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AMERICAN ISRAELI PAPER MILLS LTD  
Form 6-K  
August 10, 2005

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 6-K  
Report of Foreign Private Issuer  
Pursuant to Rule 13a-16 or 15d-16  
of the Securities Exchange Act of 1934  
For the Month of August 2005  
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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:

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                                       No

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

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Attached hereto as Exhibit 1 and incorporated herein by reference is the Registrant's press release dated August 9, 2005 with respect to the Registrant's results of operations for the quarter ended June 30, 2005.

Attached hereto as Exhibit 2 and incorporated herein by reference is the Registrant's Management Discussion with respect to the Registrant's results of operations for the quarter ended June 30, 2005.

Attached hereto as Exhibit 3 and incorporated herein by reference are the Registrant's unaudited condensed consolidated financial statements for the quarter ended June 30, 2005.

Attached hereto as Exhibit 4 and incorporated herein by reference are the unaudited condensed interim consolidated financial statements of Mondi Business Paper Hadera Ltd. and subsidiaries with respect to the quarter ended June 30, 2005.

Attached hereto as Exhibit 5 and incorporated herein by reference are the unaudited condensed interim consolidated financial statements of Hogla-Kimberly Ltd. and subsidiaries with respect to the quarter ended June 30, 2005.

### 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

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Name: Lea Katz

Title: Corporate Secretary

Dated: August 9, 2005.

### EXHIBIT INDEX

Exhibit No.	Description
1.	Press release dated August 9, 2005.
2.	Registrant's management discussion.
3.	Registrant's unaudited condensed consolidated financial statements.
4.	Unaudited condensed interim consolidated financial statements of Mondi Business Paper Hadera Ltd. and subsidiaries.
5.	Unaudited condensed interim consolidated financial statements of Hogla-Kimberly Ltd. and subsidiaries.

EXHIBIT 1

NEWS

CLIENT: AMERICAN ISRAELI  
PAPER MILLS LTD.

AGENCY CONTACT: PHILIP Y. SARDOFF

FOR RELEASE: IMMEDIATE

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

Hadera, Israel, August 9, 2005 - American Israeli Paper Mills Ltd. (ASE:AIP) (the "Company" or "AIPM") today reported financial results for the second quarter and first six months ended June 30, 2005.

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 Mondi Business Paper Hadera (Mondi Hadera) and Hogla-Kimberly (H-K) that were consolidated in the past, until the transfer of control over these companies to the international strategic partners), we also present the aggregate data which include the results of all the companies in the AIPM Group (including the associated companies whose results appear in the financial statements under "earnings from associated companies"), net of intercompany sales and irrespective of the percentage of holding.

Aggregate group sales in the first six months of 2005 (January - June 2005) totaled NIS 1,370.9 million compared with NIS 1,337.9 million in the corresponding period last year (January - June 2004). Aggregate sales in the second quarter of 2005 (April - June 2005) totaled NIS 685.1 million, compared with NIS 655.3 million in the corresponding quarter last year (April - June 2004).

The aggregate operating profit presented below for the first six months of this year and for the second quarter of the year does not include the extraordinary provision for doubtful debts, in the amount of NIS 10.6 million, that was recorded at H-K as a result of the collapse of H-K's client, the Club Market chain and the stay of proceedings that was approved by the District Court in July this year (as it is not part of the ongoing operations for the period).

Aggregate operating profit in the first six months of 2005 totaled NIS 65.3 million compared with NIS 106.0 million in the corresponding period last year.

Aggregate operating profit in the second quarter of 2005 totaled NIS 29.1 million, compared with NIS 49.6 million in the corresponding quarter last year.

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

Consolidated sales in the first six months of 2005 totaled NIS 240.0 million

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compared with NIS 238.2 million in the corresponding period last year. Consolidated sales in the second quarter of the year totaled NIS 118.3 million, compared with NIS 119.1 million in the corresponding quarter last year.

Operating profit in the first six months of 2005 totaled NIS 25.8 million compared with NIS 27.3 million in the corresponding period last year. Operating profit in the second quarter of 2005 totaled NIS 11.3 million, compared with NIS 13.8 million in the corresponding quarter last year.

Net profit before non-recurring items totaled NIS 23.1 million during the reported period, as compared with NIS 32.4 million in the corresponding period last year.

Due to the collapse of the Club Market chain, which has entered a stay of proceedings, H-K has recorded a net non-recurring loss (after taxes) of NIS 7 million, of which the Company's share amounts to a net sum of NIS 3.5 million, thereby bringing the reported net income during the reported period to NIS 19.5 million.

Net profit during the reported period does not include the impact of the tax law reforms, that were passed by the Knesset on July 27, 2005, that serve to gradually lower the corporate tax rate to a level of 25% by 2010. The derived tax benefit will be recorded in the third quarter of the year and is estimated at NIS 9 million (including the Company's share in the benefit at the associated companies).

During the corresponding period last year, extraordinary income in the amount of NIS 10.2 million was recorded in the Company's financial statements, on account of a tax benefit (including the Company's share in the benefit at the associated companies), originating from the change in deferred taxes due to the lowering of tax rate, that became effective in June 2004.

Earnings per share (EPS) (before non-recurring gains) in the first six months of 2005 totaled NIS 5.70 (\$1.25 per share) compared with NIS 8.01 (\$1.78 per share) for the corresponding period last year.

Earnings per share (EPS), before non-recurring items, in the second quarter this year totaled NIS 2.23 per share (\$0.49 per share), as compared with NIS 3.70 share in the corresponding quarter last year (\$0.82 per share).

The inflation rate in the first six months of 2005 was 0.5% as compared with an inflation rate of 1.4% in the corresponding period last year.

The exchange rate of the NIS was devaluated against the U.S. dollar in the first six months of 2005 by approximately 6.2% as compared with a devaluation of 2.7% in the corresponding period last year.

Mr. Avi Brener, Chief Executive Officer of the Company, said that the first half of 2005 was characterized by a slowdown in the growth rate of the Israeli economy in relation to 2004 - a slowdown that was expressed by lower domestic demand and deteriorating terms of trade.

The trend of rising energy prices that began in 2004 grew even more acute in 2005, in all the input types used by the Group as compared with the corresponding period last year (including fuel oil - an increase of 30%, diesel - 33% and electricity - 15%). The effect of these higher prices in annual terms represents an additional annual expenditure of NIS 30 million.

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Furthermore, the prices of all main raw materials used by the Group companies in their various operations also continued to grow - including pulp, fluff (pulp for absorbent products) and absorbent materials for diapers (SAP).

The above-mentioned extraordinary price hikes, coupled with the surplus supply of low-priced paper imports, harmed the Group's results during the reported period, in relation to the corresponding period last year.

Due to this rise in the input prices, the Group accelerated its efficiency programs in all companies, operating intensively across all expense areas - in parallel to maintaining the quality of products and the market shares.

In addition, the Group raised the selling prices of its products, albeit only partially and not to the extent warranted by the higher input prices - due to the economic conditions outlined above, the lower demand and the escalating competition.

These efficiency measures, together with the higher prices, rendered it possible to significantly reduce the heavy impact of the rising input prices on the results.

An enterprise-wide comprehensive program was formulated during the current quarter, intended to exploit all of the Group's business and managerial capabilities, for the purpose of gradually improving the profitability.

As part of the Company's endeavors for cutting manufacturing costs and for additional environmental improvements, the Company is continuing to promote the energy-cogeneration plant project in Hadera, based on natural gas.

The Company's share in the earnings of associated companies (before non recurring items) in the reported period amounted to NIS 8.1 million compared with NIS 17.2 million in the corresponding period last year.

The following principal changes were recorded in the Company's share in the earnings of the main associated companies, in relation to the corresponding period last year (before non-recurring items):

- The Company's share in the net income of Mondi Hadera (49.9%) decreased by NIS 5.3 million. Most of the change in the net income is attributable to the decrease in operating income over the years, as a result of the rebuild of the paper machine this year. The massive rebuild that intended to increase the output of the machine and improve the quality of the paper, required shutdown during the rebuild and was accompanied by a learning curve, as is normal during such a significant project. The full expected benefit of this rebuild will be reflected later this year and in 2006. Also, the unusual increase in raw material, energy and water prices adversely affected the profitability of Mondi Hadera. Mondi Hadera is continuing to raise its prices as much as possible considering the market condition both in Europe and Israel and is further expanding its cost-cutting efforts.
- The Company's share in the net income of H-K Israel (49.9%) grew by NIS 0.7 million (not including the allowance due to Club Market). The implementation

of the efficiency program at Hogla Kimberly, in conjunction with higher prices, served to compensate for the sharp rise in input prices (raw materials and energy) and improved the operating income in the second quarter of the year.

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A net loss of NIS 3.5 million was recorded in the second quarter of the year, on account of AIPM's share in the additional provision for doubtful debts that was recorded by Hogla Kimberly on account of the debt of Club Market.

- The Company's share in the net income of Ovisan (Turkey) (49.9%) decreased by NIS 1.9 million. Ovisan is continuing its preparation for the expansion of operations in the Turkish market and for the introduction of Kimberly Clark's international premium brands into the Turkish market, within the framework of the multi-annual strategic program that is in its final stages of formulation at this time (in partnership with Kimberly Clark). In this capacity, the local management team was reinforced, to enable the realization of this plan. The said plan is intended to begin toward the end of 2005 and will continue into 2006.

The Company's share in the earnings of associated companies - including non-recurring items - amounted to NIS 4.5 million in the reported period, after a deduction of NIS 3.5 million, representing AIPM's share in the losses of H-K - due to Club Market. It is not including the Company's share in the tax benefit from the tax reform of 2005 (see above) that is expected to be recorded in the third quarter this year at the various companies. AIPM's share in the tax benefit is expected to amount to NIS 4 million. In the corresponding period last year, the Company's share included a sum of NIS 4.4 million, as AIPM's share in the tax benefit recorded at the companies following the tax reform of 2004.

A total of 3,446 shares were issued during the reported period (0.1% dilution), as a result of the exercise of 12,520 option warrants as part of the Company's employee stock option plans.

The Company recently acquired a plot of land of 21.5 acres, next to its Hadera plant, for a purchase price of \$4.4 million.

In July 2005, Carmel Container Systems Ltd. - an associated company - completed its delisting and deregistration process from the US stock exchange.

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

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AMERICAN ISRAELI PAPER MILLS LTD.  
SUMMARY OF RESULTS  
(UNAUDITED)  
NIS IN THOUSANDS  
EXCEPT PER SHARE AMOUNTS

SIX MONTHS ENDED JUNE 30,

2005

2004

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	====	====
Net sales	240,041	238,244
Net earnings	19,541*	42,630*
Earnings per share	4.83*	10.53*

THREE MONTHS ENDED JUNE 30,

	2005	2004
	====	====
Net sales	118,263	119,062
Net earnings	5,510*	25,195*
Earnings per share	1.36*	6.22*

\* The net earnings of the 6 months and 3 months ended June 30, 2005 include a non-recurring loss in the sum of NIS 3.5 million on account of AIPM's share in Hogla-Kimberly's loss regarding Club-Market, and does not include tax benefit in the sum of about NIS 9 million on account of the new tax reform in Israel. This income will be recorded in the third quarter of 2005.

The net earnings of the 6 months and 3 months ended June 30, 2004 include a non-recurring tax benefit of about NIS 10.2 million.

EXHIBIT 2

August 9, 2005

MANAGEMENT DISCUSSION

We are honored to present the consolidated financial statements of the American Israeli Paper Mills Ltd. Group ("AIPM") for the first six months of 2005.

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

1. GENERAL

AIPM deals in the manufacture and sale of paper, in the recycling of paper waste and in the marketing of office supplies - through subsidiaries. The Company also holds associated companies that deal in the manufacture and marketing of fine paper, in the manufacture and marketing of household paper products, hygiene products, disposable diapers and complementary kitchen products, corrugated board containers, packaging for consumer goods and the handling of solid waste.

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

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### 2. THE BUSINESS ENVIRONMENT

The first half of 2005 was characterized by a slowdown in the growth rate of the Israeli economy in relation to 2004 - a slowdown that was expressed by lower domestic demand and deteriorating terms of trade.

The continuing structural problems in the European economy resulted in the continued recession, while the changes in the Chinese economy have even exacerbated this trend. Consequently, also due to the surplus manufacturing capacity in Europe (created as a result of anticipated growth, resulting in surplus supply as opposed to low demand), low-priced competing imports are arriving in Israel, constituting a price barrier against the Group's products in Israel.

The weakening euro in the second quarter of 2005 resulted in an erosion of selling prices in exports (fine paper exports are made primarily to Europe) and lowering of prices of competing imports.

The trend of rising energy prices that began in 2004 grew even more acute in 2005, in all the input types used by the Group (including fuel oil, diesel and electricity). Diesel prices for transportation and fuel oil average prices rose by over 30% during the reported period (January-June 2005) as compared with the corresponding period last year (January-June 2004), while electricity prices rose by approximately 15%. The effect of these higher prices in annual terms represents an additional annual expenditure of NIS 30 million.

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Furthermore, the prices of all main raw materials used by the Group companies in their various operations also continued to rise - including pulp, fluff (pulp for absorbent products) and absorbent materials for diapers (SAP).

The above-mentioned extraordinary price hikes, coupled with the surplus supply of low-priced paper imports, harmed the Group's results during the reported period, in relation to the corresponding period last year.

Due to the said rise in the input prices, the Group accelerated its efficiency programs in all companies, operating intensively across all expense areas - in parallel to maintaining quality of products and market shares.

In addition, the Group raised the selling prices of its products, albeit only partially and not to the extent warranted by the higher input prices - due to the economic conditions outlined above, the lower demand and the escalating competition.

The said efficiency measures, together with the higher prices, rendered it possible to significantly reduce the heavy impact of the rising input prices on the results.

Concurrently, an enterprise-wide comprehensive program was formulated during the current quarter, intended to exploit all of the Group's business and managerial capabilities, for the purpose of gradually improving the profitability.

As part of the company's endeavors for cutting manufacturing costs and



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for additional environmental improvements, the company is continuing to promote the energy-cogeneration plant project in Hadera, based on natural gas.

The company is initially preparing for the conversion of its energy-cogeneration systems from the use of fuel oil to natural gas, once the transportation infrastructure of natural gas to Hadera is completed.

In this capacity, the company signed an agreement with Thetis Sea Group on July 29, 2005, for the purchase of natural gas (see below).

The exchange rate of the shekel (NIS) vis-a-vis the US dollar was devaluated by approximately 6.2% during the reported period, as compared with a devaluation of 2.7% during the corresponding period last year.

The inflation rate during the reported period amounted to 0.5%, as compared with an inflation rate of 1.4% in the corresponding period last year.

### B. RESULTS OF OPERATIONS

#### 1. AGGREGATE DATA

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

#### 3

The aggregate sales amounted to NIS 1,370.9 million during the reported period, as compared with NIS 1,337.9 million in the corresponding period last year.

The aggregate sales in the second quarter amounted to NIS 685.1 million, as compared with NIS 655.3 million in the corresponding quarter last year.

The aggregate operating profit totaled NIS 65.3 million during the reported period, as compared with NIS 106.0 million in the corresponding period last year.

The aggregate operating income in the second quarter of the year totaled NIS 29.1 million, as compared with NIS 49.6 million in the corresponding quarter last year.

The operating income presented above for the reported period this year and for the second quarter of the year does not include the extraordinary provision for doubtful debts, in the amount of NIS 10.6 million, that was recorded at Hogla Kimberly as a result of the collapse of the Club Market chain and the stay of proceedings that was approved by the District Court in July this year (since they do not form part of the ongoing operations for the period).

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### 2. CONSOLIDATED DATA

The information set forth below does not include the results of operation of Mondi Hadera, Hogla-Kimberly, Carmel and TMM Integrated Recycling Industries.

The sales during the reported period amounted to NIS 240.0 million, as compared with NIS 238.2 million in the corresponding period last year.

The sales in the second quarter of the year (April-June 2005) totaled NIS 118.3 million, as compared with NIS 119.1 million in the corresponding quarter last year (April-June 2004).

The operating income totaled NIS 25.8 million during the reported period, as compared with NIS 27.3 million in the corresponding period last year.

The operating income in the second quarter of the year totaled NIS 11.3 million, as compared with NIS 13.8 million in the corresponding quarter last year.

The profit after taxes and before the Company's share in the earnings of associated companies (before the influence of non recurring items) for the reported period, amounted to NIS 15.0 million, as compared with NIS 15.2 million during the corresponding period last year.

### 3. NET PROFIT AND EARNINGS PER SHARE

The net profit before non-recurring items totaled NIS 23.1 million during the reported period, as compared with NIS 32.4 million in the corresponding period last year.

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Due to the collapse of the Club Market chain, which has entered a stay of proceedings, Hogla Kimberly, an associated company, has recorded a net non-recurring loss (after taxes) of NIS 7 million, of which the company's share amounts to a net sum of NIS 3.5 million, thereby bringing the reported net income during the reported period to NIS 19.5 million.

The net income during the reported period does not include the impact of the tax law reforms, that were passed by the Knesset on July 27, 2005, that serve to gradually lower the corporate tax rate to a level of 25% by 2010. The derived tax benefit will be recorded in the third quarter of the year and is estimated at NIS 9 million (including the company's share in the benefit at the associated companies).

During the corresponding period last year, extraordinary income in the amount of NIS 10.2 million was recorded in the company's financial statements, on account of the tax benefit (including the company's share in the benefit at the associated companies), originating from the change in deferred taxes due to the lowering of tax rate that became effective in June 2004.

Earnings per share (EPS), before non-recurring items, in the reported period this year totaled NIS 570 per NIS 1 par value (\$1.25 per share), as compared with NIS 801 per NIS 1 par value in the corresponding period last year (\$1.78 per share).

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Earnings per share (EPS), before non-recurring items, in the second quarter this year totaled NIS 223 per NIS 1 par value (\$0.49 per share), as compared with NIS 370 per NIS 1 par value in the corresponding quarter last year (\$0.82 per share).

The return on shareholders' equity in annual terms, before non-recurring items, amounted to 8.0% during the reported period, as compared with 10.6% in the corresponding period last year.

### C. ANALYSIS OF OPERATIONS AND PROFITABILITY

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

#### 1. SALES

The consolidated sales during the reported period amounted to NIS 240.0 million, as compared with NIS 238.2 million in the corresponding period last year.

The growth in sales in relation to the corresponding period last year originated from a certain improvement in selling prices and quantitative growth in the domestic market, that was partially offset by a decrease in exports.

#### 2. COST OF SALES

The cost of sales amounted to NIS 187.7 million - or 78.2% of sales - during the reported period, as compared with NIS 183.4 million - or 77% of sales - in the corresponding period last year.

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The gross margin as a percentage of sales reached 21.8% during the reported period, as compared with 23.0% in the corresponding period last year.

The decrease in the gross margin originated primarily from an increase in raw material prices (15% in paper waste), coupled with an unusual increase in energy prices (30% in fuel oil and 15% in electricity), as well as water prices (9%) and was partially offset by quantitative growth in the sale of paper waste, higher selling prices and the continuing efficiency processes in all areas of operation.

#### Labor Wages

Wages in the cost of sales and in the selling, general and administrative expenses amounted to NIS 73.7 million in the reported period, as compared with NIS 72.4 million in the corresponding period last year.

The change in the cost of wages in relation to the corresponding period represents savings in personnel on the one hand, coupled with a nominal 3% increase in wages, on the other hand.

#### 3. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The selling, general and administrative expenses (including wages) amounted to NIS 26.5 million in the reported period - or 11.1% of sales - as compared with NIS 27.5 million - or 11.6% of sales - in the

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corresponding period last year. The decrease in the selling, general and administrative expenses originated from actions intended to bring about savings and efficiency, coupled with the impact of the decrease in export volumes on the selling expenses.

### 4. OPERATING INCOME

The operating profit totaled NIS 25.8 million during the reported period (10.7% of sales), as compared with NIS 27.3 million (11.5% of sales) in the corresponding period last year.

### 5. FINANCIAL EXPENSES

The financial expenses during the reported period amounted to NIS 4.3 million, as compared with NIS 4.5 million in the corresponding period last year.

The total average of the company's net, interest-bearing liabilities grew by approximately NIS 40 million, as a comparison between the periods. The growth originated from the payment of NIS 100 million in dividends in September 2004, net of the positive cash flows for the period.

Moreover, the cost of the transaction for hedging the Series 2 notes against a rise in the CPI has risen to 1.3% per annum in 2005, as compared with 0.92% per annum in 2004 and resulted in an increase in costs related to the notes.

On the other hand, the decrease in the average interest rate, due to the decreasing interest rate in the Israeli market, and the higher devaluation this year (that served to increase the revenues from the company's dollar-denominated assets) resulted

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in the fact that the financial expenses did not grow this year in relation to the corresponding period last year.

### 6. TAXES ON INCOME

Taxes on income from current activities amounted to NIS 6.5 million in the reported period, as compared with NIS 7.7 million in the corresponding period last year.

The principal items responsible for the decrease in tax expenses during the reported period in relation to the corresponding period last year include the decrease in pre-tax earnings this year and the decrease in tax rates that was determined last year.

The tax expenditures this year do not include the impact of the tax reforms that was passed by the Knesset in July this year (regarding the gradual decrease of the corporate tax rate to 25% by 2010). The estimated tax benefit for the company amounts to NIS 5 million (excluding the company's share in the benefit at associated companies) and will be recorded in the third quarter this year.

A tax benefit of NIS 5.8 million was recorded during the corresponding period last year on account of the impact of the corporate tax change last year on the company's deferred taxes. Subsequent to this benefit deduction from the tax expenses last year, the reported tax expenses

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last year amounted to only NIS 1.9 million.

### 7. COMPANY'S SHARE IN EARNINGS OF ASSOCIATED COMPANIES

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

The Company's share in the earnings of associated companies (before non-recurring items) totaled NIS 8.1 million during the reported period, as compared with NIS 17.2 million in the corresponding period last year.

The following principal changes were recorded in the Company's share in the earnings of associated companies, in relation to the corresponding period last year (before non-recurring items):

- The Company's share in the net income of Mondi Hadera (49.9%) decreased by NIS 5.3 million. Most of the change in the net income originates from the decrease in operating income over the years, as a result of the rebuild of the paper machine this year. The massive rebuild intended to improve the output of the machine and the quality of the paper, required shut-down during the rebuild and was accompanied by a learning curve, as is normal during such a significant project. The full impact of this rebuild will be reflected later this year and in 2006.

Also, the unusual increase in raw material, energy and water prices adversely affected the profitability of Mondi Hadera.

The economic slowdown in Europe is creating a constant erosion of prices and low-priced import of paper. This renders it difficult for Mondi Hadera to raise prices, as warranted from the said rise in input price - both on the local and

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especially in export markets. Mondi Hadera is nevertheless continuing to raise its prices and is further expanding its cost-cutting efforts.

In parallel, Mondi Hadera is focusing intensive efforts in product development and in creating differentiation as opposed to import products - that will result in a gradual increase of the premium on products.

- The company's share in the net income of Hogla Kimberly Israel (49.9%) grew by NIS 0.7 million (not including the allowance due to Club Market affair). The implementation of the efficiency program at Hogla Kimberly, in conjunction with higher prices, served to compensate for the sharp rise in input prices (raw materials and energy) and improved the operating income in the second quarter of the year.

A net loss of NIS 3.5 million was recorded in the second quarter of the year, on account of AIPM's share in the additional provision for doubtful debts that was recorded by Hogla Kimberly on account of the debt of Club Market that is in a stay of proceedings.

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- The Company's share in the net income of Ovisan (Turkey) (49.9%) decreased by NIS 1.9 million. Ovisan is continuing its preparation for the expansion of operations in the Turkish market and for the introduction of Kimberly Clark's international premium products into the Turkish market, within the framework of the multi-annual strategic program that is in its final stages of formulation these very days (in partnership with Kimberly Clark). In this capacity, the local management team was reinforced, to enable the realization of the said plan. The said plan is intended to begin toward the end of 2005 and will continue into 2006, including the introduction of the Kotex(R) line of feminine hygiene products, Huggies(R) diapers and Kleenex(R) paper products.
- The Company's share in the net earnings of the Carmel Group (26.25%) fell by NIS 1.2 million, due to the decrease in the operating income, coupled with an increase in financial expenses during the reported period (due to devaluation differentials). The decrease in operating income originated primarily from the sharp rise in raw material prices, that affected primarily the first quarter of the year and that was only partially offset by the raising of selling prices, in view of the escalating competition in the corrugation market.
- The Company's share in the TMM net earnings (41.6%) decreased by NIS 1.9 million. TMM recorded an operating loss during the reported period due to the significant increase in transportation costs (originating from the significant rise of 33% in average diesel prices in relation to the corresponding period last year), together with lower revenues due to the need to offer discounts (given the fierce competition in waste removal, as a result of the surplus transportation capacity in the economy). The said increase in diesel prices was not compensated for in the selling prices, due to the fact that most of the agreements are linked to the Consumer Price Index (CPI), that rose by only 0.5% this year. The company deals intensively in comprehensive efficiency measures, along with earnest efforts to obtain appropriate compensation on account of the extraordinary increase in diesel prices.

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The company's share in the earnings of associated companies - including non-recurring items - amounted to NIS 4.5 million in the reported period, after a deduction of NIS 3.5 million, representing AIPM's share in the losses of Hogla Kimberly, due to Club Market.

The company's share in the earnings of associated companies during the reported period, does not include AIPM's share in the tax benefits that are expected to be recorded in the third quarter this year at the various companies, following the lowering of the corporate tax rate that was passed by the Knesset in July this year. The influence is expected to amount to NIS 4 million (AIPM's share). During the corresponding period last year, the company's share in the earnings of associated companies including a sum of NIS 4.4 million, as AIPM's share in the tax benefit recorded at the companies following the tax reform of 2004. Consequently, the company's share in the earnings of associated companies - including non-recurring items - amounted to NIS 21.6 million during the corresponding period.

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### D. LIQUIDITY AND INVESTMENTS

#### 1. ACCOUNTS RECEIVABLE - TRADE

Accounts Receivable, as at June 30, 2005, amounted to NIS 149.0 million, as compared with NIS 146.9 million at June 30, 2004. The higher accounts receivable balance is attributed primarily to the growth in the volume of operations.

#### 2. CASH FLOWS

The cash flows from operating activities amounted to NIS 45.2 million during the reported period this year, as compared with NIS 19.8 million in the corresponding period last year (this year: NIS 67.0 million including dividend received from an associated company). The improvement in the cash flows from operating activities during the reported period originated primarily from a decrease in the operating working capital. Part of the said decrease in operating working capital originates from sums that were supposed to be obtained at the end of 2004 and were obtained in early 2005.

#### 3. INVESTMENTS IN FIXED ASSETS

The investments in fixed assets amounted to NIS 23.0 million during the reported period, as compared with NIS 12.1 million during the corresponding period last year, and included investments in land, storage and compaction equipment, in compactors, in machines, equipment and transportation equipment.

#### 4. FINANCIAL LIABILITIES

The long-term liabilities (including current maturities) amounted to NIS 263.9 million as at June 30, 2005, as compared with NIS 270.9 million as at June 30, 2004.

The long-term liabilities include primarily two series of debentures:

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Series 1 - NIS 26.8 million, for repayment until 2009.

Series 2 - NIS 202.2 million, for repayment between 2007 and 2013.

The balance of short-term credit, as at June 30, 2005, amounted to NIS 28.5 million, as compared with NIS 135.5 million at June 30, 2004. The positive cash flows for the period and the withdrawal of deposits (due to the lower credit interest rate) served for the payment of NIS 100 million in dividends and for the reduction of short-term credit.

### E. EXPOSURE AND MANAGEMENT OF MARKET RISKS

Pursuant to the Management Discussion dated December 31, 2004, which outlined the essence of the exposure and management of market risks, as set forth by the board of directors, the following is an update, true to June 30, 2005:

The Company possesses CPI-linked liabilities in the net overall sum of NIS 222 million, with the interest thereupon being no higher than the market interest rate. In the event that the inflation rate shall rise significantly, a loss may be recorded in the Company's financial

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statements, due to the surplus of CPI-linked liabilities. The company consequently entered into a forward transaction, with a term of one year - until the end of 2005, to hedge a sum of NIS 200 million against a rise in the CPI (at a cost of 1.3% per annum).

### REPORT OF LINKAGE BASES

The following are the balance sheet items, according to linkage bases, as at December 31, 2004 and updated for June 30, 2005:

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IN NIS MILLIONS	UNLINKED	CPI-LINKED	IN FOREIGN CURRENCY, OR LINKED THERETO (PRIMARILY US\$)	NON-MONE ITEMS
<b>ASSETS</b>				
CASH AND CASH EQUIVALENTS	3.3		7.7	
SHORT-TERM DEPOSITS AND INVESTMENTS	11.3			
OTHER ACCOUNTS RECEIVABLE	196.3		44.0	7
INVENTORIES				84
INVESTMENTS IN ASSOCIATED COMPANIES	49.3	14.1	9.2	346
DEFERRED TAXES ON INCOME				6
FIXED ASSETS, NET				331
DEFERRED EXPENSES, NET OF ACCRUED AMORTIZATION				1
<b>TOTAL ASSETS</b>	<b>260.2</b>	<b>14.1</b>	<b>60.9</b>	<b>777</b>
<b>LIABILITIES</b>				
CREDIT FROM BANKS	28.5			
ACCOUNTS PAYABLE	155.3	6.0	11.5	
DEFERRED TAXES ON INCOME NOTES		229.6		51
OTHER LIABILITIES	32.8		1.4	
SHAREHOLDERS' EQUITY				596
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>216.6</b>	<b>235.6</b>	<b>12.9</b>	<b>647</b>
<b>SURPLUS FINANCIAL ASSETS (LIABILITIES) AS AT JUNE 30, 2005</b>	<b>43.6</b>	<b>(221.5)</b>	<b>48.0</b>	<b>129</b>
<b>SURPLUS FINANCIAL ASSETS (LIABILITIES) AS AT DECEMBER 31, 2004</b>	<b>(24.6)</b>	<b>(177.5)</b>	<b>44.4</b>	<b>157</b>

### ASSOCIATED COMPANIES

AIPM is exposed to various risks associated with operations in Turkey,



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where Hogla-Kimberly is active through its subsidiary, Ovisan. These risks originate from concerns regarding economic instability and elevated interest rates, that characterized the Turkish economy in the past and that may recur and harm the Ovisan operations.

### F. FORWARD-LOOKING STATEMENTS

This report contains various forward-looking statements, based upon the Board of Directors' present expectations and estimates regarding the operations of the Group and its business environment. The Company does not guarantee that 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.

### G. DONATIONS AND CONTRIBUTIONS

The AIPM Group, within the framework of its business and social commitment, invests efforts and funds in community assistance and support, while focusing on providing help to the weaker echelons of Israeli society - primarily teenagers - as part of a desire to build and contribute to shaping the human fabric of Israeli society.

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As part of this policy, the company makes contributions to various institutions that are active in the said areas, while also participating, through its employees, in volunteering work in the community, for promoting these same objectives.

Moreover, a sum totaling NIS 105 thousand was granted for student scholarships and for a project this year, through the Shenkar Foundation, that was established by the company together with its Austrian strategic partner in Mondri Hadera.

### H. UPDATE REGARDING THE DESCRIPTION OF THE COMPANY'S BUSINESS IN THE PERIODICAL REPORT FOR 2004

- o On July 29, 2005, the company signed an agreement in London with the Thetis Sea Group, for the purchase of natural gas. The gas that will be purchased is intended to serve the Company's needs in the coming years, for the operation of its energy co-generation plant at the Hadera plant that will be converted for the use of natural gas, instead of the current use of fuel oil. The overall financial volume of the transaction totals \$40 million over the term of the agreement (5 years from the initial supply of gas, but no later than July 1, 2011).
- o Due to the collapse of the Club Market chain, that entered into a stay of proceedings in July this year, an associated company - Hogla Kimberly - recorded an additional provision for doubtful debts, in the amount of NIS 10.6 million. The total provision amounts to 75% of the debt. This provision, net of the tax influence, led to a net non-recurring loss of NIS 7 million at Hogla Kimberly, of which AIPM's share totals a net sum of NIS 3.5 million.

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### I. GENERAL

- o 3,466 shares were issued during the reported period (0.1% dilution), on account of the exercise of 12,520 option warrants as part of the Company's employee option plans.
- o The company recently acquired a land plot of 21.5 acres, next to its Hadera plant, in return for about \$4.4 million.
- o In July 2005, Carmel Container Systems Ltd. - an associated company - completed its delisting process from the US Stock Exchange.

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 Yaki Yerushalmi  
 Chairman of the Board of Directors

-----  
 Avi Brenner  
 Chief Executive Manager

### EXHIBIT 3

AMERICAN ISRAELI PAPER MILLS LTD.

#### SUMMARY OF CONSOLIDATED BALANCE SHEETS NIS IN THOUSANDS

	JUNE 30, 2005 (UNAUDITED)	JUNE 30, 2004 (UNAUDITED)	DEC. 31, 2004 (AUDITED)
	-----	-----	-----
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	10,997	69,752	7,813
Short-term deposits and investments	11,297	106,753	62,464
Receivables:			
Trade	148,974	146,883	143,275
Other	98,980	145,382	101,840
Inventories	84,538	88,782	83,220
Total current assets	----- 354,786	----- 557,552	----- 398,612
<b>INVESTMENTS AND LONG TERM RECEIVABLES:</b>			
Investments in associated companies	419,216	401,214	431,752
Deferred income taxes	6,511	3,885	6,511
	----- 425,727	----- 405,099	----- 438,263
<b>FIXED ASSETS</b>			
Cost	995,595	961,693	974,462
Less - accumulated depreciation	664,185	638,163	650,056

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	331,410	323,530	324,406
Deferred charges - net of accumulated amortization	1,026	1,215	1,106
	1,112,949	1,287,396	1,162,387
CURRENT LIABILITIES:			
Credit from banks	28,535	135,516	112,684
Current maturities of long-term notes	6,681	6,668	6,648
Payables and accrued liabilities:			
Trade	89,056	81,395	87,556
Other	83,775	87,105	66,355
Total current liabilities	208,047	310,684	273,243
LONG-TERM LIABILITIES			
Deferred income taxes	51,151	54,753	52,562
Loans from banks and other liabilities (net of current maturities):			
Notes	222,955	229,181	228,499
Other liabilities	34,224	35,075	32,770
Total long term liabilities	308,330	319,009	313,831
Total liabilities	516,377	629,693	587,074
SHAREHOLDERS' EQUITY:			
Share capital	125,257	125,257	125,257
Capital surplus	90,060	90,060	90,060
Capital surplus on account of tax benefit from exercise of employee options	267		
Currency adjustments in respect of financial statements of associated companies	(1,356)	(279)	(2,807)
Retained earnings	382,344	442,665	362,803
	596,572	657,703	575,313
	1,112,949	1,287,396	1,162,387

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

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AMERICAN ISRAELI PAPER MILLS LTD.

SUMMARY OF CONSOLIDATED STATEMENTS OF INCOME  
NIS IN THOUSANDS

	SIX-MONTH PERIOD ENDED JUNE 30		THREE-MONTH ENDED
	2005	2004	2005
	(UNAUDITED)		(UNAUDITED)
Net sales	240,041	238,244	118,263
Cost of sales	187,728	183,374	94,172
Gross profit	52,313	54,870	24,091
Selling and marketing, administrative and general expenses:			
Selling and marketing	14,752	15,904	7,405
Administrative and general	11,789	11,628	5,390
	26,541	27,532	12,795
Income from ordinary operations	25,772	27,338	11,296
Financial expenses - net	4,274	4,471	1,014
Income before taxes on income	21,498	22,867	10,282
Taxes on income (tax benefit) (see note 2)	6,500	1,876	3,500
Income from operations of the company and the consolidated subsidiaries	14,998	20,991	6,782
Share in profits of associated companies - net	4,543	21,639	(1,272)
Net income for the period	19,541	42,630	5,510
NET INCOME PER NIS 1 PAR VALUE OF SHARES (IN N.I.S)	483	1,053	136

\* In 2005, second quarter and accumulative, including loss on account of the additional provision for doubtful accounts in an associated company, in the sum of NIS 3.5 million, net (the company's share). See note 5.

In 2004, second quarter and accumulative, including a tax benefit income in

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the associated companies, originating from the change in the tax rate last year, in the sum of NIS 4.4 million (the company's share). See note 2.

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

AMERICAN ISRAELI PAPER MILLS LTD.

SUMMARY OF STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY NIS IN THOUSANDS	SHARE CAPITAL	CAPITAL SURPLUS	CAPITAL SURPLUS ON ACCOUNT OF TAX BENEFIT FROM EXERCISE AN OF EMPLOYEE OPTIONS	A IN F ST AN CO S
	-----	-----	-----	-----
BALANCE AT JANUARY 1, 2005 (AUDITED)	125,257	90,060		
Changes during the six month period ended June 30, 2005 (unaudited):				
Net income				
Exercise of employees options into shares	*		267	
Adjustments due to the translation respect of financial statements of associated companies				
BALANCE AT JUNE 30, 2005 (UNAUDITED)	----- 125,257	----- 90,060	----- 267	
Balance at January 1, 2004 (audited)				
	125,257	90,060		
Changes during the six month period ended June 30, 2004 (unaudited):				
Net income				
Exercise of employees options into shares	*			
Adjustments due to the translation respect of financial statements of associated companies				
BALANCE AT JUNE 30, 2004 (UNAUDITED)	----- 125,257	----- 90,060		
Balance at April 1, 2005 (unaudited)				
	125,257	90,060	174	
Changes during the three month period ended June 30, 2005 (unaudited):				

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Net income

Exercise of Employees Options Into Shares \* 93

Adjustments Due to the Translation Respect of Financial Statements of Associated Companies

Balance at June 30, 2005 (unaudited)	125,257	90,060	267
--------------------------------------	---------	--------	-----

Balance at April 1, 2004 (unaudited)	125,257	90,060	
--------------------------------------	---------	--------	--

Changes during the three month period ended June 30, 2004 (unaudited):

Net income

Exercise of employees options into shares \*

Adjustments due to the translation respect of financial statements of associated companies

Balance at June 30, 2004 (unaudited)	125,257	90,060	
--------------------------------------	---------	--------	--

Balance at January 1, 2004 (audited)	125,257	90,060	
--------------------------------------	---------	--------	--

Changes during the year ended December 31, 2004 (audited):

Net income

Dividend distributed

Exercise of employees options into shares \*

Adjustments due to the translation respect of financial statements of associated companies

Balance at December 31, 2004 (audited)	125,257	90,060	
--	---------	--------	--

\* Represents a sum under 1,000 NIS.

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

AMERICAN ISRAELI PAPER MILLS LTD.

SUMMARY OF CONSOLIDATED STATEMENTS OF CASH FLOWS  
NIS IN THOUSANDS

SIX-MONTH SIX-MONTH THREE-

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	PERIOD ENDED JUNE 30, 2005 (UNAUDITED)	PERIOD ENDED JUNE 30, 2004 (UNAUDITED)	PERIOD JUNE 30 (UNAUDIT
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income for the period	19,541	42,630	5,
Adjustments to reconcile net income to net cash provided by operating activities (*):	47,467	(22,856)	33,
Net cash provided by operating activities	67,008	19,774	38,
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of fixed assets	(23,041)	(12,119)	(17,
Short-term deposits and investments - net	51,003	(86,999)	10,
Associated companies:			
Investment in associated companies and loans granted	(2,762)	(779)	
Repayment of loans		6,882	
Proceeds from sale of fixed assets	352	438	
Net cash provided by (used in) investing activities	25,552	(92,577)	(6,
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Long-term loans received	1,454		1,
Repayment of long-term loans from banks and others		(383)	
Redemption of Notes	(6,681)	(6,666)	(6,
Dividend paid			
Short-term bank credit and loans - net	(84,149)	(9,102)	(23,
Net cash provided used in financing activities	(89,376)	(16,151)	(28,
Increase (decrease) in cash and cash equivalents	3,184	(88,954)	4,
Balance of cash and cash equivalents at beginning of period	7,813	158,706	6,
Balance of cash and cash equivalents at end of period	10,997	69,752	10,
(*) Adjustments to reconcile net income to net cash provided by operating activities:			
<b>INCOME AND EXPENSES NOT INVOLVING CASH FLOWS:</b>			
Associated companies:			
Share in profits of associated companies - net	(4,543)	(21,639)	1,
Dividend received from those companies	21,761		21,
Depreciation and amortization	15,889	14,078	8,
Deferred income taxes - net	(2,763)	(7,493)	(1,
Capital (gains) losses on sale of fixed assets	(124)	(234)	
Loss (income) from short-term deposits and investments, not realized	164	246	
Linkage differences (erosion) of principal of long-term loans from banks and others - net		74	
Exchange and linkage differences on Notes	1,170	2,886	1,
Erosion of long-term loans to associated companies	(686)	(956)	(
<b>CHANGES IN OPERATING ASSETS AND LIABILITIES:</b>			
Increase in receivables	(1,003)	(22,578)	(7,
Decrease (increase) in inventories	(1,318)	1,872	(1,
Increase (decrease) in payables and accrued liabilities	18,920	10,888	11,

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

AMERICAN ISRAELI PAPER MILLS LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AT JUNE 30, 2005

(Unaudited)

NOTE 1 - GENERAL

- a. The interim financial statements as of June 30, 2005 and for the six and three month periods then ended (hereafter - the interim financial statements) were drawn up in condensed form, in accordance with Accounting Standard No. 14 of the Israel Accounting Standards Board (hereafter - the IASB) and in accordance with the Securities (Preparation of Periodic and Immediate Financial Statements) Regulations, 1970.
- b. The accounting principles applied in preparation of the interim statements are consistent with those applied in the annual financial statements, except for the change in the accounting treatment applied to taxes on income as detailed in note 3; nevertheless, the interim statements do not include all the information and explanations required for the annual financial statements.

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

- c. The company draws up and presents its financial statements in Israeli currency (hereafter -NIS) in accordance with the provisions of Accounting Standard No.12 -"Discontinuance of Adjusting Financial Statements for Inflation"-of the IASB, which set transitory provisions for financial reporting on a nominal basis, commencing January 1,2004. Accordingly, the amounts of non-monetary assets, mainly fixed assets and other assets (including depreciation and amortization in respect of those assets), and the shareholders' equity components included in the financial statements, originating from the period that preceded the transition date, are based on their adjusted to December 2003 shekel amount.

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

EXCHANGE RATE OF THE DOLLAR	CPI
-----	---
%	%
-----	---



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Increase (decrease) in the six months ended June 30:

2005	6.2	0.5
2004	2.7	1.4

Increase (decrease) in the three months ended June 30:

2005	4.9	1.1
2004	(0.7)	1.5

Increase in the year ended December 31, 2004 (1.6) 1.2

The dollar exchange rate as of June 30, 2005 is: \$1=NIS 4.574

### NOTE 2 - TAXES ON INCOME

- a. On June 29, 2004, the Israeli Parliament (the "Knesset") passed the second and third readings of the Income Tax Ordinance Amendment (No. 140 and Ad Hoc Provision) Law, 2004 (hereafter - the 2004 Amendment), which was published in the Official Gazette of the Government of Israel on July 11, 2004. The 2004 Amendment provided for the gradual reduction - commencing from January 1, 2004 - in the rate of corporate tax from 36% to 30%, in the following manner: the rate for 2004 would be 35%, in 2005 - 34%, in 2006 - 32%, and in 2007 and thereafter - 30%.

As a result of the amendment the tax expenses in the statement of income (regarding deferred taxes) were reduced by NIS 5,824 millions in the second quarter of 2004.

### AMERICAN ISRAELI PAPER MILLS LTD.

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AT JUNE 30, 2005

(Unaudited)

### NOTE 2 - TAXES ON INCOME-cont.

- b. On July 25, 2005, the Israeli Parliament (the "Knesset") passed the second and third readings of the proposed Income Tax Ordinance Amendment (No. 147 and Ad Hoc Provision) Law, 2005 (hereafter - the 2005 Amendment). The 2005 Amendment further reduces the corporate tax rates stipulated under the 2004 amendment, and provides for the gradual reduction - commencing from January 1, 2006 - in the following manner: the rate for 2006 will be 31%, in 2007 - 29%, in 2008 - 27%, in 2009 - 26%, and in 2010 and thereafter - 25%.

As a result of the 2005 Amendment, the Company's income tax expenses are expected to decrease by about NIS 5 million (based on the deferred tax balances as of June 30, 2005), be carried to income in the third quarter of 2005.

- c. Accounting changes Accounting Standard No.19

Commencing in the financial statements for the 3-month period ended March 31, 2005, the company implements Israel Accounting Standard No.19 - "Taxes on Income" of the IASB, which came into effect on January 1, 2005. This Standard prescribes the accounting treatment (recognition criteria, measurement, presentation and disclosure) required for taxes on income.

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For the most part, the provisions of this standard are the same as the accounting principles that were applied before the application of the new standard. The adoption of this standard does not have any effect on the company's financial statements in the reported periods.

### NOTE 3 - SEGMENT INFORMATION

Data on segment activity - In NIS in thousands:

For the period of 6 monthes :	Paper and recycling		Marketing of office supplies		
	Jan-June 2005	Jan-June 2004	Jan-June 2005	Jan-June 2004	Jan-June 2005
Sales - net (1)	188,644	180,186	51,397	58,058	240,041
Income (loss) from operations	27,005	30,198	(1,233)	(2,860)	25,772
For the period of 3 monthes :	Paper and recycling		Marketing of office supplies		
	April-June 2005	April-June 2004	April-June 2005	April-June 2004	April-June 2005
Sales - net (1)	93,687	91,634	24,576	27,428	118,263
Income (loss) from operations	12,066	15,540	(770)	(1,745)	11,296
For 2004:	Paper and recycling		Marketing of office supplies		
	2004		2004		
Sales - net (1)	367,391		115,463		4
Income (loss) from operations	58,496		(4,566)		

(1) Represents sales to external customers.

AMERICAN ISRAELI PAPER MILLS LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AT JUNE 30, 2005

(Unaudited)

### NOTE 4 - RECENTLY ISSUED PRONOUNCEMENT

In August 2005, the Israel Accounting Standards Board issued Israel Accounting

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Standard No. 22 - "Financial Instruments: Disclosure and Presentation", which is based on International Accounting Standard No. 32. This standard prescribes the rules for the presentation of financial instruments and the proper disclosure required therefor. The standard sets forth the rules for classifying financial instruments, the rules for splitting and classifying compound financial instruments and the rules for offsetting financial assets and financial liabilities. The standard also prescribes the rules for classifying interest, dividends, losses and gains relating to financial instruments.

This accounting standard applies to financial statements for periods commencing on or after January 1, 2006. The standard is to be applied prospectively and, accordingly, comparative data that are presented in the financial statements for periods commencing from the effective date of the standard will not be re-presented. Financial instruments issued before the standard's effective date are to be classified and presented in conformity with the provisions of the standard from its effective date. Compound financial instruments (that include both an equity component and a liability component), which were issued in periods prior to the standard's effective date, and which had not yet been converted or redeemed at that date, are to be classified according to their component parts and are to be presented in conformity with the provisions of the standard, commencing from the effective date of the standard.

When the standard becomes effective, Opinion 48 - "Accounting Treatment of Option Warrants", and Opinion 53 - "Accounting Treatment of Convertible Liabilities" will be revoked.

The Company is currently assessing the implications of implementing this standard on its financial statements in future periods.

### NOTE 5 - SUBSEQUENT EVENT

In July 2005, the Club Market chain, a costumer of an associated company - Hogla Kimberly, filed to the District Court in Tel-Aviv a request for stay of proceedings. The request was approved until August 17, 2005. Therefore, Hogla Kimberly made an additional provision for doubtful debts in the sum of NIS 10.6 million.

The Company's share in the additional provision, net (after tax), totaled in a loss of NIS 3.5 million, that is included in the financial statements under share in profits of associated companies (in the second quarter and acumulated), according to the provisions of Israel Accounting Standard No. 7 - "Subsequent event".

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AIPM      AMERICAN ISRAELI PAPER  
            MILLS LTD. GROUP

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Hadera 38101, Israel  
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E-mail: chq@aipm.co.il

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

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- Mondi Business Paper Hadera Ltd.
- Hogla-Kimberly Ltd.

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

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

EXHIBIT 4

### MONDI BUSINESS PAPER HADERA LTD. AND SUBSIDIARIES

UNAUDITED CONDENSED INTERIM CONSOLIDATED

FINANCIAL STATEMENTS

AS OF JUNE 30, 2005

### MONDI BUSINESS PAPER HADERA LTD. AND SUBSIDIARIES

UNAUDITED CONDENSED INTERIM CONSOLIDATED

FINANCIAL STATEMENTS

AS OF JUNE 30, 2005

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Notes to the Financial Statements

6-7

The Board of Directors of  
Mondi Business Paper Hadera Ltd.

RE: REVIEW OF UNAUDITED CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS FOR THE SIX MONTHS AND THREE MONTHS ENDED JUNE 30, 2005

Gentlemen:

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

- Balance sheet as of June 30, 2005.
- Statements of operations for the six months and three months ended June 30, 2005.
- Statements of changes in shareholders' equity for the six months and three months ended June 30, 2005.
- Statements of cash flows for the six months and three months ended June 30, 2005.

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

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

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

Brightman Almagor & Co.

Certified Public Accountants  
A Member Firm of Deloitte Touche Tohmatsu

Tel Aviv, July 31, 2005

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MONDI BUSINESS PAPER HADERA LTD. AND SUBSIDIARIES  
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS  
(NIS in thousands; Reported Amounts)

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	June 30,		December 31,
	2005	2004	2004
	(Unaudited)		
<b>A S S E T S</b>			
Current Assets			
Cash and cash equivalents	4,751	14,768	10,804
Trade receivables	167,550	159,301	157,815
Other receivables	11,441	7,717 (*)	7,580
Inventories	109,136	84,823	90,391
Total current assets	292,878	266,609	266,590
Fixed Assets			
Cost	184,486	134,940 (*)	149,083
Less - accumulated depreciation	37,895	27,416 (*)	33,345
	146,591	107,524	115,738
Other Assets - Goodwill	3,487	4,113	3,800
Total assets	442,956	378,246	386,128
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current Liabilities			
Short-term bank loans	30,601	3,158	--
Current maturities of long-term bank loans	15,977	15,567	15,125
Trade payables	134,846	85,748	104,661
American Israeli Paper Mills Group, net	65,895	56,393 (*)	65,033
Other payables and accrued expenses	25,008	21,183 (*)	23,132
Total current liabilities	272,327	182,049	207,951
Long-Term Liabilities			
Long-term bank loans	29,545	45,025	36,248
Capital notes to shareholders	18,296	31,479	17,233
Deferred taxes	26,443	25,154	25,422
Accrued severance pay, net	87	145	87
Total long-term liabilities	74,371	101,803	78,990
Shareholders' Equity			
Share capital	1	1	1
Premium	43,352	43,352	43,352
Retained earnings	52,905	51,041	55,834
Total liabilities and shareholders' equity	442,956	378,246	386,128

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A. Magid  
Financial Director

A. Solel  
General Manager

Y. Yerushalmi  
Vice Chairman of the  
Board of Directors

(\*) Reclassified.

Approval date of the interim financial statements: August 2, 2005.

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

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MONDI BUSINESS PAPER HADERA LTD. AND SUBSIDIARIES  
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS  
(NIS in thousands except per share data; Reported Amounts)

	SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDED JUNE 30,		YE DE
	2005	2004	2005	2004	6
	(Unaudited)		(Unaudited)		6
NET SALES	329,699	345,021 (*)	165,639	170,156 (*)	6
COST OF SALES	299,957	299,525 (*)	153,661	147,710 (*)	6
GROSS PROFIT	29,742	45,496	11,978	22,446	6
OPERATING COSTS AND EXPENSES					
Selling expenses	20,929	23,245	11,331	10,587	
General and administrative expenses	4,341	3,907	1,746	2,204	
	25,270	27,152	13,077	12,791	
	=====	=====	=====	=====	
OPERATING PROFIT (LOSS)	4,472	18,344	(1,099)	9,655	
FINANCING EXPENSES, NET	(8,498)	(6,670)	(6,592)	(1,400)	
OTHER INCOME, NET	76	34	--	34	
	-----	-----	-----	-----	
INCOME (LOSS) BEFORE INCOME TAXES (TAX BENEFITS)	(3,950)	11,708	(7,691)	8,289	
INCOME TAXES (TAX BENEFITS)	(1,021)	(761)	(2,617)	(1,876)	
	-----	-----	-----	-----	
NET INCOME (LOSS) FOR THE PERIOD	(2,929)	12,469	(5,074)	10,165	
	=====	=====	=====	=====	
BASIC EARNINGS (LOSS) PER ORDINARY SHARE					
Earnings (loss) per ordinary share (in NIS)	(2,929)	12,469	(5,074)	10,165	
	=====	=====	=====	=====	
Number of shares used in computation	1,000	1,000	1,000	1,000	

=====

(\*) Reclassified.

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

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MONDI BUSINESS PAPER HADERA LTD.  
 CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
 (NIS in thousands; Reported Amounts)

	Share capital -----	Premium -----	Retained earnings -----
Six months ended June 30, 2005 (Unaudited)			
Balance - January 1, 2005	1	43,352	55,834
Loss for the period			(2,929)
	-----	-----	-----
Balance - June 30, 2005	1	43,352	52,905
	=====	=====	=====
Six months ended June 30, 2004 (Unaudited)			
Balance - January 1, 2004	1	43,352	38,572
Net income for the period			12,469
	-----	-----	-----
Balance - June 30, 2004	1	43,352	51,041
	=====	=====	=====
Three months ended June 30, 2005 (Unaudited)			
Balance - April 1, 2005	1	43,352	57,979
Loss for the period			(5,074)
	-----	-----	-----
Balance - June 30, 2005	1	43,352	52,905
	=====	=====	=====
Three months ended June 30, 2004 (Unaudited)			
Balance - April 1, 2004	1	43,352	40,876
Net income for the period			10,165
	-----	-----	-----
Balance - June 30, 2004	1	43,352	51,041
	=====	=====	=====



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Year ended December 31, 2004

Balance - January 1, 2004	1	43,352	38,572
Net income for the year			17,262
	-----	-----	-----
Balance - December 31, 2004	1	43,352	55,834
	=====	=====	=====

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

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MONDI BUSINESS PAPER HADERA LTD. AND SUBSIDIARIES  
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS  
(NIS in thousands; Reported Amounts)

	SIX MONTHS ENDED JUNE 30,		THR
	2005	2004	200
	(UNAUDITED)		
	-----	-----	-----
CASH FLOWS - OPERATING ACTIVITIES			
Net Income (Loss) for the Period	(2,929)	12,469	(5,0
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by (Used In) Operating Activities			
Income and Expenses Not Involving Cash Flows:			
Depreciation and Amortization	5,017	4,485	2,6
Deferred Taxes, Net	(1,049)	(843)	(2,3
Decrease in Liability for Severance Pay, Net	--	--	
Other Income, Net	(76)	(34)	
Effect of Exchange Rate and Linkage Differences of Long-term Bank Loans	1,777	1,328	1,4
Effect of Exchange Rate Differences of Long-term Capital Notes to Shareholders	1,063	1,453	8
Changes in Assets and Liabilities:			
Increase in Trade Receivables	(9,735)	(11,553)	(11,5
Decrease (Increase) in Other Receivables	(1,791)	329 (*)	(1
Decrease (Increase) in Inventories	(18,745)	4,408	(10,7
Increase (Decrease) in Trade Payables	29,850	(18,349)	23,4
Increase (Decrease) in American Israeli Paper Mills Group, Net	862	7,607 (*)	1,9
Increase in Other Payables and Accrued Expenses	1,876	4,319 (*)	3,4
	-----	-----	-----
Net Cash Provided by (Used In) Operating Activities	6,120	5,619	4,0
	-----	-----	-----

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### CASH FLOWS - INVESTING ACTIVITIES

Acquisition of Fixed Assets	(35,222)	(4,440)	(17,3
Proceeds From Sale of Fixed Assets	76	86	
	-----	-----	-----
Net Cash Used in Investing Activities	(35,146)	(4,354)	(17,3
	-----	-----	-----

### CASH FLOWS - FINANCING ACTIVITIES

Short-term Bank Loans, Net	30,601	3,158	19,5
Repayment of Long-term Loans	(7,628)	(7,569)	(1,5
Repayment of Long-term Capital Notes to Shareholders	--	(13,764)	
	-----	-----	-----
Net Cash Provided by (Used In) Financing Activities	22,973	(18,175)	18,0
	=====	=====	=====
Increase (decrease) in cash and cash equivalents	(6,053)	(16,910)	4,7
Cash and cash equivalents - beginning of period	10,804	31,678	
	-----	-----	-----
Cash and cash equivalents - end of period	4,751	14,768	4,7
	=====	=====	=====
Non-cash activities			
Acquisition of Fixed Assets On Credit	1,119		1,1
	=====		=====

(\*) RECLASSIFIED.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS.

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MONDI BUSINESS PAPER HADERA LTD. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS AS OF JUNE 30, 2005

NOTE 1 - BASIS OF PRESENTATION

The unaudited condensed interim consolidated financial statements as of June 30, 2005 and for the six months and three months then ended ("interim financial statements") of Mondri Business Paper Hadera Ltd. ("the Company") and subsidiaries should be read in conjunction with the audited consolidated financial statements of the Company and subsidiaries as of December 31, 2004 and for the year then ended, including the notes thereto. In the opinion of management, the interim financial statements include all adjustments necessary for a fair presentation of the financial position and results of operations as of the dates and for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results to be expected on a full-year basis.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. GENERAL

The interim financial statements have been prepared in conformity with generally accepted accounting principles

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("GAAP") in Israel, in a condensed format in accordance with GAAP applicable to the preparation of interim period financial statements, including those under Standard No. 14, "Interim Financial Reporting" and in accordance with Paragraph D of the Israeli Securities Regulations (Periodic and Immediate Financial Statements), 1970.

B. RECENT ACCOUNTING STANDARD - INCOME TAXES

In July 2004, the Israel Accounting Standards Board published Accounting Standard No. 19 "Income Taxes" (the "Standard"). The Standard established the guideline for recognizing, measuring, presenting and disclosing taxes on income taxes in the financial statements. The Standard is effective for financial statements relating to reporting periods commencing on, or after, January 1, 2005. The initial adoption of the Standard is accounted for by the cumulative effect of change in accounting method, for the beginning of the period in which the Standard is initially adopted. The implementation of Standard No. 19 did not affect the Group's financial position, results of operations and cash flows.

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MONDI BUSINESS PAPER HADERA LTD. AND SUBSIDIARIES  
 NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED  
 FINANCIAL STATEMENTS AS OF JUNE 30, 2005

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

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

AS OF:	REPRESENTATIVE EXCHANGE RATE OF THE DOLLAR (NIS PER \$1)
	-----
June 30, 2005	4.574
June 30, 2004	4.497
December 31, 2004	4.308
	-----
INCREASE (DECREASE) DURING THE:	%
Six months ended June 30, 2005	6.2
Six months ended June 30, 2004	2.7
Three months ended June 30, 2005	4.9
Three months ended June 30, 2004	(0.7)
Year ended December 31, 2004	(1.6)

NOTE 3 - REDUCTION OF CORPORATE TAX RATE

In July 2005, the Israeli Knesset passed in second and third reading the Law for Amending the Income Tax Ordinance (No. 147), 2005, according to which commencing in 2006 the corporate

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income-tax rate would be gradually reduced, for which a 31% tax rate was established, through 2010, in respect of which a 25% tax rate was established. The effect of this amendment on the deferred-tax balances of the Group will be reflected in its interim financial statements for the third quarter of 2005. Had the Group applied the provisions of this amendment in respect of the June 30, 2005 deferred-tax balances, the Group would have recorded an additional deferred income tax of approximately NIS 4,200 thousand.

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EXHIBIT 5

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES  
UNAUDITED CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS  
AS OF JUNE 30, 2005

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES  
UNAUDITED CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS  
AS OF JUNE 30, 2005

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The Board of Directors of  
Hogla-Kimberly Ltd.

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RE: REVIEW OF UNAUDITED CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS FOR THE SIX MONTHS AND THREE MONTHS ENDED JUNE 30, 2005

Gentlemen:

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

- Balance sheet as of June 30, 2005.
- Statements of operations for the six months and three months ended June 30, 2005.
- Statements of changes in shareholders' equity for the six months and three months ended June 30, 2005.
- Statements of cash flows for the six months and three months ended June 30, 2005.

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

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

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

Brightman Almagor & Co.  
Certified Public Accountants  
A Member Firm of Deloitte Touche Tohmatsu

Tel Aviv, August 4, 2005

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

JUNE 30,		DECEMBER 31,
-----	-----	-----
2005	2004	2004
-----	-----	-----
(UNAUDITED)		
-----		

Assets

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CURRENT ASSETS			
CASH AND CASH EQUIVALENTS	58,956	80,369	117,364
CURRENT MATURITIES OF LONG TERM BANK DEPOSITS	--	8,095	--
TRADE RECEIVABLES	227,879	261,448	214,389
OTHER RECEIVABLES	39,329	19,310	35,725
INVENTORIES	128,685	113,139	142,551
	-----	-----	-----
	454,849	482,361	510,029
	-----	-----	-----
LONG-TERM INVESTMENTS			
LONG-TERM BANK DEPOSITS	73,184	71,952	68,928
CAPITAL NOTE OF SHAREHOLDER	32,770	32,770	32,770
	-----	-----	-----
	105,954	104,722	101,698
	-----	-----	-----
FIXED ASSETS			
COST	522,420	480,793	507,175
LESS-ACCUMULATED DEPRECIATION	234,166	212,210	222,256
	-----	-----	-----
	288,254	268,583	284,919
	-----	-----	-----
OTHER ASSETS			
GOODWILL	26,086	28,435	25,878
DEFERRED TAXES	19,467	--	15,108
	-----	-----	-----
	45,553	28,435	40,986
	=====	=====	=====
	894,610	884,101	937,632
	=====	=====	=====
LIABILITIES & SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
CURRENT MATURITIES OF LONG-TERM BANK LOANS	87,578	19,261	68,747
TRADE PAYABLES	182,444	191,509	219,902
OTHER PAYABLES AND ACCRUED EXPENSES	43,502	42,454	38,720
	-----	-----	-----
	313,524	253,224	327,369
	-----	-----	-----
LONG-TERM LIABILITIES			
LONG-TERM BANK LOANS	73,184	103,880	81,851
DEFERRED TAXES	41,268	30,827	37,388
	-----	-----	-----
	114,452	134,707	119,239
	-----	-----	-----
MINORITY INTEREST			
	54,732	52,887	54,492
	-----	-----	-----
SHAREHOLDERS' EQUITY			
SHARE CAPITAL	29,038	28,788	29,038
CAPITAL RESERVES	180,414	156,799	180,414
TRANSLATION ADJUSTMENTS RELATING TO FOREIGN HELD AUTONOMOUS SUBSIDIARY	(905)	1,690	(3,377)
RETAINED EARNINGS	203,355	256,006	230,457
	-----	-----	-----
	411,902	443,283	436,532
	=====	=====	=====
	894,610	884,101	937,632
	=====	=====	=====

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T. DAVIS ----- CHAIRMAN OF THE BOARD OF DIRECTORS	O. ARGOV ----- CHIEF FINANCIAL OFFICER	A. SCHOR ----- CHIEF EXECUTIVE OFFICER
--	--	--

APPROVAL DATE OF THE INTERIM FINANCIAL STATEMENTS: AUGUST 4, 2005.  
THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONDENSED INTERIM  
CONSOLIDATED FINANCIAL STATEMENTS.

2

HOGLA-KIMBERLY LTD. AND SUBSIDIARIES  
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS  
(NIS IN THOUSANDS; REPORTED AMOUNTS, EXCEPT PER SHARE DATA)

	SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDED JUNE 30,	
	2005	2004	2005	2004
	----- (unaudited)		----- (unaudited)	
Net sales	553,808	524,924	279,661	258,158
Cost of sales	400,135	363,809	200,301	178,772
	-----	-----	-----	-----
GROSS PROFIT	153,673	161,115	79,360	79,386
Selling expenses	99,083	94,782	49,711	49,139
General and administrative expenses	31,795	20,494	21,559	10,574
	-----	-----	-----	-----
OPERATING PROFIT	22,795	45,839	8,090	19,673
Financing income (expenses), net	5,364	(6,322)	6,192	(8,402)
Other income, net	32	1,257	32	1,170
	-----	-----	-----	-----
INCOME BEFORE INCOME TAXES	28,191	40,774	14,314	12,441
Income taxes	11,443	10,669	7,780	(189)
	-----	-----	-----	-----
INCOME AFTER INCOME TAXES	16,748	30,105	6,534	12,630
Minority interest in results of Subsidiary	(240)	(1,493)	441	(331)
	-----	-----	-----	-----
NET INCOME FOR THE PERIOD	16,508	28,612	6,975	12,299
	=====	=====	=====	=====
BASIC EARNINGS PER ORDINARY SHARE				
(Earnings per share (in NIS))	1.94	3.36 (*)	0.82	1.44
	=====	=====	=====	=====
Number of Shares Used in Computation	8,513,473	8,513,473	8,513,473	8,513,473
	=====	=====	=====	=====

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(\* ) RETROACTIVELY ADJUSTED FOR THE EFFECT OF BONUS SHARE DISTRIBUTION.

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

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

	Share Capital -----	Capital Reserves -----	Translation Adjustments Relating to Foreign Held Autonomous Subsidiary -----
-			
SIX MONTHS ENDED			
June 30, 2005 (Unaudited)			
Balance - January 1, 2005	29,038	180,414	(3,377)
Translation Adjustments Relating to Foreign Held Autonomous Subsidiary			2,472
Dividend Paid			
Net Income for the Period			
	-----	-----	-----
Balance - June 30, 2005	29,038	180,414	(905)
	=====	=====	=====
Six Months Ended			
June 30, 2004 (Unaudited)			
Balance - January 1, 2004	28,788	156,799	--
Translation Adjustments Relating to Foreign Held Autonomous Subsidiary			1,690
Net Income for the Period			
	-----	-----	-----
Balance - June 30, 2004	28,788	156,799	1,690
	=====	=====	=====

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

4



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

	Share Capital -----	Capital Reserves -----	Translation Adjustments Relating to Foreign Held Autonomous Subsidiary -----	Retained Earnings -----
Three Months Ended June 30, 2005 (Unaudited)				
Balance - April 1, 2005	29,038	180,414	(897)	196,380
Translation Adjustments Relating to Foreign Held Autonomous Subsidiary			(8)	
Dividend Paid				
Net Income for the Period				6,975
	-----	-----	-----	-----
Balance - June 30, 2005	29,038	180,414	(905)	203,355
	=====	=====	=====	=====
Three Months Ended June 30, 2004 (Unaudited)				
Balance - April 1, 2004	28,788	156,799	2,124	243,707
Translation Adjustments Relating to Foreign Held Autonomous Subsidiary			(434)	
Net Income for the Period				12,299
	-----	-----	-----	-----
Balance - June 30, 2004	28,788	156,799	1,690	256,006
	=====	=====	=====	=====
Year Ended December 31, 2004				
Balance - January 1, 2004	28,788	156,799	--	227,394
Distribution of Bonus Shares	250	23,615		(23,865)
Translation Adjustments Relating to Foreign Held Autonomous Subsidiary			(3,377)	
Net Income for the Year				26,928
	-----	-----	-----	-----
Balance - December 31, 2004	29,038	180,414	(3,377)	230,457
	=====	=====	=====	=====

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

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	SIX MONTHS ENDED June 30,		TH
	2005	2004	
	(UNAUDITED)		
CASH FLOWS - OPERATING ACTIVITIES			
NET INCOME FOR THE PERIOD	16,508	28,612	6
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES (APPENDIX A)	(14,525)	10,651	(14)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,983	39,263	(7)
CASH FLOWS - INVESTING ACTIVITIES			
WITHDRAWAL OF LONG-TERM BANK DEPOSITS	--	--	
ACQUISITION OF FIXED ASSETS	(16,946)	(6,117)	(10)
PROCEEDS FROM SALE OF FIXED ASSETS	32	1,827	
NET CASH USED IN INVESTING ACTIVITIES	(16,914)	(4,290)	(10)
CASH FLOWS - FINANCING ACTIVITIES			
DIVIDEND PAID	(43,610)	--	(43)
LONG-TERM LOAN RECEIVED	8,933	13,603	5
REPAYMENT OF LONG-TERM LOAN	(8,501)	(4,421)	(5)
SHORT-TERM BANK CREDIT	--	(1,087)	
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(43,178)	8,095	(43)
TRANSLATION ADJUSTMENTS OF CASH AND CASH EQUIVALENTS OF FOREIGN HELD AUTONOMOUS SUBSIDIARY	(299)	(39)	(2)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(58,408)	43,029	(63)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	117,364	37,340	122
CASH AND CASH EQUIVALENTS - END OF PERIOD	58,956	80,369	58

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS.

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	Six Months Ended June 30,		Three Months Ended June 30,	
	2005	2004	2005	2004
	(Unaudited)		(Unaudited)	
A. Adjustments to Reconcile				
Net Income to Net Cash Provided				
by (Used In) Operating Activities				
Income and Expenses Not				
Involving Cash Flows:				
Minority Interest in Earnings of				
Subsidiary	240	1,493	(441)	331
Depreciation and Amortization	12,374	11,726	6,265	5,674
Deferred Taxes, Net	(2,760)	(688)	(261)	(1,131)
Gain From Sale of Fixed Assets	(32)	(1,257)	(32)	(1,170)
Effect of Exchange Rate				
Differences, Net	(779)	(555)	(850)	43
Changes in Assets and				
Liabilities:				
Decrease (Increase) in Trade				
Receivables	(8,493)	(29,861)	(2,450)	8,468
Decrease (Increase) in Other				
Receivables	1,603	(2,995)	2,027	449
Decrease (Increase) in Inventories	16,125	(20,113)	(2,286)	(12,099)
Increase (Decrease) in Trade				
Payables	(30,346)	36,683	(11,464)	8,342
Net Change in Balances With				
Related Parties	(6,589)	11,504	(4,674)	5,275
Increase (Decrease) in Other				
Payables and Accrued Expenses	4,132	4,714	(334)	(8,678)
	-----	-----	-----	-----
	(14,525)	10,651	(14,500)	5,504
	=====	=====	=====	=====
B. Non-cash Activities				
Acquisition of Fixed Assets On				
Credit	9,263	3,363	6,267	2,729
	=====	=====	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS.

The unaudited condensed interim consolidated financial statements as of June 30, 2005 and for the six months and three months then ended ("interim financial statements") of Hogla-Kimberly Ltd. ("the Company") and Subsidiaries should be read in conjunction with the audited consolidated financial statements of the Company and Subsidiaries as of December 31, 2004 and for the year then ended, including the notes thereto. In the opinion of management, the interim financial statements include all adjustments necessary for a fair presentation of the financial position and results of operations as of June 30, 2005 and for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results to be expected on a full-year basis.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. GENERAL

The interim financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP") in Israel, in a condensed format in accordance with GAAP applicable to the preparation of interim period financial statements, including those under Standard No. 14, "Interim Financial Reporting" and in accordance with Paragraph D of the Israeli Securities Regulations (Periodic and Immediate Financial Statements), 1970. The accounting principles applied in the preparation of these interim financial statements are consistent with those principles applied in the preparation of the most recent annual audited financial statements with the exception of Standard No. 19 "Income Taxes" as described in paragraph B below.

B. INCOME TAXES

In July 2004, the Israeli Accounting Standards Board published Accounting Standard No. 19 "Income Taxes" (the "Standard"). The Standard established the guideline for recognizing, measuring, presenting and disclosing income taxes in the financial statements. The Standard is effective for financial statements relating to reporting periods commencing on, or after, January 1, 2005. The initial adoption of the Standard is accounted for by the cumulative effect of change in accounting method, for the beginning of the period in which the Standard is initially adopted. The implementation of Standard No. 19 did not affect the Group's financial position, results of operations and cash flows.

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS AS OF JUNE 30, 2005

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

C. 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 Israeli Consumer Price Index ("CPI"):

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AS OF:	REPRESENTATIVE EXCHANGE RATE OF THE DOLLAR (NIS PER \$1)	TURKISH LIRA EXCHANGE RATE WITH THE DOLLAR (TL'000 PER \$1)
June 30, 2005	4.574	1,333
June 30, 2004	4.497	1,481
December 31, 2004	4.308	1,352
INCREASE (DECREASE) DURING THE YEAR ENDED:	%	%
	---	---
Six months ended June 30, 2005	6.2	7.7
Six months ended June 30, 2004	2.7	3.1
Three months ended June 30, 2005	4.9	6.5
Three months ended June 30, 2004	(0.7)	13.7
December 31, 2004	(1.6)	(2.9)

NOTE 3 -SUPPLEMENTAL DATA

A. REDUCTION OF CORPORATE TAX RATE

In July 2005, the Israeli Knesset passed in second and third reading the Law for Amending the Income Tax Ordinance (No. 147), 2005, according to which commencing in 2006 the corporate income-tax rate would be gradually reduced, for which a 31% tax rate was established, through 2010, in respect of which a 25% tax rate was established. The effect of this amendment on the deferred-tax balances of the Group will be reflected in its interim financial statements for the third quarter of 2005. Had the Group applied the provisions of this amendment in respect of the June 30, 2005 deferred-tax balances, the Group would have recorded an additional deferred income tax of approximately NIS 3 million.

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HOGLA-KIMBERLY LTD. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS AS OF JUNE 30, 2005

NOTE 3 -SUPPLEMENTAL DATA (cont.)

B. PROVISION FOR DOUBTFUL ACCOUNTS

In July 2005, Clubmarket Marketing Chains Ltd. ("Clubmarket"), a customer of the Company and one of the largest retail groups in Israel, applied for the regional court in Tel-Aviv for a staying of procedures by creditors. The court protection was granted until August 17, 2005. A resolution whether to grant a longer court protection period to allow for Clubmarket recovery or to liquidate its assets is expected. As a result, the interim financial statements include a provision of NIS 10.6 million for doubtful accounts, which is included in the general and administrative expenses line item. The remaining net balance of Clubmarket as of June 30, 2005, that is in

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excess of the doubtful accounts provision recorded, is approximately NIS 5.3 million, which represents approximately 25% of the balance as of such date (including VAT).

The net sales to Clubmarket during the six-month period ended June 30, 2005 constituted approximately 6.4% of total net sales on a consolidated basis. The Company estimates that there will be no material effect on the Group's net sales in the future, in the event Clubmarket fully ceases all its operations.