AMERICAN ISRAELI PAPER MILLS LTD
Form 6-K
March 11, 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 March 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 March 11, 2004.

Attached hereto as Exhibit 2 and incorporated herein by reference is the Registrant's Management Discussion with respect to the results of operations of the Registrant for the year ended December 31, 2003.

Attached hereto as Exhibit 3 and incorporated herein by reference is the Registrant's consolidated audited financial statements for the year ended December 31, 2003.

Attached hereto as Exhibit 4 and incorporated herein by reference is the annual report of the Registrant's subsidiary Neusiedler Hadera Paper Ltd. for the year ended December 31, 2003.

Attached hereto as Exhibit 5 and incorporated herein by reference are the financial statements of the Registrant's subsidiary Hogla-Kimberly Ltd. for the year ended December 31, 2003.

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: March 11, 2004.

EXHIBIT INDEX

Exhibit No.	Description
1.	Press release dated March 11, 2003.
2.	Management Discussion.
3.	Financial Statements of the Registrant.
4.	Annual Report of Neusiedler Hadera Paper Ltd.
5.	Financial Statements of Hogla-Kimberly Ltd.

1

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 OF FISCAL YEAR ENDED DECEMBER 31, 2003

Hadera, Israel, March 11, 2004 - American Israeli Paper Mills Ltd. (ASE: AIP) (the "Company") today reported its results for the year ended December 31, 2003. All amounts are in New Israeli Shekels ("NIS") adjusted to changes in the U.S. dollar exchange rate.

Since the Company's share in the profits of associated companies constitutes an essential part of the profit and loss statement of the Company, mainly due to its share in the profits of Neusiedler Hadera Paper (NHP) and Hogla-Kimberly (H-K), which were formerly consolidated until the transfer of control to the international strategic partners (Neusiedler AG and Kimberly-Clark) the aggregate data (including the associated companies, whose results are included in the financial statements as "earnings of associated companies", without considering the holding percentage of AIPM in such companies and net of inter-company sales) is presented as follows.

Aggregate group sales in 2003 totaled NIS 2,359.4 million, compared with NIS 2,171.1 million in 2002 ($538.8 million as compared with $495.8 million).

Aggregate operating profit in 2003 totaled NIS 164.7 million, compared with NIS 125.7 million in 2002 ($37.6 million as compared with $ 28.7 million).

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 2003 totaled NIS 465.1 million, compared with NIS 455.8 million in 2002 ($106.2 million, compared with $104.1 million). Consolidated sales in 2002 included NIS 7.9 million ($1.8 million) on account of an operation which was discontinued in September 2002.

The growth in sales is attributed primarily to a quantitative increase of 6% in sales of packaging papers.

Operating profit in 2003 totaled NIS 46.6 million, compared with NIS 36.5 million in 2002 ($10.6 million, compared with $8.3 million).

1

Net profit in 2003 totaled NIS 60.0 million, compared with NIS 37.5 million in 2002 ($13.7 million, compared with $8.6 million). Net profit in 2003 includes approximately NIS 1.0 million ($0.2 million) in net capital gains, resulting from the sale of apartments owned by the Company, which had previously been used by the Company's employees and NIS 1.6 million ($0.4 million) tax benefit resulting from the exercise of option warrants by employees. 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.

Earnings per share (EPS) for 2003 totaled NIS 14.94 ($3.41), compared with NIS 9.47 ($2.16) for 2002.

The inflation rate in 2003 was negative and amounted to -1.9%, compared with an inflation rate of 6.5% in 2002.

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

Mr. Yaacov Yerushalmi, Chairman of the Company's Board of Directors said that the severe recession that has been plaguing the Israeli economy over the past several years, as part of the global economic crisis, accompanied by security events and terrorist attacks, has resulted in negative growth 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.

The global economic crisis - especially in Europe - has also affected the paper industry and resulted in a supply surplus and consequently in continuing import of low-priced paper into Israel. These imports have led to increased competition, especially in fine paper, accompanied by a decrease in selling prices. Since pulp prices have risen during the same period, this has led to a decrease in the margin between selling prices and pulp prices.

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 2003, 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.

Mr. Yerushalmi said that the gross margin as a percentage of consolidated sales reached 22.1% in 2003, as compared with 20.2% in 2002. The improved gross margin compared to 2002, was achieved due to the Company's ongoing improvement 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.

2

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). This increase was primarily the result of the influence of the dollar revaluation in 2003 over the Company's net surplus of NIS-denominated financial liabilities, whereas in 2002, the devaluation led to lower financial expenses (a difference of 15% between 2003 and 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), an amount similar to that spent in 2002.

The Company's share in the earnings of the associated companies - NHP, H-K, Carmel and TMM - 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 are changes in the earnings of the main associated companies in 2003 as compared to 2002:

- 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 H-K grew by NIS 19.0 million ($4.3 million), as a result of the improved operating profit at H-K as compared with last year. 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 local manufacture of HUGGIES diapers in Afula. Efficiency measures were also initiated at Ovisan (H-K's subsidiary in Turkey) and resulted in a significant improvement in the operating profit. The net profit also grew compared to 2002 on account of financial revenues that were recorded at H-K 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 financial liabilities bearing interest, net, grew by approximately NIS 65 million ($ 14.9 million) in 2003. The increase 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 was partially offset by the dividends and by the repayment of a loan obtained from associated companies.

In March 2003, the Company announced the distribution of a dividend for 2002, in the amount of NIS 25.9 million (NIS 6.61 per share). The dividend was paid in April 2003.

In August 2003, the Company announced the distribution of a special dividend for 2003 in the amount of NIS 75 million (NIS 19.04 per share). The dividend was paid in September 2003.

On 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 company shares and shall not be registered for trade on the stock exchange.

49,585 shares were issued during the reported period (1.3% dilution), on account of the exercise of 116,175 option warrants as part of the Company's employee option plans.

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

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

Adjusted NIS in
thousands except per share amounts

	YEAR ENDED DEC. 31,	
	2003	2002
Net sales	465,092	455,775
Net earnings	60,047	37,460
Earnings per share	14.94	9.47

	THREE MONTHS ENDED DEC. 31,	
	2003	2002
Net sales	115,104	123,384
Net earnings	15,095	9,293
Earnings per share	3.76	2.35

Adjusted NIS amounts have been adjusted to reflect changes in the rate of exchange between the U.S. dollar and the NIS as at the end of December 2003. The representative exchange rate at December 31, 2003 was N.I.S. 4.379 = $1.00

4

EXHIBIT 2

1

March 10, 2004

MANAGEMENT DISCUSSION

We present the consolidated financial statements of the American Israeli Paper Mills Ltd. Group ("AIPM" or the "Company") for the year 2003.

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

1. GENERAL

AIPM is the leading Israeli group (the "Group") in the manufacturing 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.

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

2. 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.

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%.

II. RESULTS OF OPERATIONS

1. AGGREGATE DATA

Since the Company's share in the earnings of associated companies constitutes a material component in the company's statement of income (primarily on account of its share in the earnings of Neusiedler Hadera Paper ("NHP") and Hogla-Kimberly that were consolidated in the past, until the transfer of control over these companies to the international strategic partners), the aggregate data appearing below includes 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 consideration of the rate of holding in such associated companies and net of mutual sales.

The aggregate sales in 2003 amounted to NIS 2,359.4 million (NIS - New Israeli Shekels adjusted to changes in the dollar exchange rate), as compared with NIS 2,171.1 million in 2002 ($538.8 million, as compared with $495.8 million).

The aggregate operating profit totaled NIS 164.7 million in 2003, as compared with NIS 125.7 million in 2002 ($37.6 million, as compared with $28.7 million).

2. CONSOLIDATED DATA

Excluding the results of operations of NHP, Hogla-Kimberly, Carmel and TMM - which appear in the Company's share in the earnings of associated companies.

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 expenses are primarily attributed to the impact of the revaluation on the net monetary balances (see analysis below - Chapter III, Section 5).

3. 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.

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) on account of 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).

4

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

The improved gross margin 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 spent 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 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. ACCOUNTS RECEIVABLE - TRADE

Accounts receivable totaled NIS 141.0 million as at December 31, 2003, as compared with NIS 131.7 million at December 31, 2002 ($32.2 million, as compared with $30.1 million).

The increase in accounts receivable in 2003 as compared with 2002 originates from the growth in the volume of operations, the revaluation of the dollar exchange rate and the increase in the days of receivables credit, as a result of the economic situation.

2. 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).

3. 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.

4. FINANCIAL LIABILITIES

The long-term liabilities (including current maturities) amounted to NIS 275.0 million as at December 31, 2003, as compared with NIS 77.2 million as 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 (see Section IX, below).

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 the credit balances in 2003 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).

V. EXPOSURE AND MANAGEMENT OF MARKET RISKS

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 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.

Mr. Israel Eldar, the Company's Controller, is in charge of the management of market risks. He conducts calculations of the Company's exposure every month and examines the compliance with the policy determined by the Board of Directors.

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 a loss 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.

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.

9

REPORT OF LINKAGE BASES

The following are the balance sheet items, according to linkage bases, at December 31, 2003 (including comparison numbers for December 31, 2002):

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
SURPLUS FINANCIAL ASSETS (LIABILITIES) AT DECEMBER 31, 2003	69.4	(229.2)	65.2

SURPLUS FINANCIAL ASSETS (LIABILITIES) AT DECEMBER 31, 2002	(69.1)	(35.8)	65.2

ASSOCIATED COMPANIES

Hogla-Kimberly, an associated company, owns a subsidiary that operates 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 compared to the U.S. dollar - might affect the Group's financial statements within the framework of the Company's share in the earnings of associated companies.

10

VI. 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 Company 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.

VII. 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 - and 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, primarily those that are active in the said areas (these contributions amounted to an adjusted sum of NIS 151 thousand in 2003, in the consolidated financial statements). Through its employees, the Company also participates in volunteer activities in the community, for promoting these same objectives.

In addition, a sum totaling NIS 120 thousand was granted for student scholarships and social projects in 2003 through the Schenker Foundation, that was established by the Company together with its Austrian strategic partner in NHP.

VIII. MEMBERS OF THE BOARD OF DIRECTORS POSSESSING FINANCIAL SKILLS

The minimum appropriate number of directors possessing accounting and financial skills (according to the Israeli securities regulations) was determined to be two for the company, in consideration of the nature of the accounting and financial issues that are raised in the preparation of the Company's financial statements, in view of the Company's areas of operation and in consideration of the composition of the board of directors as a whole, that includes individuals possessing business, management and professional experience that enables them to deal effectively with the tasks of managing the company, including reporting duties. The minimum number was also set while taking into account the close accounting counseling that is provided by the Company's Auditors, including their participation in board meetings discussing accounting issues and their availability to answer any question put forth by the board of directors.

11

The members of the Company's board of directors who possess accounting and financial qualifications and skills are:

Nochi Dankner -	Chairman and Chief Business Officer of IDB Holdings 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, where he served as Chairman of the Credit Committee of the Board. Holds L.L.B in Law.
Avi Yehezkel -	Holds B.A. in economics. External director at Bank Yahav. Served as a Knesset member between 1992-2003, during these years alternately, served as 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.
Yaacov Yerushalmi -	Chief Executive Officer of the Company between 1990 and March 2003; Chairman of the Company since 1999; Chairman or Deputy Chairman at various of the Company's subsidiaries or associated companies, including publicly-traded companies.
Oren Lieder -	Holds B.A. in economics and statistics. Serves as Senior 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.
Miri Lent-Sharir -	Holds B.A. in economics and an MBA. Served as director and member of the Audit Committee at various companies whose shares are publicly-traded in Israel and overseas.
Isaac Manor -	Holds an MBA. Serves as director at various publicly-traded and privately-held companies within the IDB Group; Chairman of companies in the David Lubinsky Group Ltd.; member of the Accounts Committee at Israel Union Bank Ltd.
Amos Mar-Haim -	Holds a first degree in economics and an MBA. Formerly served and currently serves as Chairman or Deputy Chairman or director at publicly-traded or privately-held companies.

Gezi Kaplan -	Holds B.A. in economics. Chief Executive Officer of Tivall (1993) Ltd. Deputy Chief Executive Officer of Osem Investments and Chairman of the board of various companies in the Osem Group.
Leon Recanati -	Holds an MBA. Until May 2003 Chairman of the board of IDB Holdings Ltd., Clal Industries and Investments Ltd., Discount Investments Ltd. and director at various publicly-traded and privately-held companies within the IDB Group.

12

IX. GENERAL

- In March 2003, the Company announced the distribution of a dividend for 2002, in the amount of NIS 25.9 million (NIS 6.61 per share). The dividend was paid in April 2003.
- In August 2003, the company announced the distribution of a special dividend for 2003, in the amount of NIS 75 million (NIS 19.04 per share). The dividend was paid in September 2003.
- 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 company shares and shall not be registered for trade on the stock exchange.
- Avi Patir, who was appointed the Company's General Manager on April 1, 2003, resigned his position on February 10, 2004, due to circumstances that do not need to be reported to the public.
- 49,585 shares were issued during the reported period (1.3% dilution), on account of the exercise of 116,175 option warrants as part of the Company's employee option plans.

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

EXHIBIT 3

AMERICAN ISRAELI PAPER MILLS LIMITED
2003 CONSOLIDATED FINANCIAL STATEMENTS

AMERICAN ISRAELI PAPER MILLS LIMITED
2003 CONSOLIDATED FINANCIAL STATEMENTS

TABLE OF CONTENTS

AUDITORS' REPORT

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

In our opinion, based on our audits and the reports of the other 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

AMERICAN ISRAELI PAPER MILLS LIMITED

CONSOLIDATED BALANCE SHEETS
IN ADJUSTED NEW ISRAELI SHEKELS

	Note	D 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.

	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:		

	Note	
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.

6

(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

7

(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.

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.

9

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).

11

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

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.

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.

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 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.

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

16

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%.

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.

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

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:

		December 31	
		2003	2002
	Authorized	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 %	2003 Adjusted NIS in thousands	2002 %	2002 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.

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

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.

AMERICAN ISRAELI PAPER MILLS LIMITED
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.

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	December 31 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	December 31 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, 2003	December 31 2003	December 31 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	December 31 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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)

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.

33

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

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.

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.

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.

36

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.

37

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.

38

[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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EXHIBIT 4

NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)

2003 ANNUAL REPORT

NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)

2003 ANNUAL REPORT

TABLE OF CONTENTS

AUDITORS' REPORT

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

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

2

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

	Note	2003	2002
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

GUNTHER HASSLER	CHAIRMAN OF THE BOARD OF DIRECTORS
YAKI YERUSHALMI	VICE CHAIRMAN OF THE BOARD OF DIRECTORS
ELIAZ AMAR	CHIEF FINANCIAL OFFICER

		CONSOLIDATED	
		DECEMBER 31	
	NOTE	2003	2002
		IN T	

	Note		
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.

4

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.

NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)

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

	SHARE CAPITAL		CAPITAL
	NUMBER OF SHARES	AMOUNT	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.

6

(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

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

8

(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.

9

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.

NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)

NOTES TO FINANCIAL STATEMENTS (continued)

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.

NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)

NOTES TO FINANCIAL STATEMENTS (continued)

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.

13

NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)

NOTES TO FINANCIAL STATEMENTS (continued)

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.

NEUSIEDLER HADERA PAPER LTD.
(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.

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:

	DEPRECIABLE FIXED ASSETS	INVENTORIES	PROVISIONS FOR EMPLOYEE RIGHTS: SEVERANCE PAY	PROVISIONS FOR EMPLOYEE RIGHTS: 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.
(An Israeli Corporation)

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.
(An Israeli Corporation)

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%.

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.

23

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

24

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		

25

NEUSIEDLER HADERA PAPER LTD.
(An Israeli Corporation)

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 10 - SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (continued):

	CONSOLIDATED DECEMBER 31		THE COM 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.

26

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:

	CONSOLIDATED	
	2003	2002
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

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.

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.

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.

32

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

33

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

34

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.

35

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

36

EXHIBIT 5

HOGLA-KIMBERLY LTD.
FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2003

TABLE OF CONTENTS

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 26.

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.

Brightman Almagor & Co.

Certified Public Accountants
A Member Firm of Deloitte Touche Tohmatsu

Tel Aviv, March 8, 2004

-1-

HOGLA-KIMBERLY LTD.
BALANCE SHEETS
(Adjusted for changes in the U.S. dollar vis-a-vis the NIS)

	NOTE	CONSOLIDATED DECEMBER 31, 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
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			
		YEAR ENDED DECEMBER 31,			YEA
	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.

-3-

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.

-4-

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.

-5-

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.

-6-

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.

NOTES TO FINANCIAL STATEMENTS

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.

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.

-12-

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

-13-

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.

-15-

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.

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

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

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(*) 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.

-18-

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.

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

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

-22-

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			YEA
	YEAR ENDED DECEMBER 31,			
	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.

-23-

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

-24-

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.

-25-

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

HOGLA-KIMBERLY LTD.
NOTES TO FINANCIAL STATEMENTS

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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-28-

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	CAPITAL RESERVES	RETAINED 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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-29-