were audited by other auditors, whose unqualified report was issued on March 30, 2000.

We did not audit the financial statements of proportionately consolidated subsidiaries, whose assets included in consolidation constitute 7.3% and 7.5% of total consolidated assets at December 31, 2001 and 2000, respectively, and whose revenues included in consolidation constitute 9.2% and 9.6% of total consolidated revenues for the years then ended respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based solely on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America and in Israel, 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 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 audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position - of the Company and on a consolidated basis as of December 31, 2001and 2000, and the results of operations, changes in shareholders' equity and cash flows - of the Company and on a consolidated basis - for each of the years then ended, in conformity with generally accepted accounting principles. In addition, in our opinion, these financial statements are presented in accordance with the Israeli Securities Regulations (Preparation of Annual Financial Statements), 1993.

As explained in Note 2A, these financial statements have been prepared in values adjusted to reflect the changes in the general purchasing power of the Israeli currency, in accordance with pronouncements of the Institute of Certified Public Accountants in Israel.

/s/ Brightman Almagor & Co.

Brightman Almagor & Co.
Certified Public Accountants

Tel Aviv, March 4, 2002

ERNST & YOUNG

AUDITORS' REPORT

To the Shareholders of

BARTHELEMI HOLDINGS LTD.

We have audited the balance sheets of Barthelemi Holdings Ltd. ("the Company") as of December 31, 2003 and 2002 and the consolidated balance sheets as of such dates and the related statements of operations, changes in shareholders' equity, and cash flows - of the Company and consolidated - for each of the two years in the period ended December 31, 2003 (not presented separately herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiaries, whose assets included in consolidation constitute approximately 4% and 7.4% of total consolidated assets as of December 31, 2003 and 2002, respectively, and whose revenues included in consolidation constitute approximately 7% and 11% of total consolidated revenues for each of the years ended on those dates, respectively.

Furthermore, we did not audit the financial statements of an affiliate, the investment in which on the equity basis of accounting totaled approximately NIS 19,829 thousand as of December 31, 2003 and the Company's equity in its losses totaled approximately NIS 14 thousand for the year then ended. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) and accordance with generally accepted accounting standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's 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, 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 management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position - of the Company and consolidated - as of December 31, 2003 and 2002, and the results of operations, changes in equity and 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 in Israel which differ in certain respects from those followed in the United States, as described in Note 23 to the financial statements.

As explained in Note 2a, the financial statements referred to above are presented in values adjusted for the changes in the general purchasing power of the Israeli currency, in accordance with pronouncements of the Institute of Certified Public Accountants in Israel.

/s/ KOST FORER GABBAY & KASIERER

Tel-Aviv, Israel KOST FORER GABBAY & KASIERER

March 3, 2004 A Member of Ernst & Young Global

BAR-LEV, MERRARI, GEVA & CO. C.P.A (ISR.)

To the shareholders of
EFFEH Landfill Ltd

We have audited the financial statements of EFFEH Landfill Ltd. (hereafter - the Company): balance sheets as of December 31, 2003 and the related statements of income, changes in shareholders' equity and cash flows for the year 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 the standards of the Public Company Accounting Oversight Board (United States) and in Israel, 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 Company as of December 31, 2003 and the results of operations, the changes in shareholders' equity and the cash flows of the Company for the year ended December 31, 2003, in conformity with accounting principles generally accepted in Israel.

As explained in note 2, the financial statements referred to above are presented in values adjusted for the change in the general purchasing power of the Israel currency, in accordance with pronouncements of the Institute of Certified Public Accountants in Israel.

Accounting principles generally accepted in Israel vary in certain significant respects from accounting principles generally accepted in the United States of America. The application of the latter would have no significant affected the determination of the results of operations for the year ended December 31, 2003.

The above opinion is a mere translation of the Hebrew version of the opinion as given in the aforementioned date.

/s/ BAR-LEV, MERRARI, GEVA & CO.
BAR-LEV, MERRARI, GEVA & CO.
Certified Public Accountants (Israel) Tel Aviv, February 9, 2004

A MEMBER OF
DFK
INTERNATIONAL

MUALEM GLEZER INBAR JUNIO & Co
CERTIFIED PUBLIC ACCOUNTANTS (Isr.).

TEL AVIV, 30 Yavets St. P.O.B. 29145 Tel- Aviv, 61291 Tel: 972-3-5100124, Fax: 5176024 E-mail : cpa@netvision.net.il

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To the shareholders of
M.M.M United Landfill Industries (1998) Ltd

We have audited the financial statements of M.M.M United Landfill Industries (1998) Ltd. (hereafter - the Company): balance sheets as of December 31, 2003 and 2002 and the related statements of income, changes in shareholders' equity and cash flows for each of the three 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 the standards of the Public Company Accounting Oversight Board (United States) and in Israel, 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 Company as of December 31, 2003 and 2002 and the results of operations, the changes in shareholders' equity and the cash flows of the Company for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in Israel.

As explained in note 2b, the financial statements referred to above are presented in values adjusted for the change in the general purchasing power of the Israel currency, in accordance with pronouncements of the Institute of Certified Public Accountants in Israel.

Accounting principles generally accepted in Israel vary in certain significant respects from accounting principles generally accepted in the United States of America. The application of the latter would have no significant affected the determination of the results of operations for the three years in the period ended December 31, 2003.

The above opinion is a mere translation of the Hebrew version of the opinion as given in the aforementioned date.

/s/ Mualem Glezer Inbar Junio & Co.
Mualem Glezer Inbar Junio & Co.
Certified Public Accountants (Israel)   Tel Aviv, January 28, 2004

ANDERSEN

Luboshitz Kasierer

AUDITORS' REPORT TO THE SHAREHOLDERS

OF

HOGLA-KIMBERLY LTD.

We have audited the accompanying balance sheets of HOGLA-KIMBERLY LTD (the Company) and the consolidated balance sheets of the Company and its subsidiaries as of December 31, 2001 and 2000, and the related statements of income, changes in shareholders' equity and cash flows - Company and consolidated - for each of the three years in the period ended December 31, 2001. 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 generally accepted auditing standards in the United States and in Israel, including those prescribed under the Auditors' Regulations (Auditor's 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, 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 audits provide 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 and on a consolidated basis - as of December 31, 2001 and 2000, and the results of operations, changes in shareholders' equity and cash flows - of the Company and on a consolidated basis - for each of the three years in the period ended December 31, 2001, in conformity with generally accepted accounting principles in Israel (as to reconciliation to generally accepted accounting principles in the United States, see Note 25). Also, in our opinion, the financial statements referred to above are prepared in conformity with the Securities Regulations (Preparation of Annual Financial Statements), 1993.

As described in Note 2A, the financial statements referred to above have been prepared in values adjusted for changes in the general purchasing power of the Israeli currency as measured by the changes in the exchange rate of the U.S. dollar in relation to the shekel, in accordance with pronouncements of the Institute of Certified Public Accountants in Israel.

Without qualifying our opinion, we draw attention to Note 2L(2) to the financial statements regarding the presentation of a dividend declared subsequent to balance sheet date.

/s/ Luboshitz Kasierer

Luboshitz Kasierer
Certified Public Accountants (Isr.)

Tel-Aviv, March 4, 2002