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

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

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

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

|X| Form 20-F |_| Form 40-F

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

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

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

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

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

|_| Yes |X| No

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

Attached hereto as Exhibit 1 and incorporated herein by reference is the Registrant's press release dated November 11, 2004 with respect to the

Registrant's results of operations for the quarter ended September 30, 2004.

Attached hereto as Exhibit 2 and incorporated herein by reference is the Registrant's Management Discussion with respect to the Registrant's results of operations for the quarter ended September 30, 2004.

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

Attached hereto as Exhibit 4 and incorporated herein by reference is the Unaudited Condensed interim consolidated financial statements of Neusiedler Hadera Paper Ltd. with respect to the quarter ended September 30, 2004.

Attached hereto as Exhibit 5 and incorporated herein by reference are the unaudited condensed interim consolidated financial statements of Hogla-Kimberly Ltd. and subsidiaries with respect to the quarter ended September 30, 2004.

SIGNATURE

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

AMERICAN ISRAELI PAPER MILLS LTD.
(Registrant)

By: /s/ Lea Katz

Name: Lea Katz
Title: Corporate Secretary

Dated: November 11, 2004.

EXHIBIT INDEX

Exhibit No.	Description
1.	Press release dated November 11, 2004.
2.	Registrant's management discussion.
3.	Registrant's unaudited condensed consolidated financial statements.
4.	Interim report of Neusiedler Hadera Paper Ltd.
5.	Unaudited condensed interim consolidated financial statements of Hogla-Kimberly Ltd. and subsidiaries.

Exhibit 1

NEWS

Client: AMERICAN ISRAELI
PAPER MILLS LTD.

Agency Contact: PHILIP Y. SARDOFF

For Release: IMMEDIATE

American Israeli Paper Mills Ltd.
Reports Financial Results For Third Quarter and Nine Months

Hadera, Israel, November 11, 2004 - American Israeli Paper Mills Ltd. (ASE:AIP) (the "Company" or "AIPM") today reported financial results for the third quarter and first nine months ended September 30,2004.

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

Since the Company's share in the earnings of associated companies constitutes a material component in the Company's statement of income (primarily on account of its share in the earnings of Neusiedler Hadera Paper (NHP) and Hogla-Kimberly (H-K) that were consolidated in the past, until the transfer of control over these companies to the international strategic partners), the Company also presents the aggregate data which include the results of all the companies in the AIPM Group (including the associated companies whose results appear in the financial statements under "earnings from associated companies"), net of intercompany sales and irrespective of the percentage of holding.

Aggregate group sales in the first nine months of 2004 (January - September 2004) totaled NIS 2,001.9 million compared with NIS 1,764.8 million in the corresponding period last year (January - September 2003). Aggregate sales in the third quarter of 2004 (July - September 2004) totaled NIS 664.9 million, compared with NIS 621.9 million in the corresponding quarter last year (July - September 2003).

Aggregate operating profit in the first nine months of 2004 totaled NIS 147.0 million compared with NIS 119.9 million in the corresponding period last year.

Aggregate operating profit in the third quarter of 2004 totaled NIS 41.9 million, compared with NIS 46.6 million in the corresponding quarter last year.

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

Consolidated sales in the first nine months of 2004 totaled NIS 358.3 million compared with NIS 350.0 million in the corresponding period last year. Consolidated sales in the third quarter of the year totaled NIS 120.1 million, compared with NIS 117.3 million in the corresponding quarter last year.

Operating profit in the first nine months of 2004 totaled NIS 40.6 million compared with NIS 35.0 million in the corresponding period last year. Operating profit in the third quarter of 2004 totaled NIS 13.3 million, compared with NIS 12.0 million in the corresponding quarter last year.

Profit after taxes and before the Company's share in the profits of associated companies in the reported period amounted to NIS 27.4 million (including an extraordinary tax benefit of NIS 5.8 million - see below), compared with NIS 17.4 million in the corresponding period last year (including NIS 1 million non-recurring capital gain).

Net profit totaled NIS 57.0 million during the nine months period this year, as compared with NIS 45.0 million in the corresponding period last year. Net profit in the reported period includes profit in respect of the effects of the reduction of the corporate tax rate (from 36% to 30% by 2007) on the deferred tax reserve (at the Company, and our share in associated companies), which amounted to NIS 10.2 million Net profit in the corresponding period last year included approximately NIS 1.0 million in net non-recurring capital gains.

Earnings per share (EPS)in the first nine months of 2004 totaled NIS 14.05 compared with NIS 11.19for the corresponding period last year.

The inflation rate in the first nine months of 2004 was 1.2% as compared with negative inflation rate of -1.5% in the corresponding period last year.

The exchange rate of the NIS was devaluated against the U.S. dollar in the first nine months of 2004 by approximately 2.4% as compared with a revaluation of 6.2% in the corresponding period last year.

Mr. Yaacov Yerushalmi, Chairman of the Company's Board of Directors, said that a certain growth and recovery has been felt in the Israeli economy since the beginning of 2004, reflected by positive growth rates, increased demand and an optimistic atmosphere in the markets.

Nevertheless, this growth has scaled back somewhat over the past several months, and the growth in demand in the Israeli economy has stopped.

Pulp prices have been rising since March 2004 and in view of the competition from imports - primarily from Europe - the margins between paper selling prices and pulp prices have decreased.

The rising fuel prices over the past several months also affect the Group's operations, both on account of higher fuel oil and electricity prices - that serve for production - and primarily due to the higher diesel prices, that serve for the Group's transportation.

Despite the aforesaid market conditions, the Group managed to maintain its profitability.

The consolidated gross margin as a percentage of sales reached 22.8% in the first nine months of 2004 as compared with 22.3% in the corresponding period last year.

The improved gross margin compared to the corresponding period last year, resulted from the Company's increased sales and continuing efficiency measures. The improvement in the profit was partially offset by the increase of raw materials prices, mainly in the collection of paper waste for recycling.

The Company's share in the earnings of associated companies in the reported period amounted to NIS 29.6 million (including NIS 4.4 million representing the Company's share in a non-recurring benefit recorded in respect of the change in the corporate tax rate), compared with NIS 27.6 million in the corresponding period last year.

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

o The Company's share in the net earnings of NHP (49.9%), fell by NIS 3.2 million. The decline in the earnings is due to a decrease in operating profit (primarily due to lower margins, resulting from higher pulp prices that were not fully compensated for by higher selling prices, due to the escalating competition in the fine paper sector in Europe). Additional factor resulting in the decline is the elevated financial expenses this year resulting from the repayment of shareholder loans, that led to an increase in NHP's debt balance, and from the 2.4% devaluation of the NIS against the U.S. dollar (due to the transition to reporting in NIS pursuant to Standard 12, since NHP possesses a surplus of dollar-denominated liabilities).

o The Company's share in the earnings of Hogla-Kimberly Israel (49.9%) increased by approximately NIS 3.9 million, primarily due to the ongoing improvement in operating profit at Hogla-Kimberly Israel, as compared with the corresponding period last year. This improvement was achieved primarily as a result of higher sales prices and quantitative growth, coupled with the continuing efficiency measures, both in logistics and in production, and particularly as a result of the expanded production of Huggies diapers in Afula. The said increase was offset by lower financial revenues this year as compared with last year, due to the transition to reporting in NIS pursuant to Standard 12 and the effects of devaluation/revaluation differentials on Hogla's linkage balance sheet.

o The Company's share in the net profits of Ovisan (Turkey) (49.9%) fell by NIS 7.6 million despite the increased output and the expansion of operations and was attributable primarily to the effects of the devaluation of the Turkish lira, affecting both the costs of raw materials, which are purchased mainly in dollars, and the financial expenses. The results were also influenced by the fierce competition in the Turkish market, expressed by increased advertising expenses along with lower prices.

o The Company's share in the net profits of the Carmel Group (26.25%) increased by NIS 2.5 million, due to the continuing improvement in the operating profit. The improvement is attributed to the comprehensive efficiency measures being initiated by the Carmel Group, coupled with the growth in the volume of operations.

o The Company's share in the net profits of TMM (41.6%) increased by NIS 0.2 million. The improvement is attributed to a certain improvement in the operating profit (despite the significant increase in transportation costs, due to the considerable rise in diesel prices), coupled with a significant decrease in the TMM's financial expenses during the reported period, as compared with the corresponding period last year, attributed -

among other factors - to the decrease in the interest rate between the periods.

A total of 16,678 shares were issued during the reported period (0.4% dilution), as a result of the exercise of 44,494 option warrants as part of the Company's employee stock option plans.

In August, the Company declared a dividend payment for 2004, in the amount of approximately NIS 100 million (NIS 25.12 per share). The dividend was paid in September 2004.

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

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AMERICAN ISRAELI PAPER MILLS LTD.
SUMMARY OF RESULTS
(UNAUDITED)
NIS IN THOUSANDS(1)
except per share amounts

	Nine Months Ended September 30,	
	2004	2003
Net sales	358,316	349,989
Net earnings	57,023(2)	44,951
Earnings per share	14.05(2)	11.19

	Three Months Ended September 30,	
	2004	2003
Net sales	120,072	117,292
Net earnings	14,393	13,596
Earnings per share	3.56	3.38

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

The representative exchange rate at September 30,2004 was NIS 4.482=$1.00 and the representative exchange rate at December 31,2003 was NIS 4.379=$1.00.

(2) The net earnings in the reported period include NIS 10.2 million, tax benefit resulting from a tax rate reduction (including the company's share in the tax benefit of the associated companies) - see above.

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Exhibit 2

November 10, 2004

MANAGEMENT DISCUSSION

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

A. Summary of the Group and its Business Environment

1. General

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

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

2. The Business Environment

The Israeli economy embarked on a trend of growth and recovery since the beginning of 2004, following a severe recession that lasted several years. This recovery was expressed by positive growth rates, increased demand and an optimistic atmosphere in the markets. Nevertheless, this growth has scaled back somewhat over the past several months, and the growth in demand in the Israeli economy has stopped.

In all sectors of operation, the AIPM Group is continuing to deal with significant and escalating competition in the local market and against imports.

A strike in the Israeli ports, that lasted for one month in the third quarter of the year, also affected the financial results during the reported period, due to delays in the arrival of raw materials and in the departure of export shipments, coupled with additional costs on account of payments to shipping companies for transportation and storage in foreign ports.

Pulp prices have been rising since March 2004 and in view of the competition from imports - primarily in Europe - the margins between paper selling prices and pulp prices have decreased.

The rising fuel prices over the past several months also affect the Group's operations, both on account of higher fuel oil and electricity prices - that serve for production -

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and primarily due to the higher diesel prices, that serve for the Group's transportation means.

Despite the aforesaid market conditions, the Group managed to maintain its profitability while continuing its development and examining the possibility of transforming its energy generation systems to natural gas.

The Group made the transition to reporting in nominal New Israeli Shekels (NIS) in 2004, pursuant to the directives of Standard 12 of the Israeli Accounting Standards Board. In the past, the Group's reports were in NIS, adjusted to changes in the exchange rate of the US dollar against the NIS. The comparison figures with the corresponding period last year and with all of 2003 are the dollar figures, as reported in the past, multiplied by the exchange rate of the US dollar as at December 31, 2003, the day of the transition to NIS-based reporting pursuant to Standard 12 ($1 = NIS 4.379).

During the reported period (January-September 2004), the exchange rate of the NIS in relation to the US dollar was devaluated by approximately 2.4%, as compared with a revaluation of 6.2% in the corresponding period last year (January-September 2003).

The inflation rate during the reported period amounted to 1.2%, as compared with a negative inflation rate of -1.5% in the corresponding period last year.

B. Results of Operations

1. Aggregate Data

Since the Group's share in the earnings of associated companies constitutes a material component in the company's statement of income (primarily on account of its share in the earnings of Neusiedler Hadera Paper ("NHP") and Hogla-Kimberly that were consolidated in the past, until the transfer of control over these companies to the international strategic partners), the aggregate data appearing below also include the results of all the companies in the AIPM Group (including the associated companies whose results appear in the financial statements under "earnings from associated companies"), without considering the rate of holding and net of mutual sales.

The aggregate sales amounted to NIS 2,001.9 million during the reported period, as compared with NIS 1,764.8 million in the corresponding period last year.

The aggregate operating profit totaled NIS 147.0 million during the reported period, as compared with NIS 119.9 million in the corresponding period last year.

The aggregate sales in the third quarter of the year (July-September 2004) totaled NIS 664.9 million, as compared with NIS 621.9 million in the corresponding quarter last year (July-September 2003).

The aggregate operating income in the third quarter of the year totaled NIS 41.9 million, as compared with NIS 46.6 million in the corresponding quarter last year.

2. Consolidated Data

The Consolidated data does not include the results of operation of NHP (fine paper), Hogla-Kimberly, Carmel and TMM.

The sales during the reported period amounted to NIS 358.3 million, as compared with NIS 350.0 million in the corresponding period last year.

The operating profit totaled NIS 40.6 million during the reported period, as compared with NIS 35.0 million in the corresponding period last year.

The sales in the third quarter of the year amounted to NIS 120.1 million, as compared with NIS 117.3 million in the corresponding quarter last year.

The operating income in the third quarter of the year totaled NIS 13.3 million, as compared with NIS 12.0 million in the corresponding quarter last year.

The financial expenses amounted to NIS 7.6 million during the reported period, as compared with NIS 11.7 million in the corresponding period last year (see C5, below).

The profit after taxes and prior to the company's share in the earnings of associated companies amounted to NIS 27.4 million this year (including an extraordinary tax benefit of NIS 5.8 million - see below), as compared with NIS 17.4 million in the corresponding period last year.

3. Net Profit and Earnings Per Share

The net profit totaled NIS 57.0 million during the reported period, as compared with NIS 45.0 million in the corresponding period last year.

The net profit in the reported period includes profit in respect of the effects of the reduction of the corporate tax rate (gradually from 36% to 30% by 2007) on the deferred tax reserve (at the

Company, and our share in associated companies), which amounted to NIS 10.2 million (see also C6 below). The net profit last year included NIS 1.0 million in non-recurring capital gains, net.

The Earnings Per Share in the reported period amounted to NIS 1,405 per NIS 1 par value ($3.14 per share), as compared with NIS 1,119 per NIS 1 par value ($2.56 per share) in the corresponding period last year.

The return on shareholders' equity in annual terms (not including extraordinary earnings) amounted to 10.2% during the reported period, as compared with 9.2% in the corresponding period last year.

C. Analysis of Operations and Profitability

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

1. Sales

The consolidated sales during the reported period amounted to NIS 358.3 million, as compared with NIS 350.0 million in the corresponding period last year.

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

2. Cost of Sales

The cost of sales amounted to NIS 276.8 million, or 77.2% of sales, during the reported period, as compared with NIS 272.0 million, or 77.7% of sales, in the corresponding period last year.

The gross margin as a percentage of sales reached 22.8% during the reported period, as compared with 22.3% in the corresponding period last year.

The improved gross margin compared to the corresponding period last year, resulted from the Company's increased sales and continuing efficiency measures. The said improvement in the profit was partially offset by the increase of raw materials prices, primarily in the collection of paper waste for recycling.

Labor Wages

Wages in the cost of sales and selling, general and administrative expenses amounted to NIS 108.1 million in the reported period, as compared with NIS 102.3 million in the corresponding period last year.

Since in the corresponding period the data were reported adjusted to the dollar, and taking into account the effects of changes in the exchange rate of the dollar on the reporting last year, with the transition to reporting in accordance with Standard 12, the adjusted cost of wages last year, presented above, is about NIS 4.7 million lower than the nominal cost incurred at that time that amounted to NIS 107.0 million.

3. Selling, General and Administrative Expenses

The selling, general and administrative expenses (including wages) amounted to NIS 40.9 million in the reported period, or 11.4% of sales, as compared with NIS 43.0 million, or 12.3% of sales, in the corresponding period last year.

4. Operating Income

The operating profit totaled NIS 40.6 million during the reported period (11.3% of sales), as compared with NIS 35.0 million (10.0% of sales) in the corresponding period last year.

5. Financial Expenses

The financial expenses amounted to NIS 7.6 million during the reported period, as compared with NIS 11.7 million in the corresponding period last year.

The structure of the Company's linkage bases includes a surplus of dollar-linked assets on the one hand, coupled with a surplus of NIS-denominated liabilities, on the other hand.

The financial expenses in the corresponding period last year were influenced by the sharp revaluation of the shekel against the dollar (6.2%), which caused a significant increase in the financial expenses during the said period, as financial reporting was adjusted to the dollar.

With the transition to reporting in nominal shekels in accordance with Standard 12 this year, the Company's financial expenses have decreased in the reported period this year, as a result of the effects of the devaluation during the reported period (2.4%) on the Company's surplus dollar assets.

The financial expenses this year were also influenced - on the one hand - by the decrease in the average interest rates on short-term credit (from 8.8% last year to 5.1% this year), and by the increased credit and the impact of the issue of notes in late 2003, on the other hand.

6. Taxes on Income

Taxes on income from current operations amounted to NIS 11.4 million in the reported period, as compared with NIS 7.0 million in the corresponding period last year.

The principal factors responsible for the increase in tax expenses in the reported period as compared with the corresponding period last year, are the growth in pre-tax profits this year and the benefit recorded last year due to the sharp increase in tax expenses (erosion of the reserve).

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

The effect of this change on the Company's deferred taxes (in the consolidated report) amounted to a benefit of NIS 5.8 million (primarily due to the decrease in future tax liabilities which were deferred in respect of timing differences in depreciation, which was calculated at an accelerated pace in the tax reports). This benefit served to lower the reported tax expenses this year to only NIS 5.6 million.

7. 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 29.6 million in the reported period (including NIS 4.4 million as our share in a non-recurring benefit recorded in respect of the change in the corporate tax rate on the deferred earnings of the companies), as compared with NIS 27.6 million in the corresponding period last year.

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

- The Company's share in the net earnings of NHP (49.9%), fell by NIS 3.2 million. The decline in the earnings is due to a decrease in operating profit

(primarily due to lower margins, resulting from higher pulp prices that were not fully compensated for by higher selling prices, due to the escalating competition in the fine paper sector in Europe). Additional factor resulting in the decline is the elevated financial expenses this year resulting from the repayment of shareholder loans, that led to an increase in NHP's debt balance, and from the 2.4% devaluation of the NIS against the U.S. dollar (due to the transition to reporting in NIS pursuant to Standard 12, since NHP possesses a surplus of dollar-denominated liabilities).

- The Company's share in the earnings of Hogla-Kimberly Israel (49.9%) increased by approximately NIS 3.9 million, primarily due to the ongoing improvement in operating profit at Hogla-Kimberly Israel, as compared with the corresponding period last year. This improvement was achieved primarily as a result of higher sales prices and quantitative growth, coupled with the continuing efficiency measures, both in logistics and in production, and particularly as a result of the expanded production of Huggies diapers in Afula. The said increase was offset by lower financial revenues this year as compared with last year, due to the transition to reporting in NIS pursuant to Standard 12 and the effects of devaluation/revaluation differentials on Hogla's linkage balance sheet.

- The Company's share in the net profits of Ovisan (Turkey)

(49.9%) fell by NIS 7.6 million despite the increased output and the expansion of operations and was attributable primarily to the effects of the devaluation of the Turkish lira, affecting both the costs of raw materials, which are purchased mainly in dollars, and the financial expenses. The results were also influenced by the fierce competition in the Turkish market, expressed by increased advertising expenses along with lower prices.

- The Company's share in the net profits of the Carmel Group (26.25%) increased by NIS 2.5 million, due to the continuing improvement in the operating profit. The improvement is attributed to the comprehensive efficiency measures being initiated by the Carmel Group, coupled with the growth in the volume of operations.

- The Company's share in the net profit of TMM (41.6%) increased by NIS 0.2 million. The improvement is attributed to a certain improvement in the operating profit (despite the significant increase in transportation costs, due to the considerable rise in diesel prices), coupled with a significant decrease in TMM's high financial expenses during the reported period, as compared with the corresponding period last year, attributed - among other factors - to the decrease in the interest rate between the periods.

D. Liquidity and Investments

1. Accounts Receivable - Trade

Accounts Receivable, as at September 30, 2004, amounted to NIS 155.1 million, as compared with NIS 146.0 million at September 30, 2003. The higher accounts receivable balance is attributed primarily to the growth in the volume of operations.

2. Cash Flows

The operating cash flows totaled NIS 33.8 million during the reported period, as compared with NIS 15.6 million in the corresponding period last year (Prior to NIS 16.4 million in dividends received from an associated company. Together with the said dividend, the cash flows from operating activities amounted to NIS 32.0 million last year). The improvement in the cash flows from operating activities during the reported period originated primarily from a smaller increase in operating working capital during the reported period, as compared with last year, when significant growth was recorded, primarily of a non-recurring nature.

3. Investments in Fixed Assets

Investments in fixed assets totaled NIS 20.9 million in the reported period, as compared with NIS 19.2 million in the corresponding period last year, and included current investments in production, marketing and transport processes as well as the expansion of confidential data destruction operations in Israel.

4. Financial Liabilities

The long-term liabilities (including current maturities) amounted to NIS 270.9 million as at September 30, 2004, as compared with NIS 73.9 million as at September 30, 2003. Most of the increase in the long-term liabilities is attributed to loans raised through an issue of notes (Series 2) from institutional entities, in the amount of NIS 200 million, on December 21, 2003.

Some of the proceeds from the issue of the notes served for the repayment of short-term credit, while the rest was invested primarily in deposits and in short-term financial assets.

The balance of short-term credit, as at September 30, 2004, amounted to NIS 112.6 million, as compared with NIS 188.1 million at September 30, 2003.

E. Exposure and Management of Market Risks

Pursuant to the Management Discussion dated December 31,2001, which outlined the essence of the exposure and management of market risks, as set forth by the board of directors, the following is an update, true to September 30, 2004.

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The Company possesses CPI-linked liabilities (net of deposits) in the net overall sum of NIS 180 million, with the interest thereupon being no higher than the market interest rate. In the event that the inflation rate shall rise significantly, a loss may be recorded in the Company's financial statements, due to the surplus of CPI-linked liabilities. Therefore 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 (at a cost of 0.92% per annum).

Report of Linkage Bases
The following are the balance sheet items, according to linkage bases, as at December 31,2003 and updated for September 30, 2004.

In NIS Millions	Unlinked	CPI-linked	In foreign currency, or linked thereto (primarily US$)	Non-mone items
Assets				
Cash and cash equivalents	1.4		2.7	
Short-term deposits and investments	16.4	45.7		
Other Accounts Receivable	235.9		46.9	10.
Inventories				87.
Investments in associated companies	12.6	11.2	9.0	369.
Deferred taxes on income				3.
Fixed assets, net				325.
Deferred expenses, net of accrued amortization				1.

Total Assets	266.3	56.9	58.6	797.
Liabilities				
Credit from Banks	112.6			
Accounts Payable	158.5		10.6	
Deferred taxes on income				54.
Notes		235.8		
Other liabilities	32.8		2.3	
Shareholders' equity				571.
Total liabilities and equity	303.9	235.8	12.9	626.
Surplus financial assets (liabilities) as at Sept-30-2004	(37.6)	(178.9)	45.7	170.
Surplus financial assets (liabilities) as at Dec- 31- 2003	69.4	(229.2)	65.2	94.

Associated Companies

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

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E. Forward-Looking Statements

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

F. Miscellaneous

The Company began operating in the confidential data destruction sector in Switzerland this year, through the operation of mobile shredder trucks at customer sites, as part of a process intended to analyze the feasibility of penetrating this sector of operations in Europe. The company is currently in the organization stages and the building of a customer base.

G. Donations and Contributions

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

Moreover, the Group operates, through the Shenkar Foundation, that was established by the company together with its Austrian partner in NHP, where a sum totaling NIS 90 thousand was granted for student scholarships this year.

H. General

- 16,678 shares were issued during the reported period (0.4% dilution), on account of the exercise of 44,494 option warrants as part of the Company's employee option plans.

- The company signed a memorandum of understanding in August 2004, subject to the signing of an agreement, for the purchase of natural gas from the partners in the Thetis Sea Group, as part of the Company's plans to convert its energy generating systems to natural gas.

- During the Company's board meeting held on August 11, 2004, a decision was made to distribute a total sum of NIS 100 million as dividends to the shareholders on account of 2004 (NIS 25.12 per share).
  The dividend was paid in September 2004.

- The board of directors decided on October 12, 2004, to appoint Avi Brener as the Group's General Manager. The appointment will be effective as of January 1, 2005.

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

Exhibit 3

AMERICAN ISRAELI PAPER MILLS LTD.

SUMMARY OF CONSOLIDATED BALANCE SHEETS

NIS IN THOUSANDS (see note 1c)

	SEP. 30, 2004 (UNAUDITED)	SEP. 30, 2003 (UNAUDITED)	DEC. 31, 2003 (AUDITED)
Current assets :			
Cash and cash equivalents	4,088	5,549	158,706
Short-term deposit and investments	62,087		20,000
Receivables :			
Trade	155,141	146,041	140,996
Other	137,975	140,488	128,246
Inventories	87,645	88,433	90,654
Total current assets	446,936	380,511	538,602
Investments and long term receivables:			
Investments in associated companies	402,090	381,389	383,879
Deferred income taxes	3,885		3,885
	405,975	381,389	387,764
Fixed assets			
Cost	969,531	945,754	953,656
Less - accumulated depreciation	644,510	622,905	628,015
	325,021	322,849	325,641
Deferred charges - net of accumulated amortization	1,146	485	1,267
	1,179,078	1,085,234	1,253,274
Current liabilities:			
Credit from banks	112,573	188,058	144,989
Current maturities of long-term notes	6,668	6,542	6,590
Payables and accured liabilities :			
Trade	84,132	89,567	84,602
Other	85,021	73,827	73,010
Total current liabilities	288,394	357,994	309,191
Long-term liabilities			

Deferred income taxes	54,672	61,148	61,801
Loans from banks and other liabilities (net of current maturities):			
Notes	229,181	32,809	233,039
Other liabilities	35,067	34,557	35,013
Total long term liabilities	318,920	128,514	329,853
Total liabilities	607,314	486,508	639,044
Shareholders' equity :			
Share capital	125,257	125,256	125,257
Capital surplus	90,060	90,060	90,060
Currency adjustments in respect of financial statements of associated companies	(647)	(1,529)	(1,122)
Retained earnings	357,094	384,939	400,035
	571,764	598,726	614,230
	1,179,078	1,085,234	1,253,274

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

AMERICAN ISRAELI PAPER MILLS LTD.

SUMMARY OF CONSOLIDATED STATEMENTS OF INCOME
NIS IN THOUSANDS (see note 1c)

	NINE-MONTH PERIOD ENDED SEPTEMBER 30		THREE-MONT ENDED SEPT
	2004	2003	2004
	(UNAUDITED)		(UNAU
Net sales	358,316	349,989	120,072
Cost of sales	276,764	271,976	93,390
Gross profit	81,552	78,013	26,682
Selling and marketing, administrative			

and general expenses :			
Selling and marketing	23,267	23,615	7,363
Administrative and general	17,681	19,375	6,053
	40,948	42,990	13,416
Income from ordinary operations	40,604	35,023	13,266
Financial expenses (income) - net	7,617	11,693	3,146
Gain from realization of assets		1,609	
Income before taxes on income	32,987	24,939	10,120
Taxes on income (see note 2)	5,576	7,567	3,700
Income from operations of the company and the consolidated subsidiaries	27,411	17,372	6,420
Share in profits of associated companies - net	29,612	27,579	7,973
Net income for the period	57,023	44,951	14,393
Net income per NIS 1 par value of shares (in N.I.S)	1,405	1,119	356

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

AMERICAN ISRAELI PAPER MILLS LTD.

SUMMARY OF STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
NIS IN THOUSANDS (see note 1c)

	SHARE CAPITAL	CAPITAL SURPLUS	ADJUSTME DUE TO T TRANSLAT OF FINAN STATEME OF ASSOC COMPAN
Balance at January 1, 2004 (audited)	125,257	90,060	(
Changes during the nine month period ended September 30, 2004 (unaudited) :			
Net income			
Dividend distributed			

Exercise of employees options into shares	*		
Adjustments due to the translation respect of financial statements of associated companies			
Balance at September 30, 2004 (unaudited)	125,257	90,060	
Balance at January 1, 2003 (audited)	125,256	90,060	(
Changes during the nine month period ended September 30, 2003 (unaudited) :			
Net income			
Dividend distributed			
Exercise of employees options into shares	*		
Adjustments due to the translation respect of financial statements of associated companies			
Balance at September 30, 2003 (unaudited)	125,256	90,060	(
Balance at July 1, 2004 (unaudited)	125,257	90,060	
Changes during the three month period ended September 30, 2004 (unaudited):			
Net income			
Dividend distributed			
Exercise of employees options into shares	*		
Adjustments due to the translation respect of financial statements of associated companies			
Balance at September 30, 2004 (unaudited)	125,257	90,060	
Balance at July 1, 2003 (unaudited)	125,256	90,060	
Changes during the three month period ended September 30, 2003 (unaudited):			
Net income			
Dividend distributed			
Exercise of employees options into shares	*		
Adjustments due to the translation respect of financial statements of associated companies			(

Balance at September 30, 2003 (unaudited)	125,256	90,060	(
Balance at January 1, 2003 (audited)	125,256	90,060	(
Changes during the year ended December 31, 2003 (audited) :			
Net income			
Dividend distributed			
Exercise of employees options into shares	1		
Adjustments due to the translation respect of financial statements of associated companies			
Balance at December 31, 2003 (audited)	125,257	90,060	(

* Represents a sum under 1,000 NIS.

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

AMERICAN ISRAELI PAPER MILLS LTD.

SUMMARY OF CONSOLIDATED STATEMENTS OF CASH FLOWS
NIS IN THOUSANDS (see note 1c)

	NINE-MONTH PERIOD ENDED SEPT. 30, 2004 (UNAUDITED)	NINE-MONTH PERIOD ENDED SEPT.30, 2003 (UNAUDITED)	THREE-M PERIOD SEPT. 30 (UNAUDI
CASH FLOWS FROM OPERATING ACTIVITIES :			
Net income for the period	57,023	44,951	14,3
Adjustments to reconcile net income to net cash provided by operating activities (*):	(23,221)	(12,978)	(3
Net cash provided by operating activities	33,802	31,973	14,0
CASH FLOWS FROM INVESTING ACTIVITIES :			
Purchase of fixed assets	(20,943)	(19,193)	(8,8
Short-term deposits and investments - net	(41,999)		45,0
Associated companies :			
Investment in associated companies and loans			

granted	(779)	(7,786)	
Repayment of loans	13,688	15,326	6,8
Proceeds from sale of fixed assets	670	2,741	2
Net cash provided by (used in) investing activities	(49,363)	(8,912)	43,2
CASH FLOWS FROM FINANCING ACTIVITIES :			
Notes Issuance, net of issuance expenses of NIS 800,000			
Consideration in respect of the exercise of options by employees			
Repayment of long-term loans from banks and others	(382)	(381)	
Redemption of Notes	(6,666)	(6,770)	
Dividend paid	(99,964)	(99,128)	(99,9
Short-term bank credit and loans - net	(32,045)	83,307	(22,9
Net cash provided by (used in) financing activities	(139,057)	(22,972)	(122,9
Increase (decrease) in cash and cash equivalents	(154,618)	89	(65,6
Balance of cash and cash equivalents at beginning of period	158,706	5,460	69,7
Balance of cash and cash equivalents at end of period	4,088	5,549	4,0

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

Income and expenses not involving cash flows:			
Associated companies:			
Share in profits of associated companies - net	(29,612)	(27,579)	(7,9
Dividend received from those companies		16,391	
Depreciation and amortization	21,300	21,242	7,2
Deferred income taxes - net	(7,729)	2,462	(2
Capital gains losses on sale of fixed assets	(286)	(1,738)	(
Income from short-term deposits and investments, not realized yet	(88)		(3
Linkage differences (erosion) of principal of long-term loans from banks and others - net	65	66	
Exchange and linkage differences on Notes	2,886	2,540	
Erosion of long-term loans to associated companies	(1,033)	(870)	(
Linkage differences on long term capital note to an associated company		2,019	
Changes in operating assets and liabilities:			
Decrease (increase) in receivables	(23,274)	(31,241)	(6
Decrease (increase) in inventories	3,009	2,062	1,1
Increase (decrease) in payables and accrued liabilities	11,541	1,668	6
	(23,221)	(12,978)	(3

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

AMERICAN ISRAELI PAPER MILLS
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AT SEPTEMBER 30, 2004

(Unaudited)

Note 1 - General

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

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

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

c. Transition to nominal-historical financial reporting

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

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

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

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

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

	Exchange rate of the dollar	CPI
	%	%
Increase (decrease) in the nine months ended September 30:		
2004	2.4	1.2
2003	(6.2)	(1.5)
Increase (decrease) in the three months ended September 30:		
2004	(0.3)	(0.2)
2003	3.0	(1.0)
Increase in the year ended December 31, 2003	(7.6)	(1.9)

The dollar exchange rate as of September 30, 2004 is: $1=NIS 4.482

AMERICAN ISRAELI PAPER MILLS LTD.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AT SEPTEMBER 30, 2004

(Unaudited)

Note 2 - Reduction of Corporate Tax Rate

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

Note 3 - Recently issued pronouncement

At July 2004 the IASC issued Standard no. 19 - "Taxes on incem" ("the standard"), which is based on the international standard no. 12. The standard established the guidelines for the accounting of taxes on income (recognizing, measuring, presenting and disclosing). The Standard is effective for financial statements relating to reporting periods commencing on, or after, January 1, 2005, of after. An early adoption is recommended. The company is currently examining the implications of the adoption of the Standard on its' financial statements.

Note 4 - Segment Information

Data on segment activity - In NIS in thousands:

For the period of 9 months

	Paper and recycling		Marketing of office supplies		Tot
	Jan-Sept. 2004	Jan-Sept. 2003	Jan-Sept. 2004	Jan-Sept. 2003	Jan-Sept. 2004
Sales - net (1)	272,284	249,185	86,032	100,804	358,316
Income (loss) from operations	44,136	34,440	(3,532)	685	40,604

For the period of 3 months

	Paper and recycling		Marketing of office supplies		Tot
	July-Sept. 2004	July-Sept. 2003	July-Sept. 2004	July-Sept. 2003	July-Sept. 2004
Sales - net (1)	92,098	82,549	27,974	34,743	120,072
Income (loss) from operations	13,938	11,313	(672)	648	13,266

(1) Represents sales to external customers.

AMERICAN ISRAELI PAPER MILLS LTD. GROUP

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Fax: 972-4-6339740
E-Mail: chq@aipm.co.il

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.

Exhibit 4

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

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

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The Board of Directors of
Neusiedler Hadera Paper Ltd.

Re: Review of Unaudited Condensed Interim Consolidated Financial Statements for the Nine months and Three months Ended September 30, 2004

Gentlemen:

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

- Balance sheet as of September 30, 2004.
- Statements of operations for the nine months and three months ended September 30, 2004.

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

- Statements of cash flows for the nine months and three months ended September 30, 2004.

The comparative figures as of December 31, 2003 and for the year then ended were audited by other auditors, and the comparative figures as of September 30, 2003 and for the nine months and three months then ended were reviewed by other accountants. Those other auditors and accountants issued unqualified reports on all those financial statements.

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

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

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

Brightman Almagor & Co.

Certified Public Accountants
A Member Firm of Deloitte Touche Tohmatsu

Tel Aviv, October 28, 2004

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

	September 30,		December 31,
	2004	2003	2003
	Reported Amounts(1)	Adjusted Amounts(2)	Adjusted Amounts(2)
	(Unaudited)		
A S S E T S			
Current Assets			
Cash and cash equivalents	9,668	35,947	31,678

Trade receivables	159,326	153,486	147,748
Other receivables	12,368	18,638 (*)	16,218 (*)
Inventories	105,950	73,248	89,231
Total current assets	287,312	281,319	284,875
Fixed Assets			
Cost	141,063	129,627	132,692
Less - accumulated depreciation	31,312	23,388	25,381
	109,751	106,239	107,311
Other Assets - Goodwill	3,958	4,580	4,423
Total assets	401,021	392,138	396,609
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Short-term bank credit	13,822	--	--
Current maturities of long-term bank loans	15,525	14,998	15,108
Trade payables	115,192	78,463	104,097
American Israeli Paper Mills Group, net	62,838	61,832	52,968
Other payables and accrued expenses	15,749	18,579 (*)	17,604 (*)
Total current liabilities	223,126	173,872	189,777
Long-Term Liabilities			
Long-term bank loans	38,649	53,016	51,725
Capital notes to shareholders	17,928	56,927	43,790
Deferred taxes	25,183	28,902	29,247
Accrued severance pay, net	145	140	145
Total long-term liabilities	81,905	138,985	124,907
Shareholders' Equtiy			
Share capital	1	1	1
Capital reserves	43,352	43,352	43,352
Retained earnings	52,637	35,928	38,572
	95,990	79,281	81,925
Total liabilities and shareholders' equity	401,021	392,138	396,609

(*) Reclassified.

(1) See Note 2B(1).

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

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

Approval date of the interim financial statements: October 28 ,2004.
The accompanying notes are an integral part of the condensed interim consolidated financial statements.

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

	Nine months ended September 30,		Three months e September 3	
	2004	2003	2004	
	Reported Amounts(1)	Adjusted Amounts(2)	Reported Amounts(1)	Ad Am
	(Unaudited)		(Unaudited	
SALES, NET	516,594	493,791 (*)	167,278	1
COST OF SALES	454,363	429,673 (*)	150,644	1
GROSS PROFIT	62,231	64,118	16,634	
OPERATING COSTS AND EXPENSES				
Selling expenses	34,276	31,248	11,031	
General and administrative expenses	5,529	6,301 (*)	1,622	
	39,805	37,549	12,653	
OPERATING PROFIT	22,426	26,569	3,981	
FINANCING EXPENSES, NET	(8,236)	(1,626)(*)	(1,465)	
OTHER INCOME (LOSS), NET	90	(126)(*)	56	
INCOME BEFORE INCOME TAXES	14,280	24,817	2,572	
INCOME TAXES	215	8,942	976	
NET INCOME FOR THE PERIOD	14,065	15,875	1,596	

BASIC EARNINGS PER ORDINARY SHARE				
Earnings per ordinary share (in NIS)	14,065	15,875	1,596	
Number of shares used in computation	1,000	1,000	1,000	

(*) Reclassified.

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

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

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NEUSIEDLER HADERA PAPER LTD.

CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(NIS in thousands)

	Share capital	Capital reserves	Retained earnings	Total
Nine months ended September 30, 2004 (Unaudited) (Reported Amounts (1))				
Balance - January 1, 2004	1	43,352	38,572	81,925
Net income for the period			14,065	14,065
Balance - September 30, 2004	1	43,352	52,637	95,990
Nine months ended September 30, 2003 (Unaudited) (Adjusted Amounts (2))				
Balance - January 1, 2003	1	43,352	20,053	63,406
Net income for the period			15,875	15,875
Balance - September 30, 2003	1	43,352	35,928	79,281
Three months ended September 30, 2004 (Unaudited) (Reported Amounts (1))				
Balance - July 1, 2004	1	43,352	51,041	94,394

Net income for the period			1,596	1,596
Balance - September 30, 2004	1	43,352	52,637	95,990
Three months ended September 30, 2003 (Unaudited) (Adjusted Amounts (2))				
Balance - July 1, 2003	1	43,352	32,306	75,659
Net income for the period			3,622	3,622
Balance - September 30, 2003	1	43,352	35,928	79,281
Year ended December 31, 2003 (Adjusted Amounts (2))				
Balance - January 1, 2003	1	43,352	20,053	63,406
Net income for the year			18,519	18,519
Balance - December 31, 2003	1	43,352	38,572	81,925

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

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

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

	Nine months ended September 30,		Thre S
	2004	2003	200
	Reported Amounts(1)	Adjusted Amounts(2)	Report Amount
	(Unaudited)		(
CASH FLOWS - OPERATING ACTIVITIES			
Net income for the period	14,065	15,875	1,5
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Income and expenses not involving cash flows:			

Depreciation and amortization	6,787	6,437	2,3
Deferred taxes, net	180	8,971	1,0
Increase in liability for severance pay, net	--	9	
Capital loss (gain) from sale of fixed assets	(90)	201	(
Exchange rate differences of long-term bank loans	1,250	1,252	(
Exchange rate differences of long-term capital notes to shareholders	1,266	--	(1
Changes in assets and liabilities:			
Decrease (increase) in trade receivables	(11,578)	1,510	(
Increase in other receivables	(394)	(1,777)(*)	(3,7
Decrease (increase) in inventories	(16,719)	6,450	(21,1
Increase in trade payables	11,095	1,812	29,4
Increase (decrease) in American Israeli Paper Mills Group, net	9,870	7,147	2,0
Decrease in other payables and accrued expenses	(1,855)	(5,044)(*)	(2,8
Net cash provided by (used in) operating activities	13,877	42,843	8,2
CASH FLOWS - INVESTING ACTIVITIES			
Acquisition of fixed assets	(8,818)	(6,182)	(4,3
Proceeds from sale of fixed assets	146	596	
Net cash used in investing activities	(8,672)	(5,586)	(4,3
CASH FLOWS - FINANCING ACTIVITIES			
Short-term bank credit, net	13,822	(18)	10,6
Repayment of long-term loans	(13,909)	(19,728)	(6,3
Repayment of long-term capital notes to shareholders	(27,128)	(30,653)	(13,3
Net cash used in financing activities	(27,215)	(50,399)	(9,0
Decrease in cash and cash equivalents	(22,010)	(13,142)	(5,1
Cash and cash equivalents - beginning of period	31,678	49,089	14,7
Cash and cash equivalents - end of period	9,668	35,947	9,6

(*) Reclassified.

(1) See Note 2B(1).

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

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

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

NOTE 1 - BASIS OF PRESENTATION

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

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

B. New Accounting Standards

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

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

(a) Definitions:

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

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

NEUSIEDLER HADERA PAPER LTD. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2004

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

B. New Accounting Standards (cont.)

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

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

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

(c) Reported Amounts are determined as follows:

Balance Sheet Items

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

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

Statement of Operation Items

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

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

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

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

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

B. New Accounting Standards (cont.)

(2) Amortization of Goodwill - Standard No. 20

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

(3) New Accounting Pronouncement - Income Taxes

In July 2004, the Israeli Accounting Standards Board published Accounting Standard No. 19 "Income Taxes" (the "Standard"). The Standard established the guidelines for recognizing, measuring, presenting and disclosing taxes on income taxes in the financial statements. The Standard is effective for financial statements relating to reporting periods commencing on, or after, January 1, 2005. The initial adoption of the Standard shall be accounted for by the cumulative effect of change in accounting method, for the beginning of the period in which the Standard is initially adopted. The Group is currently examining the implications of the Standard, yet is unable, at this stage, to estimate its impact on the Group's financial position and results of operations.

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

As of:	Representative Exchange Rate of the dollar (NIS per $1)	CP "in resp (in po
September 30, 2004	4.482	180
September 30, 2003	4.441	179
December 31, 2003	4.379	178
Increase (decrease) during the:	%	%
Nine months ended September 30, 2004	2.4	1.
Nine months ended September 30, 2003	(6.2)	(1.
Three months ended September 30, 2004	(0.3)	(0.
Three months ended September 30, 2003	3.0	(1.
Year ended December 31, 2003	(7.6)	(1.

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

NOTE 3 - REDUCTION OF CORPORATE TAX RATE

In June 2004, the Israeli Knesset passed Amendment No. 140 to the Income Tax Ordinance, according to which the corporate income-tax rate would be gradually reduced from 36% to 30% by 2007 (2004-35%, 2005-34%, 2006-32%, 2007-30%). The effect of this change on the Group's deferred income tax provisions is reflected by a reduction of NIS 4,889 thousand in income tax expense for the nine-month period ended September 30, 2004.

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Exhibit 5

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

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

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The Board of Directors of
Hogla-Kimberly Ltd.

Re: Review of Unaudited Condensed Interim Consolidated Financial Statements for the Nine Months and Three Months Ended September 30, 2004

Gentlemen:

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

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

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

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

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

Brightman Almagor & Co.

Certified Public Accountants
A Member Firm of Deloitte Touche Tohmatsu
Tel Aviv, November 9, 2004

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS
(NIS in thousands)

	September 30, 2004 Reported Amounts(1)	September 30, 2003 Adjusted Amounts(3)	December 31, 2003 Adjusted Amounts(3)
	(Unaudited)	(Unaudited)	
Current Assets			
Cash and cash equivalents	93,197	16,270	37,340
Current maturities of long-term deposits	-	7,882	7,882
Trade receivables	271,470	226,683	229,979
Other receivables	29,305	14,547	14,222
Inventories	110,588	86,652	92,664
	504,560	352,034	382,087
Long-Term Investments			
Long-term deposits	71,712	70,064	70,064
Capital note of shareholder	32,770	32,313	32,770
	104,482	102,377	102,834
Fixed Assets			
Cost	485,918	472,158	479,744
Less - accumulated depreciation	216,310	206,030	210,176
	269,608	266,128	269,568
Other Assets - Goodwill	27,619	29,765	29,073
	906,269	750,304	783,562
Current Liabilities			
Short-term bank credit	-	-	1,087
Short-term loans and current maturities of long-term bank loans	44,372	19,102	15,147
Trade payables	184,250	127,969	139,555
Other payables and accrued expenses	43,559	36,850	37,632
	272,181	183,921	193,421
Long-Term Liabilities			
Long-term bank loans	91,880	89,770	96,338
Deferred taxes	32,937	28,030	29,428
	124,817	117,800	125,766
Minority Interest	53,721	47,535	51,394
Shareholders' Equity			
Share capital	29,038	28,788	28,788

Capital reserves	180,414	156,799	156,799
Translation adjustments relating to foreign held autonomous Subsidiary (2)	951	-	-
Retained earnings	245,147	215,461	227,394
	455,550	401,048	412,981
	906,269	750,304	783,562

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

T. Davis Chairman of the Board of Directors	A. Magid Financial Manager	A. Brenner Managing Director

Approval date of the interim financial statements: November 9, 2004.
The accompanying notes are an integral part of the condensed interim consolidated financial statements.

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

	Nine months ended September 30,		Three months ended September 30,	
	2 0 0 4	2 0 0 3	2 0 0 4	2 0 0 3
	Reported Amounts(1)	Adjusted Amounts(2)	Reported Amounts(1)	Adjusted Amounts(2)
	(Unaudited)			
Net sales	785,306	638,472	260,382	233,847
Cost of sales	545,589	458,384	181,780	165,866
Gross profit	239,717	180,088	78,602	67,981
Selling expenses	142,429	94,108	47,647	33,527
General and administrative expenses	31,451	29,643	10,957	10,260

Operating profit	65,837	56,337	19,998	24,194
Financing income (expenses), net	(7,447)	5,298	(1,125)	(4,294)
Other income, net	1,257	425	-	198
Income before income taxes	59,647	62,060	18,873	20,098
Income taxes	15,702	14,463	5,033	8,047
Income after income taxes	43,945	47,597	13,840	12,051
Minority interest in losses (earnings) of Subsidiary	(2,327)	(3,277)	(834)	77
Net income for the period	41,618	44,320	13,006	12,128
Earnings per share (in NIS) (*)	4.89	5.21	1.53	1.42
Number of shares used in computation (*)	8,513,473	8,513,473	8,513,473	8,513,473

(*) Retroactively adjusted for the effect of bonus shares distribution.

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

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

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

Translation adjustments

	Share capital	Capital reserves	relating to foreign held autonomous Subsidiary	Retai earni
Nine months ended September 30, 2004 (unaudited) (Reported Amounts (1))				
Balance - January 1, 2004	28,788	156,799	-	227,
Distribution of bonus shares	250	23,615		(23,
Translation adjustments relating to foreign held autonomous Subsidiary (2)			951	
Net income for the period				41,
Balance - September 30, 2004	29,038	180,414	951	245,
Nine months ended September 30, 2003 (unaudited) (Adjusted Amounts (3))				
Balance - January 1, 2003	28,788	156,799	-	171,
Dividend paid				
Net income for the period				44,
Balance - September 30, 2003	28,788	156,799	-	215,

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

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

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

	Share capital	Capital reserves	Translation adjustments relating to foreign held autonomous Subsidiary	Retain earnin
Three months ended September 30, 2004 (unaudited)				

(Reported Amounts (1))				
Balance - July 1, 2004	28,788	156,799	1,690	256,
Distribution of bonus shares	250	23,615		(23,
Translation adjustments relating to foreign held autonomous Subsidiary (2)			(739)	
Net income for the period				13,
Balance - September 30, 2004	29,038	180,414	951	245,
Three months ended September 30, 2003 (unaudited) (Adjusted Amounts (3))				
Balance - July 1, 2003	28,788	156,799	-	203,
Net income for the period				12,
Balance - September 30, 2003	28,788	156,799	-	215,
Year ended December 31, 2003 (Adjusted Amounts (3))				
Balance - January 1, 2003	28,788	156,799	-	171,
Dividend paid				
Net income for the year				56,
Balance - December 31, 2003	28,788	156,799	-	227,

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

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

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

	Nine months ended September 30,		Three months ended September 30,	
	2 0 0 4	2 0 0 3	2 0 0 4	2 0 0 3
	Reported Amounts(1)	Adjusted Amounts(3)	Reported Amounts(1)	Adjusted Amounts(3)

	(Unaudited)			
Cash flows - operating activities				
Net income for the period	41,618	44,320	13,006	12,128
Adjustments to reconcile net income to net cash provided by (used in) operating activities (Appendix A)	(5,853)	(4,905)	(16,504)	12,110
Net cash provided by (used in) operating activities	35,765	39,415	(3,498)	24,238
Cash flows - investing activities				
Withdrawal of long-term bank deposits	8,138	9,195	8,138	1,313
Acquisition of fixed assets	(13,794)	(23,726)	(7,677)	(6,567)
Proceeds from sale of fixed assets	1,827	1,357	-	826
Net cash provided by (used in) investing activities	(3,829)	(13,174)	461	(4,428)
Cash flows - financing activities				
Dividend paid	-	(32,843)	-	-
Long-term loans received	38,052	22,124	24,449	11,387
Repayment of long-term loans	(15,162)	(20,582)	(10,741)	(12,700)
Short-term bank credit, net	(1,087)	-	-	(12,065)
Net cash provided by (used in) financing activities	21,803	(31,301)	13,708	(13,378)
Translation adjustments of cash and cash equivalents of foreign held autonomous Subsidiary (2)	2,118	-	2,157	-
Increase (decrease) in cash and cash equivalents	55,857	(5,060)	12,828	6,432
Cash and cash equivalents - beginning of period	37,340	21,330	80,369	9,838
Cash and cash equivalents - end of period	93,197	16,270	93,197	16,270

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

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

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

	Nine months ended September 30,		Three months ended September 30,		Ye Dec
	2 0 0 4	2 0 0 3	2 0 0 4	2 0 0 3	2
	Reported Amounts(1)	Adjusted Amounts(2)	Reported Amounts(1)	Adjusted Amounts(2)	Ad Am
	(Unaudited)				
A. Adjustments to reconcile net income to net cash provided by (used in) operating activities					
Income and expenses not involving cash flows:					
Minority interest in earnings (losses) of Subsidiary	2,327	3,277	834	(77)	
Depreciation and amortization	18,205	19,688	6,479	6,704	
Deferred taxes, net	(983)	6,873	(295)	2,806	
Gain from sale of fixed assets	(1,257)	(425)	-	(198)	
Effect of exchange rate differences, net	1,039	(1,976)	1,594	1,010	
Changes in assets and Liabilities:					
Increase in trade receivables	(44,444)	(44,564)	(14,583)	(17,820)	(
Increase in other receivables	(11,229)	(2,459)	(8,234)	(1,289)	
Decrease (increase) in inventories	(19,554)	(225)	559	13,856	
Increase (decrease) in trade payables	32,749	9,617	(3,934)	15,276	
Net change in balances with related parties	11,058	944	(446)	(14,049)	(
Increase in other payables and accrued expenses	6,236	4,345	1,522	5,891	
	(5,853)	(4,905)	(16,504)	12,110	
B. Non-cash activities					
Acquisition of fixed assets on credit	7,368	5,856	4,005	1,490	

(1) See Note 2B(1).

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

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

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

NOTE 1 - BASIS OF PRESENTATION

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

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

B. New Accounting Standards

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

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

(a) Definitions:

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

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

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

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

B. New Accounting Standards (cont.)

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

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

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

(c) Reported Amounts are determined as follows:

Balance Sheet Items

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

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

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

Statement of Operation Items

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

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

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

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

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

B. New Accounting Standards (cont.)

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

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

(2) Translation of Foreign Operations' Financial Statements - Standard No. 13

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

(b) A foreign entity classified as a foreign held autonomous subsidiary

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

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

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

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

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

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

B. New Accounting Standards (cont.)

(3) Amortization of Goodwill - Standard No. 20

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

(4) Income taxes - Standard No. 19

In July 2004, the Israeli Accounting Standard Board published Accounting Standard No. 19 "Income Taxes" (the "Standard"). The Standard established the guidelines for recognizing, measuring, presenting and disclosing income taxes in the financial statements. The Standard is effective for financial statements relating to reporting periods commencing on, or after, January 1, 2005. The initial adoption of the Standard shall be accounted for by the cumulative effect of a change in accounting method, for the beginning of the period in which the Standard is initially adopted. The Group is currently examining the implications of the Standard, yet is unable, at this stage, to estimate its impact on the Group's financial position and results of operations.

C. During the nine months ended September 30, 2004, the representative exchange rate of the US Dollar vis-a-vis the NIS increased by 2.4%, the exchange rate of the Turkish Lira vis-a-vis the NIS increased by 4.6%, and the Israeli Consumer Price Index increased by 1.2%. During the three months ended September 30, 2004, the representative exchange rate of the US Dollar vis-a-vis the NIS decreased by 0.3%, the exchange rate of the Turkish Lira vis-a-vis the NIS increased by 1.5%, and the Israeli Consumer Price Index decreased by 0.2%.

NOTE 3 - ADDITIONAL INFORMATION

A. Reduction of Corporate Tax Rate

In June 2004, the Israeli Knesset passed Amendment No. 140 to the Income Tax Ordinance, according to which the corporate income-tax rate would be gradually reduced from 36% to 30% by 2007 (2004-35%, 2005-34%, 2006-32%, 2007-30%). The effect of this change on the Group's deferred income tax provisions is reflected by a reduction of approximately NIS 4.2 million in income tax expense for the nine-month period ended September 30, 2004.

NOTE 3 - ADDITIONAL INFORMATION (cont.)

B. In connection with the Company's approved enterprise program, in September 2004, the Company's Board of Directors decided to issue to the Company's shareholders 250,000 bonus shares with a premium of NIS 94.46 for each share.